COMITATO
ITALIANO
CORPORATE
GOVERNANCE

2017 REPORT
on the Corporate Governance of Italian Listed Companies

5° REPORT

ON THE COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

INDEX

EXECUTIVE SUMMARY

Since 2013, the Corporate Governance Committee issues an Annual Report providing information about Committee's activities and the evolution of Italian listed companies' governance.

This year, the Report provides:

- a general overview on Committee's activities and main national and international developments in corporate governance;
- an in-depth analysis of Italian corporate governance and of the compliance of Italian listed companies with main Code recommendations;
- main areas of weaker compliance or scant disclosure, asking Italian listed companies for a better implementation of the Code;
- an overview of the new challenges for corporate governance, where current standards and practices could be further improved to face the evolution of investors requests and markets developments.

European and international developments

The Committee monitors corporate governance trends and evolutions at European and international level, in order to detect the evolution of new best practices and grasp markets expectations toward listed companies.

To this aim, the Report analyses the debate and initiatives regarding Corporate Governance Codes, as a primary self-regulatory standard for listed companies, in the main countries and the evolution of rules and regulations which affect the corporate governance of Italian listed companies.

The Report illustrates the Committee's active involvement in the corporate governance debate in European and international fora:

- the Chair of the Committee meets, on annual basis, the representatives of other corporate governance committees in France, Germany, the Netherlands and the United Kingdom. In 2017, the five Chairmen published a public statement recommending national and European legislators to consider the evolution of European corporate governance codes and the opportunity of developing a balanced regulatory and self-regulatory framework on corporate governance issues;

- the Committee contributes, through the Chair of its Technical Secretariat, to the OECD international standard setting on corporate governance;
- the Committees holds its representatives also in the European Corporate Governance Codes Network.

Considering such developments, the Committee observes that national and international policy makers are increasingly interested in:

- developing flexibility and proportionality in corporate governance ruling, both at self-regulation and mandatory regulation levels, in particular to encourage smaller and growth companies' access to capital markets;
- enhancing institutional investors' stewardship responsibilities, to be discharged also through the development of an open dialogue with investee companies, with the provision of adequate procedures from both investors' and companies' side;
- promoting sustainability as a key principle in defining company's corporate governance model, long-term oriented strategies and remuneration policies, and, overall, company's culture.

Corporate Governance in Italy – compliance with main Code recommendations

90% of Italian listed companies is adopting the last edition of the Corporate Governance Code and their compliance rate is generally high.

On average, companies implement effectively about 75% of the main Code recommendations, with a significant size related effect: overall compliance picks up to 90% among larger firms, while it is about 80% for medium-sized ones and around 65% for smaller companies.

According to Code requirements, companies do almost always explain individual cases of non-compliance, but the quality of such explanations should be improved to enable investors to assess company's governance and take their own decisions, both for trading and engagement purposes.

The main areas of weaker compliance and disclosure, where the Committee calls issuers for a stronger implementation of the Code, are:

- the promptness and completeness of the board pre-meeting information;
- the role of the nomination committee, also in companies with a more concentrated ownership structure, and the quality of disclosure regarding their effective activity;

- some aspects of the remuneration policy, having particular regard to the long term-orientation of variable components for executives, the provision of claw-back clauses and a clear governance of possible severance payments.

Corporate Governance in Italy – the way forward

The Committee identifies some areas of further evolution of corporate governance, where companies reached a high compliance rate with individual Code recommendations, but their governance model might still be improved, in order to meet market expectations and evolve in the international governance framework.

In this regard, the Committee suggests listed companies to consider:

- the adoption of well-structured succession plans for executive directors, in order to ensure continuity and stability in the company's management;
- a thorough evaluation and disclosure about effective directors' independence, considering also the appropriateness of their remunerations;
- the enhancement of the board evaluation process, through the assessment of board's effectiveness and performance, considering, among other tasks, the adoption of strategic plans and board's oversight on company's management and on the appropriateness of the internal control system.

In this context, the Committee intends to continue: (i) enhancing the evolution of corporate governance standards and the actual behaviour of Italian listed companies, as well as (ii) promoting a stronger engagement by investors.

These goals will be pursued through the strengthening of some Code recommendations on the main critical issues highlighted in the Committee's monitoring activity and more generally to support companies to develop a stronger orientation of corporate governance toward sustainability of business activity.

Therefore, the Committee plans a revision of the Code, to be realised in the next two years, aimed at:

- further promoting diversity, including gender, in corporate board composition and in the business organization;
- strengthening the proportional approach to small and growth companies, to incentivize their access to capital markets;
- strengthening the role of the board.

I. REPORT ON THE COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The fifth Committee's Report on the compliance with the Corporate Governance Code was drawn up by the Technical Secretariat of the Committee through the evaluation of several external sources. The Report is mainly based on data gathered and analysed by Assonime-Emittenti Titoli[1], while it refers, for specific topics, also to other studies and researches published or made available to the Committee over the last year[2].

The Report is divided into two sections: the first part gives an overview about the application of certain recommendations of the Code, with particular regard to those aimed at the effective functioning of the board, the correct definition of the remuneration policy and the development of sustainability themes; the second part provides, this year, a brief evaluation of the effective alignment of Italian listed companies with main Corporate Governance Code's recommendations.

The main source of information is represented by the corporate governance reports[3], through which companies provide a detailed description of their corporate governance

[1] The main source of this Report is the Assonime-Emittenti Titoli's analysis, *The Corporate Governance in Italy: self-regulation, remunerations and comply-or-explain*, 2017, soon to be published, integrated with other data elaborations of the Assonime-Emittenti Titoli's database.

[2] Other studies have allowed a supplementary survey, usually limited to larger companies, about specific topics regarding corporate governance of listed companies (such as board diversity, self-evaluation of the board, succession plans, compensation, sustainability). See Consob, 2017 *Report on corporate governance of Italian listed companies*, still to be published; Crisci & Partners, *Board evaluation and nominating committee activity in Italy and Uk: a comparative analysis*, October 2017; Russel Reynolds, *Governance of FTSE MIB companies*, october 2017; Spencer Stuart, *2017 Italy Board Index*; The European House – Ambrosetti, *2017 Observations on the excellence of corporate governance systems in Italy*; Assonime, CSR Manager Network e ALTIS, *Board of directors and sustainability policies 2017*.

[3] The report on corporate governance is published pursuant to art. 123-bis of the TUF that requires listed companies to provide information on whether membership of a corporate governance code of conduct promoted by management companies of regulated markets or by trade associations, giving reasons for any failure to adhere to one or several provisions, as well as the corporate governance practices actually applied by the company beyond the obligations established by laws or regulations. The minimum content of the report includes: i) different kinds of information on the issuer's capital structure and ownership structure; ii) the rules regarding the appointment and replacement of directors, if other legislative and regulatory provisions applicable as supplementary measures; iii) the main features of the risk management systems and internal control systems in relation to the financial reporting process, including consolidated reporting, if applicable; iv) the operational mechanisms of the shareholders meeting; v) the composition and functioning of the administrative and control bodies and their committees.

and declare their decision to adopt the CG Code, and, if so, how do they comply with its recommendations (see. Code's *Guiding principle III*), providing detailed information about their application and their non-compliance with individual Cod's provisions (see Code's *Guiding principle IV*).

1. The compliance with the Corporate Governance Code

This part of the report provides an overview of the application of the Code, by focusing on the analysis of the application of some recommendations that have been deemed most relevant for the proper and effective functioning of the board. With this aim, the report includes information provided by the corporate governance reports, published by all Italian companies listed on the MTA market[4], and it evaluates the compliance with the Code and the related Committee's recommendations, considering, in the latter case, only companies adopting the Code.

As to the sample structure, companies are classified by size, according to their inclusion in the FTSE Mib, Mid Cap and Small Cap indexes (respectively labelled as "small", "medium" and "big" companies) and by sector, according to their distinction between financial and non-financial firms. Both index and sector classes are based the definition of the Italian Stock Exchange (Borsa Italiana).[5]

1.1 Current adoption of the Code

90% of the Italian companies listed on the regulated market declares to adopt the last edition of the Corporate Governance Code[6]. The remaining 10% does not adopt the last edition of the Code, thus it has not been considered for the purpose of this analysis. Out of this 10%, eight companies adhere to previous editions of the Code, one company does not specify the edition of the Code and the remaining thirteen companies do not adopt the Code.

[4] The sample described matches the one used by Assonime-Emittenti Titoli: 221 companies listed on MTA at 31st December 2016, whose reports were available at 15 th July 2017. For more details on the composition of the sample, see Assonime-Emittenti Titoli, Appendix.

[5] Only "banks" and "insurances" are considered as financial in this report, according to the classification elaborated by Borsa Italiana, whereas all the other firms are labelled as non-financial. This choice complied with the Assonime-Emittenti Titoli's analysis, on whose data this report is based.

[6] 199 companies, namely 90% of the 221 listed companies at 31st December 2016, whose reports were available at 15th July 2017 (See Assonime-Emittenti Titoli, Tab. 1).

This classification stems from the leanings expressed by the Corporate Governance Committee in its previous reports, where it required companies to disclose, in their corporate governance report, the adoption of the latest edition of the Code, bearing in mind that the declaration of adherence to previous editions of the Code would be considered as a non-adoption[7].

The proportion of companies that chose not to adopt the last edition of the Code or not to adopt it *tout court* is substantially stable over time, with a slight increase[8] mainly due to the strict interpretation of the adoption of the Code[9] and to the decrease of the overall sample[10].

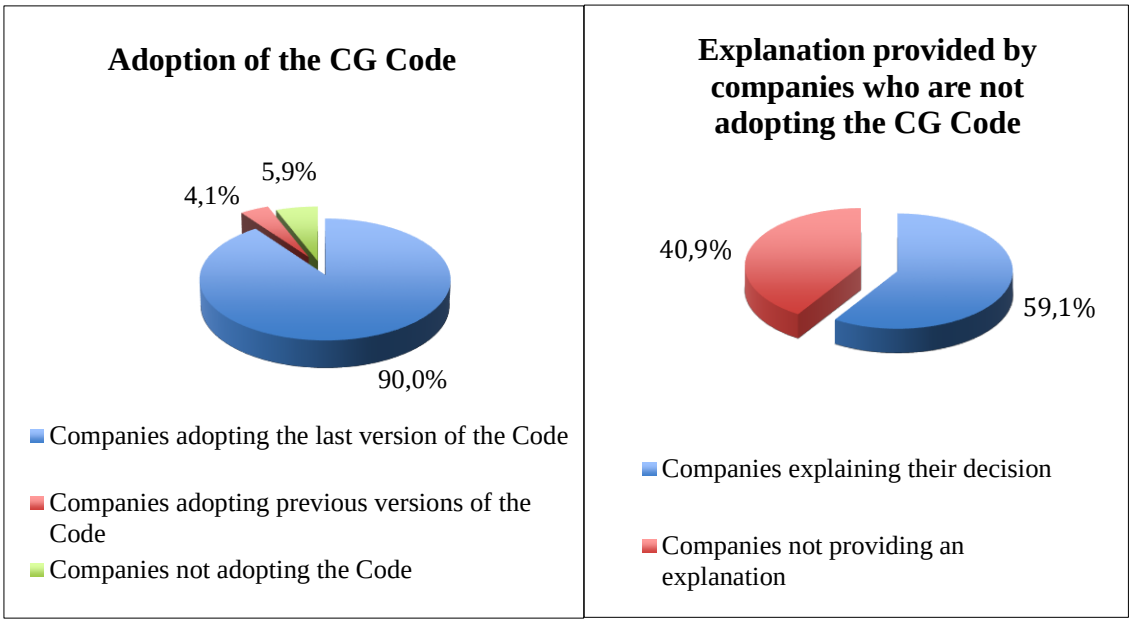
Companies, which are not adopting the (last edition) of the Code, disclose their choice, providing information on their corporate governance model and, in most cases, explaining the reason of their choice of not adopting the Code, even if they are not legally required to provide such explanation. The reasons provided in this latter care are usually linked to the company's size and organizational structure or to the particularly concentrated ownership structure.

[7] This view, expressed in 2015 and restated in 2016 by the Corporate Governance Committee, is based on the Code guidelines. In the 2015 Report, The Committee clarified that only companies adopting the last edition of the Code (i.e. 2015) are to be considered "compliant" with the Code. (See Corporate Governance Committee, 2015 Report, p. 11:*"The Committee requires issuers to explicitly declare in their Corporate Governance Report the adoption of the last edition of the Code; as for the implementation of changes, the Code has already provided for a specific transitional regime explained in the Code Guidelines"*.

[8] Companies that do not adopt the Code were, respectively, 22 in 2017, 19 in 2016, 16 in 2015. See Assonime-Emittenti Titoli, Tab. 1.

[9] See nt. 50.

[10] The total number of companies included in the sample analyzed by Assonime-Emittenti Titoli is slightly but constantly decreasing, mainly due to delisting, extraordinary corporate transactions and insolvency procedures. See Assonime-Emittenti Titoli, Appendix and Tab. 1. It must be noticed that the mentioned analysis does not consider corporations under foreign legislation (they have increased from 45 in 2016 to 71 in 2017) and those listed on AIM/MAC (substantially stable: 77 in 2017 and 71 in 2016).



Source: Assonime-Emittenti Titoli 2017

The Committee appreciates the transparency of companies' disclosure regarding their decision of adopting or not adopting the Code, which reveals the consolidation of a mature approach to self-regulation. Code's recommendations are, in fact, standards of best practices, to be followed in order to define the best issuer's organizational structure, not the minimum legal requirements that must be met; therefore, even in case of compliance, the Committee calls upon issuers to avoid a mere formal conformity with Code's recommendations and to favour a transparent and substantial evaluation of best practice thereof.

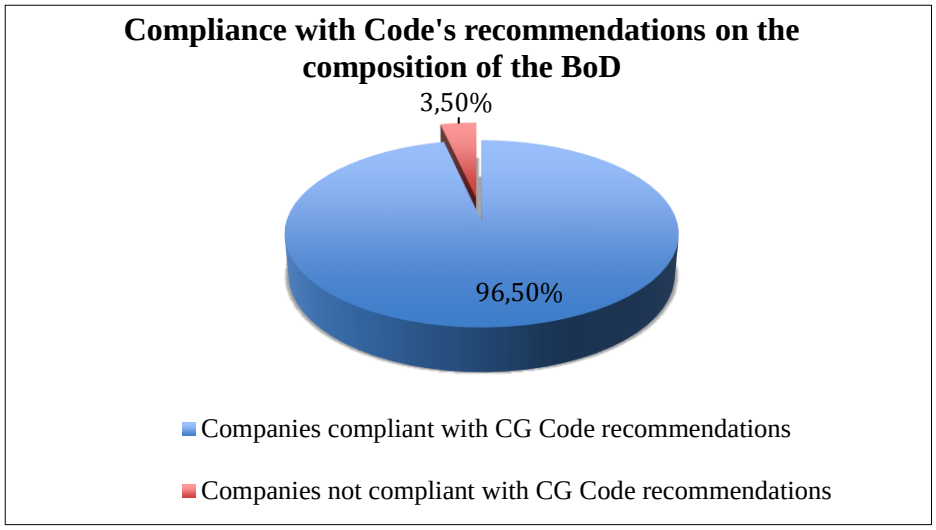
1.2. The composition of the board of directors

By defining a correct structure of the board of directors, the Corporate Governance Code recommends a board made of executive and non-executive directors (*principle* 2.P.1) and an adequate number of non-executive directors being independent (*principle* 3.P.1.).

As to the disclosure of such information, the *criterion* 1.C.1. i) requires the board of directors to provide, in the corporate governance report, *inter alia*, information on its composition, individual information about each director, in relation to the role (executive, non-executive, independent), the position held within the board (for example, Chairman or Chief Executive Officer), its main professional skills and term of office.

1.2.1. Proper composition of the board of directors

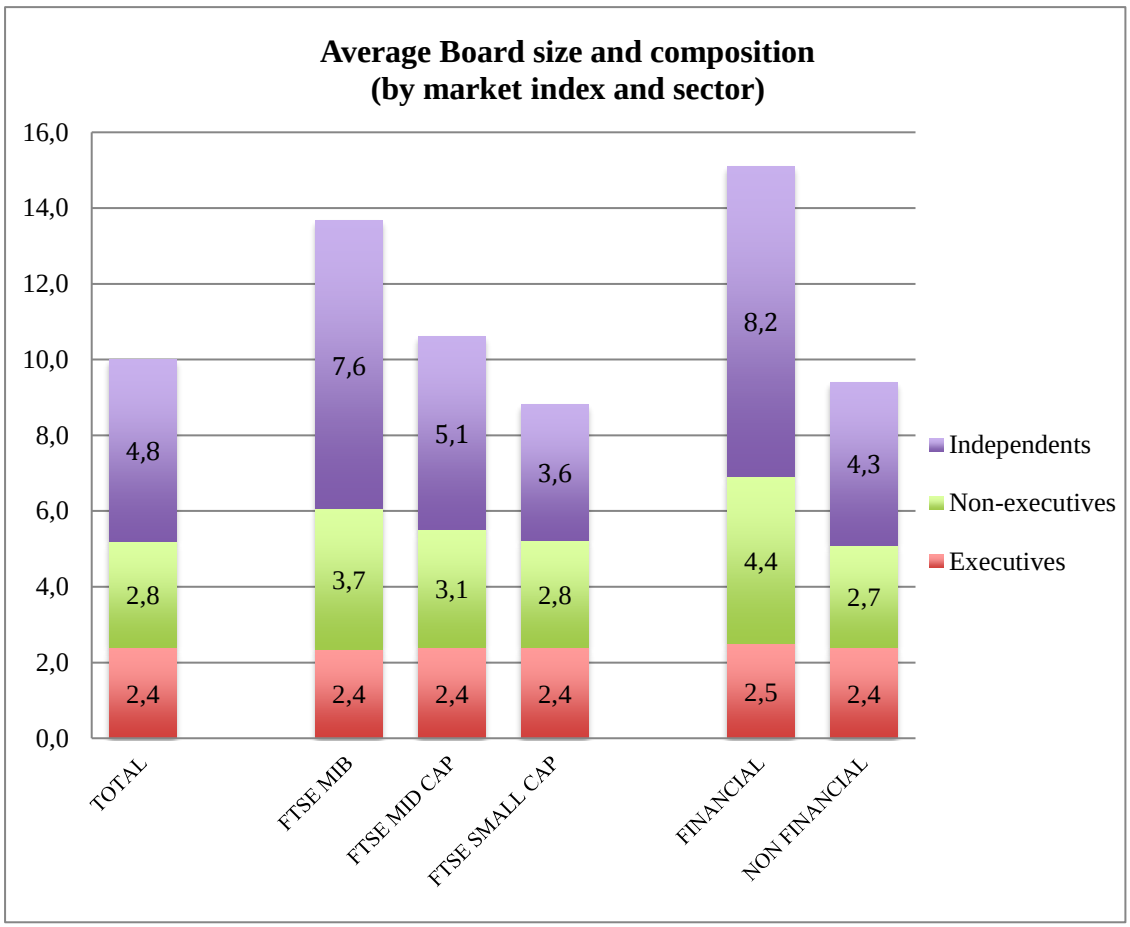
In the previous reports, although observing a good compliance rate with Code's recommendations regarding the composition of the board, the Committee asked issuers, that adhered to the Code, to assess the existence and the suitability of the explanations given in case of non-compliance. From this point of view, it can be observed a progressive alignment with Code's recommendations concerning the composition of the board. It is uncommon that companies do not follow the recommendations of the Code regarding the composition of the board: in the 96% of cases, the board of directors or the supervisory board (in companies adopting the two-tier governance model) has a proper number of executive, non-executive and independent directors. However, in less than half of the very few non-compliant companies, there is not an explanation about the misalignment from the Code[11].



Source:Assonime-Emittenti Titoli 2017

In general, we observe that boards of Italian listed companies reveal a balanced composition of different categories of directors, as recommended by the Code. However, data vary considerably according to company's size and sector. In particular, if compared with previous years, there is a slight increase of the board size in larger companies and in the banking sector.

[11] There are 3 out of 7 companies that adhere to the Code and whose Board of directors is not compliant with the Code's recommendations (they slightly decreased from the 4 out of 8 companies in 2016) See Assonime-Emittenti Titoli, Tab. 49.



Source: Assonime-Emittenti Titoli 2017

Among companies that adhere to the Code and have at least one executive director in their board, we identified 167 companies (i.e. 85%)[12] with a Chief Executive Officer (hereinafter also only "CEO"): such a role is usually identified, explicitly, by companies themselves, while in some other cases the information is less clear. Moreover, some companies identify more than one CEO. It can be observed that the explicit identification of the Chief Executive Officer is more often given by non-financial companies (86%) than banks and insurances (77%).[13]

The identification of the CEO is also useful to evaluate if a company, according to the Code's recommendations, is required to appoint a lead independent director (hereinafter also only "LID"). In fact, the appointment of a LID is recommended when the

[12] Slightly increased from previous year, when the proportion was 83%.

[13] See Assonime-Emittenti Titoli, Tab. 13.

concentration of roles in the board needs to find a proper counterbalance, i.e. where: i) the Chairman of the board is also the CEO of the company (*Chair*-CEO); ii) the Chairman of the board is also the controlling shareholder of the company[14].

One or both of the mentioned situations involve 34% of the companies who are also adhering to the Code. Most of them (82%) actually appointed a LID, while others (18%) explained why they have not provided for such a role in their boards.[15] However, significant differences can be observed by company's size: only 9% of the FTSE MIB companies registered such a concentration of roles in the board to require the appointment of a LID, while the same figure is much higher for both Mid Cap companies (31%) and Small Cap companies (44%). Furthermore, among companies that are required to appoint a LID, those included in the FTSE MIB and in the FTSE Mid Cap indexes are always compliant with the Code, while only 75% of the small companies designated a LID.

1.2.2. The board diversity

After the approval of Law No. 120 of 12th July 2011, there has been a progressive increase in the number of women in management and control bodies of the Italian listed companies. The law aims to a gradual implementation, requiring the presence of the "less-represented" gender in the management and control bodies of listed companies to the minimum extent of at least one fifth of the members within the first mandate of the board, and at least one third over the next two mandates.

For the time being, all the listed companies had at least one board renewal under the new rule and are, therefore, required to meet the more stringent requirements of the second and third mandate (1/3 of female directors). On this regard, data show a substantial alignment with the legal requirements: at the end of the last AGM season women represent about the 33% of board members, revealing a constant and progressive increase if compared to previous years.

[14] The Code, only for companies included in the FTSE MIB, recommended the appointment of a LID when the majority of the independent directors requires it.

[15] 56 out of 68 companies, that are recommended to appoint a LID, nominated a LID in their boards. With regard to the other 12 companies, 10 of them explained why they have not complied with the recommendation.

Female representation in the boards of directors of Italian listed companies (end of June 2017)

	diverse-board companies[1]			average weight of women on boards	
	no. of companies	% market cap[2]	average no. of female directors	in all listed companies	in diverse-board companies[1]
Ftse Mib	34	*100.0*	4.4	34.9	34.9
Mid Cap[3]	37	*100.0*	3.7	32.4	32.4
Star[3]	68	*100.0*	3.1	32.2	32.7
other	88	*99.6*	3.0	34.7	35.1
total	***227***	***100.0***	***3.3***	***33.6***	***33.9***

Data on corporate boards of Italian companies with ordinary shares listed on Borsa Italiana spa - Mta Stock Exchange. Companies under liquidation at the reference date are excluded.[1] Diverse-board companies are firms where at least one female director sits on the board.[2] Market value of ordinary shares of companies in each group in percentage of market value of ordinary shares of all companies included in each market index.[3] Companies both in the Star and in the Mid Cap indexes are included only in the Star category.

Source: Consob 2017

The average number of women sitting in the board is substantially balanced among companies of different size or sector, even if the largest companies show a slightly higher proportion (35%).[16]

However, the increase of women sitting in the boards of Italian listed companies did not change the position they actually hold: in 68% of cases they are independent directors, while the number of women appointed as CEO or Chairman of the board is still limited.

Positions held by female directors in Italian listed companies (end of June 2017)

female directorship[1]

	CEO		chairman / honorary chairman		deputy chairman / executive committee		independent director[3]		minority director	
	no. of directors	weight[2]	no. of directors	weight[2]	no. of directors	weight[2]	no. of directors	weight[2]	no. of directors	weight[2]
2013	13	*3.2*	10	*2.5*	33	*8.1*	244	*59.8*	20	*4.9*
2014	16	*3.1*	16	*3.1*	32	*6.1*	333	*64.0*	37	*7.1*
2015	16	*2.6*	17	*2.7*	36	*5.8*	424	*68.3*	42	*6.8*
2016	17	*2.5*	21	*3.1*	40	*5.8*	471	*68.6*	49	*7.1*
2017	17	*2.2*	27	*3.6*	39	*5.1*	520	*68.6*	57	*7.5*

[1] Figures refer to the board seats held by women. While not necessarily a woman falls in the provided categories, a same woman may fall in one or more of such categories. [2] Weight on total number of directorships. [3] Number of independent directors meeting the independence criteria set forth by the Corporate Governance Code or, if no director meets the criteria of the Code, in the Consolidated Finance Law.

Source: Consob 2017

[16] There are not significant variations with regard to sector. See Consob, Tab. 2.19.

Positions held by female directors in Italian listed companies (end of June 2017)

diverse-board companies[4]

	CEO		chairman / honorary chairman		deputy chairman / executive committee		independent director[3]		minority director	
	no. of companies	% market cap	no. of companies	% market cap	no. of companies	% market cap	no. of companies	% market cap	no. of companies	% market cap
2013	12	*0.7*	9	*0.4*	33	*8.2*	138	*63.1*	18	*26.9*
2014	15	*1.0*	15	*27.5*	32	*7.5*	168	*93.5*	32	*58.9*
2015	16	*0.9*	16	*22.1*	34	*9.6*	199	*98.3*	34	*58.0*
2016	17	*1.7*	21	*30.8*	37	*8.8*	205	*97.8*	38	*62.1*
2017	17	*1.8*	26	*26.6*	36	*10.2*	206	*98.1*	44	*65.1*

[1] Figures refer to the board seats held by women. While not necessarily a woman falls in the provided categories, a same woman may fall in one or more of such categories. [2] Weight on total number of directorships. [3] Number of independent directors meeting the independence criteria set forth by the Corporate Governance Code or, if no director meets the criteria of the Code, in the Consolidated Finance Law. [4] Figures refer to the number of companies where at least one female director seats on the board. While not necessarily a company falls in the provided categories, a same company may fall in one or more of such categories.

Source: Consob 2017

As to other board diversity issues, some studies provide for several consideration, even if limited to the large listed companies. In the first hundred companies by market cap, foreign directors account for just 9% of the board: their presence is more frequent in companies of the industrial companies and those related to consumer goods, as well as in telecommunications and banks, while insurance companies and energy industries usually have less international boards[17]. The presence of international director rises to 16% in larger companies, listed on the FTSE MIB index[18].

Nearly half of directors, working in the first hundred Italian listed companies in terms of market cap, has a managerial experience, one-third has a professional background, mainly economic or legal, and about one-fifth of directors has an entrepreneurial profile.[19] The entrepreneurial (30%), but most of all managerial (61%) background is typical of executive directors, while independent directors are equally divided into managers (47%)

[17] See Spencer Stuart, p. 33.

[18] See Russel Reynolds, p. 15.

[19] Entrepreneurs-directors are usually the founders of the company or individuals linked to the founder by degree of relationship. See Spencer Stuart, p. 33.

and professionals (42%). Non-executive directors can have different profiles and backgrounds (45% managers, 29% entrepreneurs, 24% professionals).[20]

The digital competences are key factors that attract more and more investors and regulators[21], as they are crucial in the development of strategies aimed to identify and deal with risks (cybersecurity).[22] Currently, there is a lack of such competences in the boards of Italian listed companies: in almost half of the largest companies there is not a director with a digital knowledge, and in one-fourth of the Italian listed companies there is only a director with proper digital competences.[23]

Professional profiles and experiences are not enough to assess the skills of the board's directors. Their competence requires constant updates, given the frequent changes that affect corporate business, self-regulation practices and the legal framework in which companies must operate. With this aim, criterion 2.C.2. of the Code entrusts the Chairman of the board with a prominent role in planning adequate insights for board members and controllers, not only those appointed for the first time, but also during their whole mandate, with a sufficient number of insight sessions about risk management. Information about induction sessions carried out over the year must be included in the corporate governance report.

The 75% of companies that adhere to the Code claimed to carry out induction sessions over the last year;[24] but one-fourth of these companies conducted this activity only during ordinary board's meetings and not during specific meetings.[25]

The Committee underlines the importance of board diversity (to be considered in a broader sense and not limited to gender issues) for its optimal composition. In particular, there is a room for the improvement of directors' international profile

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[20] See Spencer Stuart, p. 33.

[21] See, on this theme, *Comisiòn Nacional del Mercado de Valores'* guidelines, for the audit committee of public interest entitees.

[22] See Spencer Stuart, p. 7 and Russel Reynolds, p. 15.

[23] See Russel Reynolds, p. 15.

[24] See Assonime-Emittenti Titoli, Tab. 5. The figure is stable considering the first hundred companies in terms of capitalisation, of which: 74% declared to carry out at least an induction session over the current year, while the remaining companies did not provide enough information (19%) or claimed they did not have specific needs to conduct such activities (7%). See Spencer Stuart, p. 43.

[25] See Assonime-Emittenti Titoli, Tab. 5.

and digital competences of non-executive directors. Furthermore, the Committee highlights the importance of a structured induction program for the board and for individual directors, as it can contribute significantly to the alignment of the board competences to the company's features.

1.3. The functioning of board of directors

1.3.1. The flow of pre-meeting information

Criterion 1.C.5. of the Code recommends the Chairman of the board to ensure that information related to the board meetings is made available in a timely manner and requires the company to provide information about the promptness and completeness of such pre-meeting information. In addition to this, issuers should provide, in their corporate governance report, detailed information about the prior notice term deemed adequate, specifying whether this term has been usually met over the considered period.

The importance of adequate information before and during the board meetings was already underlined by the Committee in its previous Annual Reports.[26] After several recommendations, in 2014 the Committee introduced a specific amendment to the comment to art. 1 of the Code, in order to strengthen the importance of the Chairman's role, in ensuring that adequate and complete pre-meeting information is made available and, in specific cases, when this was not possible, that adequate and timely sessions take place during the board meetings.

In 2015 and 2016, although it was recognized the high quality of disclosure on pre-meeting information provided ex-ante, the Committee evidenced that there is still room for significant improvements regarding information to be provided ex-post on the effective compliance with such prior notice deadline, which has already been identified ex ante as appropriate by the company. Issuers are required to improve the compliance with such Code's recommendations and to provide adequate information in their corporate governance reports.

According to corporate governance reports published in 2017, the disclosure to be given ex-ante about the flow of pre-meeting information was identified in 98% of the companies that adopt the Code.[27]

[26] See Corporate Governance Committee, 2013 Annual Report, pp. 10-11, and 2014 Annual Report, pp. 16-17.

[27] Slightly increased if compared to the percentage of 97% of 2016. As to data published in 2017, it can be observed that such information is always included in the corporate governance reports of large and mid-

The 75% of the companies adopting the Code and providing information ex-ante, identified the prior notice term deemed adequate for pre-meeting information (slightly but constantly risen from 73% in 2016 and 71% in 2015). Moreover, there is a higher level of compliance among large and mid-cap companies (both 80%) than small companies (70%).[28]

As for information that has to be given ex-post about the effective promptness and completeness of pre-meeting information flow and, in particular, about the compliance with the prior notice term previously identified as adequate, only 64% of the issuers state that the prior notice has been met (same figure of 2016). The average compliance rate is affected by the company's size, floating from 85% for large issuers, to 68% for medium issuers and 56% for the small ones.

Thus, it can be noticed that only half of the companies who adopted the Code are substantially compliant with its recommendations about pre-meeting information flow, both providing a clear term deemed adequate for prior notice and specifying if this has been usually met.

The Committee observes a constant improvement of information provided by listed companies ex-ante, but it calls for a higher and better quality of ex-post disclosure on both the definition of the prior notice term for the transmission of the pre-meeting documentation and its actual implementation. Indeed, the promptness and the completeness of pre-meeting information represent an essential condition for the knowledgeable conduct of directors and, therefore, for the correct functioning of the board.

To this end, the Committee asks the chairmen of the board to commit to ensuring the availability, adequacy and promptness of information before and during board meetings, even in those specific circumstances where complete pre-meeting information cannot be provided with prior notice.

1.3.2. The actual attendance of managers to board meetings

Criterion 1.C.6. of the Code envisages the possibility for the Chairman of the board to require managing directors, also upon request of one or more board members, the attendance to board meetings, in order to provide, in relation to their specific

cap companies (100%), and almost always in the small companies' reports (97%). See Assonime-Emittenti Titoli, Tab. 2.

[28] See Assonime-Emittenti Titoli, Tab. 2.

competences, appropriate supplemental information about items of the board agenda. After the revision of the Code occurred in July 2015, the Committee underlined the importance of an adequate disclosure, in the corporate governance report, of information concerning managers' attendance to board meetings. In the same way, in the 2015 Report, the Committee had highlighted recent amendments to the Code, urging companies to improve the quality of information provided in the corporate governance report.

From 2017 corporate governance reports, it can be observed that 78% of companies adopting the Code provide for a clear disclosure regarding effective managers' attendance to board meetings. This figure has sharply improved from 2016, when the percentage was only 62%.[29]

New data concerning the compliance with Code's recommendations on the managers' attendance to board meetings do not show significant improvements. Nevertheless, the Committee underlines the importance of such best practice as the effective attendance of directors to board meetings can substantially contribute to the information level within the board.

1.4. Evaluation and strategic guidance about professional skills and competences of directors

1.4.1. The board evaluation

The Corporate Governance Code recommends companies to perform, at least annually, an evaluation of the board and its committees in order to define, based on the results of this assessment, the guidance for shareholders about the professional skills deemed appropriate for a correct composition of the board and its committees.

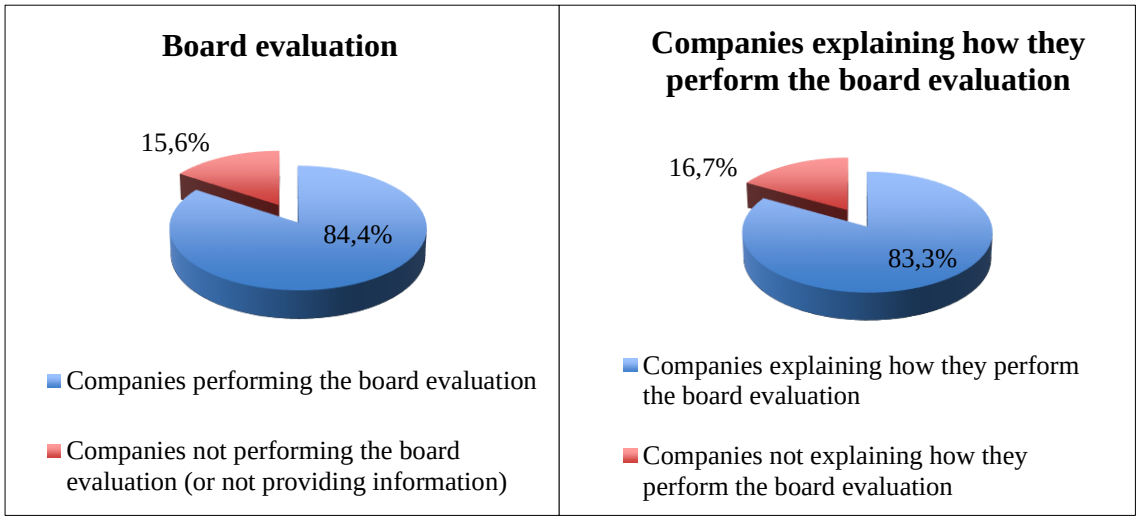
Corporate governance reports show a picture that is basically stable over time. Also this year, most of the companies adopting the Code (i.e. 84% of the aggregate) state to carry out a self-evaluation of the board.[30] Such information is more often provided by larger companies (respectively in 94% of FTSE MIB companies and 93% of FTSE Mid Cap companies), while the same figure is only about 77% for small-cap companies. Moreover,

[29] See Assonime-Emittenti Titoli, Tab. 2.

[30] Same figure (84%) of 2016. See Assonime-Emittenti Titoli, Tab. 5. Data appears stable, with a slight increase even in the first 25 larger companies in terms of capitalization. See Crisci & Partners, p. 5.

nearly all of the companies working in the financial sector are compliant with this recommendation (95%).[31]

Among the first 25 companies in terms of capitalization, the introduction of a new governance practice can be noticed. In fact, half of the sample extended self-evaluation to members of the controlling body.[32]



Source: Assonime-Emittenti Titoli 2017

As for the 31 issuers adopting the Code but not performing the self-evaluation, less than one-third (9 companies, slightly decreased from 2016) explains the reason of this non-compliance.[33] The Committee had already called for a proper explanation in case of non-compliance.

Issuers compliant with the Code often provide also information about the way in which self-evaluation is conducted (in 83% of cases)[34]. Once again, the degree of compliance is substantially affected by companies' size. While all the large companies explain how they carry out self-evaluation, an explanation is given only by 86% of the small companies and 75% of the medium ones.

Among companies that explicitly identified the entity in charge of self-evaluation, two-third chose one or more entities within the company (45% a board committee, 11% the

[31] See Assonime-Emittenti Titoli, Tab. 5.

[32] See Crisci & Partners, p. 9.

[33] See Assonime-Emittenti Titoli, Tab. 50.

[34] A bit increased from 81% of 2016. See Assonime-Emittenti Titoli, Tab. 5.

Chairman, 16% one or more independent directors, 29% one or more internal functions, such as the "legal & corporate affair" function). In more than one-third of cases (38%), issuers appointed an external consultant.[35] Of the first 25 companies in terms of capitalization, more than half chose an external consultant, one-third an internal entity (LID or the Nomination Committee), while two companies did not give such information.[36]

In 2014, the Committee amended art. 1 of the Code, in order to improve the quality of information provided when an external consultant is appointed. To this end, the Code recommends issuers to identify the external consultant and state any other service or activity provided by that entity. Disclosure of such information, that had been highlighted as a critical issue in the last year report[37], has been improved by listed companies. Most of the companies adopting the Code and appointing an external consultant to carry out the board evaluation activity, gave information about his identity (91%), while 72% of them stated if he provides or not the company with other services, specifying them.[38]

As to the content of this evaluation, a deep gap between the Italian and the UK 25 largest companies can be noticed. The first ones usually examine the board of directors and its committees, but not the single directors, while an individual evaluation is performed by 84% of the largest UK companies.[39]

It can be seen that large companies have increased the evaluation of strategies, risk management, and control systems (namely, 16 of the 25 Italian companies with higher market cap), but this is still far from the UK trend (these areas are included in 88% of the UK largest companies' board reviews).[40]

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[35] Data refers only to companies adopting the Code. In some companies, more than one entity is in charge of self-evaluation, so that these companies have been counted more than once in the analysis. See Assonime-Emittenti Titoli, Tab. 5.

[36] See Crisci & Partners, p. 10, that highlights the difference between Italian and English companies, in which the Chairman of the Board is more often involved in the self-evaluation activity (about half of cases).

[37] In 2016, the Committee had evidenced that information about other possible appointments of the consultant within the company is crucial to ensure transparency of the appointment and independence of the consultant. See Corporate Governance Committee, 2016 Report, pp. 36-37.

[38] See Assonime-Emittenti Titoli, Tab. 5.

[39] See Crisci & Partners, p. 11.

[40] See Crisci & Partners, p. 12.

According to the above-mentioned data, the Committee observes a high and constant application of the Code's recommendations regarding board evaluation. However, this is not often combined with a proper disclosure about how board evaluation is conducted by the company.

Moreover, even if it is not explicitly required by the Code, the Committee suggests companies to extend the board review to an individual analysis of each director and to include the evaluation of the approval of strategic plans, as well as of the monitoring of company's management and the adequacy of the internal control and risk management system.

1.4.2. Board guidelines on the maximum number of directors' other offices

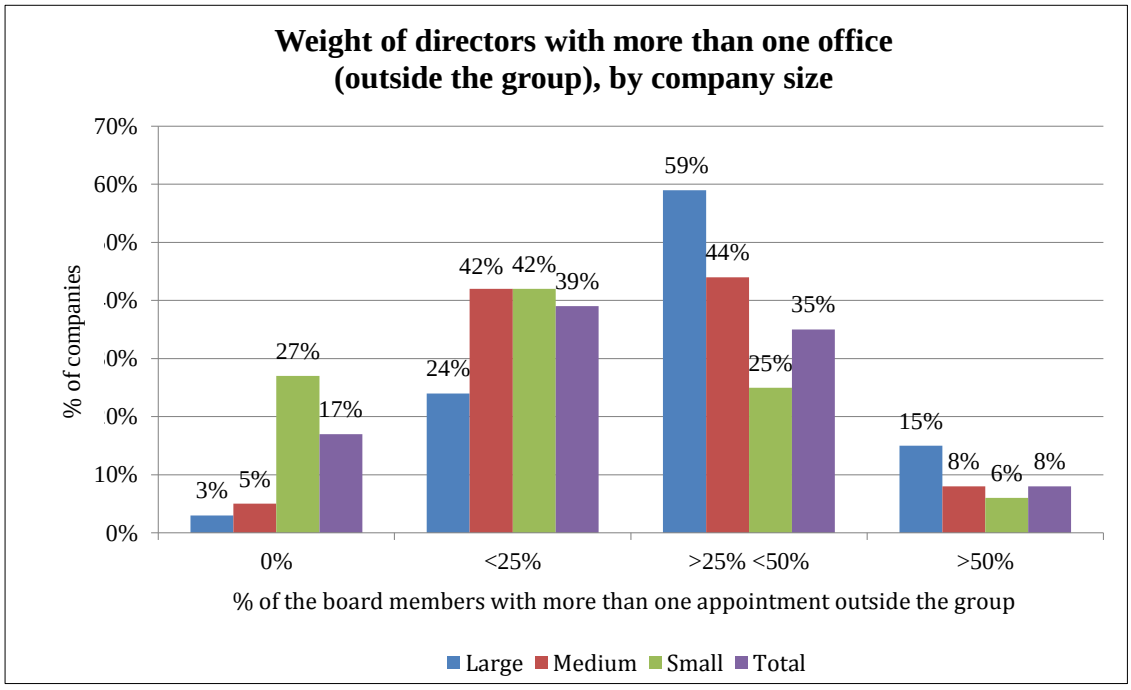
Criterion 1.C.3. of the Code recommends companies to express their general view on the maximum number of appointments that their directors should accept as directors or statutory auditors of other listed, financial, or large-sized companies, considering also the attendance of directors to the board committees. To this end, boards should identify and explain different criteria, depending on the commitment and tasks related to each role (executive, non-executive or independent director), and on the characteristics of each company (sector, dimension, belonging to the issuer's same group). Only 49% of the companies adopting the Code disclose such information in their reports, even if the level of compliance highly depends on the company size. In fact, large companies comply with the Code in 76% of cases, medium-sized companies in 60% of cases, while general view on this theme has been reported only by 36% of small issuers. Analyzing all the companies listed on the MTA, it can also be noticed that 13% of their directors hold positions as directors or statutory auditors in other Italian listed companies (up to five appointments). Data are substantially stable over time, despite a slight decrease from 16% in 2009.[41]

If the analysis is narrowed down only to positions held by directors outside their company's group, the average proportion of directors with more than one appointment is 12%, but it falls to 3% if only directors with more than two appointments are considered.

[41] See Assonime-Emittenti Titoli, Tab. 9, and Assonime-Emittenti Titoli, *Analysis of the current level of compliance with the Corporate Governance Code in the listed companies (2009)*, February 2010, p. 25.

Therefore, data reveal a small proportion of directors with more than one office, and an even smaller proportion of directors that hold between three and five offices.[42]

If companies are divided into four groups, in relation to the absence (0%) or presence (<25%; >25%<50%; >50%) of directors with more offices outside their company's group, it is clear that there is a dimensional effect. In fact, 67% of the small companies' boards do not have directors with more appointments (24% of small companies' boards) or this peculiarity concerns less than 25% of directors (43% of small companies' boards). By contrast, large issuers usually (in 74% of cases) have boards in which more than 25% of directors (59% of large companies' boards) or more than half of directors (15% of large companies' boards) hold other positions outside the group.



Source: Assonime-Emittenti Titoli 2017

Furthermore, it can be observed that directors holding multiple positions work more frequently in companies that disclose information on the maximum number of appointments for each director.[43]

On one hand, the Committee highlights that only one half of companies have identified a maximum number of offices that might be held by each director. Such

[42] If the analysis is focused on the appointments held in the Italian and foreigner listed companies, their average number is slightly different. In the first 100 Italian companies in terms of capitalization, directors have, on average, 3.2 roles in boards of other Italian or foreigner listed companies.

[43] See Assonime-Emittenti Titoli, cit., Tab. 9.

information is useful to ensure directors' proper commitment to its tasks within the company. On the other hand, the Committee observes that the number of offices held by directors in other listed companies is quite low and, in those few cases, boards already dealt with this issue.

1.4.3. Board evaluation and guidance on its optimal composition

As stated in the comment to Art. 1 of the Code, the board should ensure, within the evaluation process, the appropriate board composition, not only in terms of directors' qualification (executive, non-executive, independent) but also with regard to their professional and managerial skills, including possible international experience. The board should also consider other possible beneficial effects stemming from diversity in terms of gender, age and time in office.

Criterion 1.C.1. h) of the Code recommends the expiring board to identify, starting from the outcome of its self-evaluation, the professional skills and profiles deemed appropriate for the effective board composition. These guidelines are available for only one third of the companies whose board has been renewed in 2017 and in the second half of 2016.[44] The compliance rate on this issue is still low, although it significantly improved from 2016, when only one quarter of the companies that had renewed the board in 2016 and in the second half of 2015 disclosed such information.

Moreover, a breakdown of the analysis shows a significant gap between large and small issuers. In fact, the compliance rate of large companies (60%) is much higher than the one related to medium-sized companies (33%), but most of all to small companies (17%), which very rarely follow the Code's recommendation.

The low level of compliance had already been highlighted in previous Reports, in which the Committee invited boards that are approaching their renewal to state, considering the outcome of its self-evaluation, the guidelines on managerial and professional profiles whose presence in the board would be considered appropriate.

Although boards show an improvement in the praxis of issuing guidelines about their optimal composition, the Committee encourages companies to properly assess their future optimal composition. Indeed, the identification of professional skills and competences that a board needs, with the desired support of the nomination committee, is a key element to ensure the correct functioning of the board.

[44] See Assonime-Emittenti Titoli, Tab. 6.

1.4.4. The succession plans

Criterion 5.C.2. of the Corporate Governance Code recommends the board of directors to evaluate whether to adopt a plan for the succession of executive directors and to give relevant information about it in the annual corporate governance report.

The analysis of the 2017 reports shows that 183 companies[45] evaluated whether to adopt a succession plan for their executive directors, even if in only 35 cases they also declared the existence of such plans.[46]

Despite this low presence of succession plans in the Italian listed companies, a positive trend over previous years can be observed (29 in 2016, 20 both in 2015 and 2014), mainly due to the financial sector, where number of succession plans continues to rise, achieving this year a percentage of 73%.[47] Large companies account for the absence of a succession plan with reasons related to their ownership structure.[48]

In two third of the companies, plans include the predetermined mechanisms that should be triggered in case of an early director's replacement, while half of them describe also the procedures to follow in case of ordinary succession.

Although it is not explicitly recommended by the Code, the Committee reminds issuers of the importance of adopting adequate and defined procedures for executive directors' replacement.

The adoption of such plans, particularly helpful in case of an executive director's early replacement, ensures the stability and continuity of company's management and enhances the value of other best practices such as board self-assessment and the guidelines on its optimal composition.

1.5. Independent directors

[45] Among all the companies included in the Assonime-Emittenti titoli's sample, even those not adopting the Code, such information is given by 194 companies. Thus, the evaluation of a succession plan has been carried out also by companies that do not adhere to the Code's last edition. However, none of these cases programmed a succession plan. See. Assonime-Emittenti Titoli, Tab. 7.

[46] Succession plans are more often adopted by companies included in the FTSE Mib index (in 27% of cases, even if also the remaining 33% states that it is evaluating whether to adopt a succession plan). These plans are less recurring among Mid-Caps (11%) and STAR (6%) companies. See TEH-Ambrosetti, p. 68.

[47] In 2016 the proportion was 62%, strikingly increased from previous years. See Assonime-Emittenti Titoli, Tab. 7.

[48] Spencer Stuart, pp. 6 and 44, that refers to all the companies listed in the FTSE Mib index.

Principle 3.P.1. recommends appointing an "adequate" number of independent directors, while criterion 3.C.3. specifies that the number (and professional skills) of independent directors shall be assessed in relation to the board's size and company's industry.

In order to ease this assessment, the same criterion 3.C.3. invites issuers included in the FTSE Mib to have at least one-third of independent directors in their boards[49] (rounded down to the nearest unit), stating that, in any other case, independent directors shall not be less than two.

An analysis of corporate governance reports shows an almost complete compliance with the above-mentioned recommendations of the Code. At the end of 2016 almost all the companies included in the FTSE Mib had a board of directors (or a supervisory board) consisted of at least one-third of independent directors[50]. Moreover, a large number of companies (96%) are aligned with the other Code's recommendation that requires, in any case, at least two independent directors[51].

As to the quality of information provided by listed companies on the compliance with the independence criteria set by the Code, it must be noted that such independence criteria are merely illustrative and not exhaustive. Listed companies are required to apply these criteria with a "substance over form approach". In addition, as stated in the comment to art. 3 of the Code, each company is free to assess the independent status of its independent directors using criteria that partly or completely diverge from the ones set by the Code, given adequate and explicative information to the public.

1.5.1. Compliance with independence criteria set by the Code

On this issue, the Committee observes that non-compliant companies with one or more criteria set by the Code are quite uncommon (about 7% of companies)[52]. In most cases,

[49] It is recalled that the requirement of one-third of independent directors was subject to the transitional regime defined by the Code's Guiding Principle IX, come into force at the first renewal of the board of directors, occurred after the end of 2012 financial year. Therefore, this transitional regime expired with renewals occurred in 2015 and, consequently, recommendation regarding FTSE Mib companies finds full application from 2016.

[50] Among companies included in the FTSE Mib, 32 out of 33 companies, namely the 97% (See Assonime-Emittenti Titoli, Tab. 51) complied with this requirement. The only non-compliant company, that still has an adequate number of independent directors according to the TUF, explains reason of the non-alignment with the Code.

[51] See Assonime-Emittenti Titoli, Tab. 51.

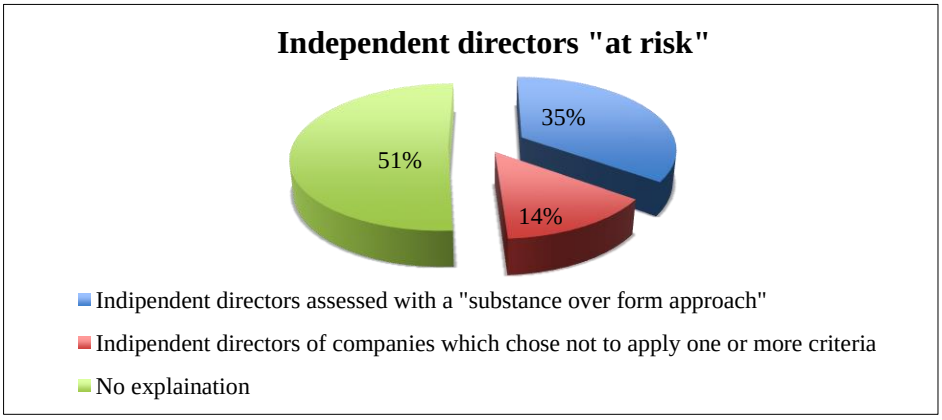
[52] Only 13 companies declined to apply one or more independence criteria set by the Code (about 6% of companies adopting the Corporate Governance Code. See Assonime-Emittenti Titoli, Tab. 51).

companies decided not to apply the criterion 3.C.1.e), regarding the nine-year-long mandate, sometimes along with other criteria. Non-alignment with this independence criterion is usually explained with the choice to favour the skills earned by independent directors over time, or to avoid mechanical application of such criteria.

Some other companies applied the recommended criteria but, at the same time, decided to assess the independent status of one or more independent directors with "a substance over form approach" (principle set forth by criterion 3.C.1. of the Code). This is the case of 37 companies (18,6% of the total), which usually[53] explain why they adopted this principle, providing us with specific information about the director or the statutory auditor considered.[54]

Overall, it can be said that about one quarter of listed companies refused to apply one or more independence criteria or assessed such independent status with a "substance over form approach", despite the presence of some non-independence signs.

However, there are more cases of independent directors considered at risk, given the high office they hold, their high remuneration[55] and the fact they have been in office for more than nine years (in the last twelve years).



Source: Assonime-Emittenti Titoli 2017

Risky situations have been detected for 113 independent directors that sit in 85 boards adopting the Code (43% of the total). From their corporate governance reports, it can be

53 36 out of 37 companies, namely 97% of the companies that adhere to the Code (the percentage was 100% in 2016, 97% in 2015 and 85% in 2014).

54 Data refers only to companies adopting the Code. See Assonime-Emittenti Titoli, Tab. 52.

55 The Committee follows the criterion adopted by Assonime-Emittenti Titoli that regards remuneration as too high when it doubles the remuneration of the other company's non-executive directors.

observed that 51% of these boards do not provide us with any piece of information about their independent directors "at risk". Only 14% and 35% of them declare respectively not to apply or to apply with "a substance over form approach" the recommendation about independent directors "at risk".

Given the importance of independent directors in ensuring fairness and transparency of the board's decision-making process, the Committee underlines how adequate and exhaustive evaluations on the existence of independent criteria are crucial. These evaluations are even more important in case of non-application or application with a "substance over the form approach", as these situations should rarely occur and be clearly disclosed and explained.

1.5.2. Meetings of independent directors

The Code suggests that, at least once a year, independent directors have meetings, without any other board member, to discuss issues related to the board's functioning and company's management. As specified during the revision of the Code occurred in 2015 (see comment to Art .3), such meetings should be held separately from the meetings of board committees.

According to 2017 corporate governance reports, 68% of the companies with at least two independent directors give information about the independent directors' meeting. The percentage has strikingly increased from 59% of 2016.[56] The compliance rate varies especially in relation to company size. In particular, it rose to 78% for FTSE Mib companies (slightly increased if compared to 75% of 2015) in contrast with 67% and 69% for medium and small companies. Moreover, the compliance rate with such Code's recommendation is also higher in companies where a LID has been appointed (76% compared to 62% of companies without a LID).[57]

More than half of non-compliant companies give an explanation, as recommended by the Code. Once again, disclosure of information is more frequent among larger companies.[58]

The committee positively observes the increase of independent directors' meetings, even if the quality of information provided in case of non-compliance does not show

[56] See Assonime-Emittenti Titoli, Tab. 50.

[57] Data refers only to companies adopting the Code. See Assonime-Emittenti Titoli, Tab. 50.

[58] An explanation is given by 56% of the companies that adhere to the Code and do not have meetings of independent directors. As to the size effect, percentage varies from 71% for larger companies (FTSE Mib) to 50% for the small ones. See Assonime-Emittenti Titoli, Tab. 50.

significant improvements over time. Both non-compliance cases and the lack of explanations could be further assessed during board self-evaluation.

1.6. The board internal committees

The Code recommends listed companies to establish, within the board of directors, specific committees with a preliminary and advisory role in fields that are more likely to be subject to conflicts of interests. Indeed, a nomination committee (principle 5.P.1), a remuneration committee (principle 6.P.3) and a control and risk committee (principle 7.P.3) should be established within the board.

As to their composition, the Code believes that the nomination committee should have a prevalence of independent directors, while it requires that the remuneration and the control and risk committees consist of only independent directors or, alternatively, of only non-executive directors, mostly independent, among whom the Chairman of the committee should be chosen.

Criterion 4.C.1. g) recommends listed companies, adopting the Code, to provide in their corporate governance reports an adequate disclosure about the establishment and the composition of board committees, the tasks with which they are entrusted as well as their activities carried out during the financial year. They should also specify number and length of these meetings and the attendance of each committee's member.

1.6.1. The nomination committee

The nomination committee has been established by slightly more than half of the companies adopting the Code (118 out of 199) and it is frequently unified with the remuneration committee (in 77 cases).[59]

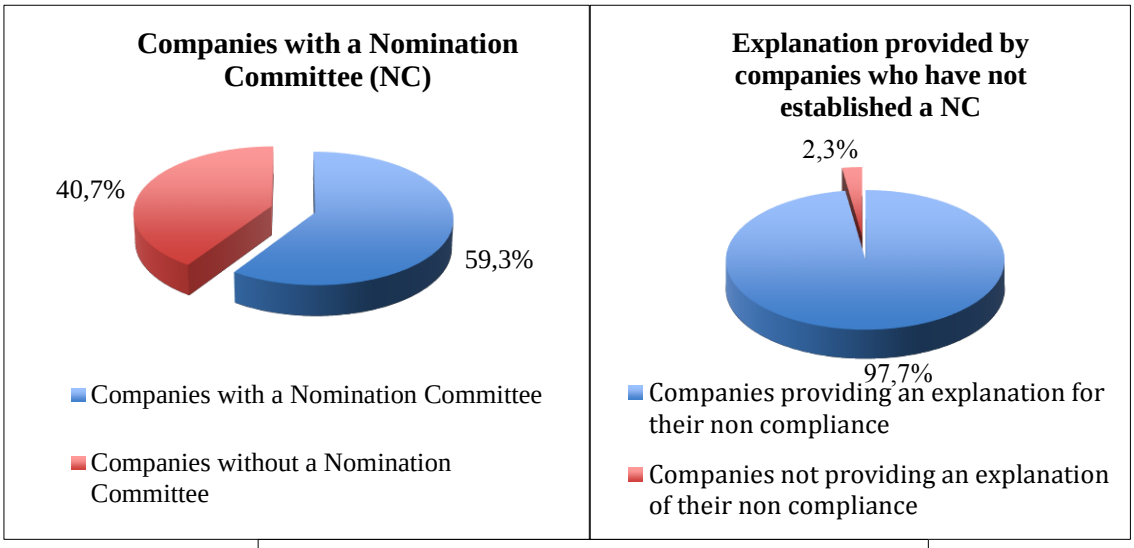
Data appear stable over time and it are linked to company size. Large companies establish a nomination committee more frequently than medium and small companies (specifically, a nomination committee has been detected in 85%, 69% and 49% of large, medium and small companies). Moreover, companies with higher capitalization confer on the nomination committee more power and independence, as only one third of these companies have a nomination committee unified with the remuneration committee, while this situation occurs in three quarter of medium and small issuers.[60]

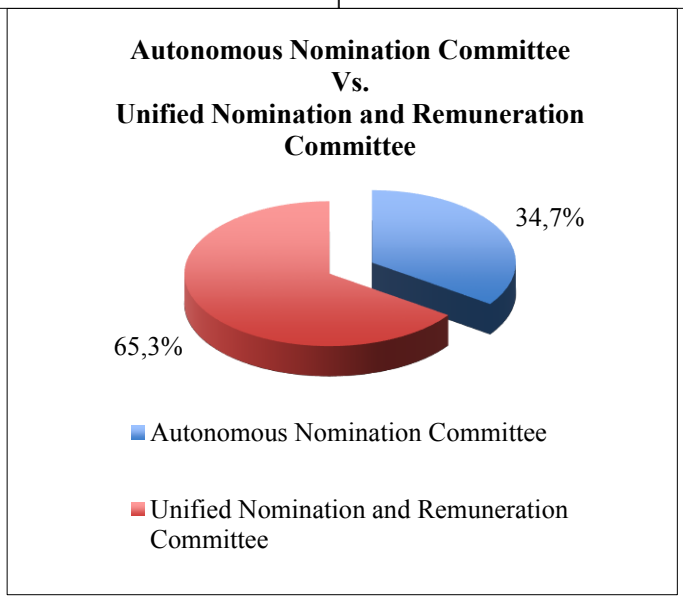
[59] See Assonime-Emittenti Titoli, Tab. 17.

[60] See Assonime-Emittenti Titoli, Tab. 17.

Almost all the companies that adopt the Code and decide not to establish a nomination committee provide us with an explanation of their choice (97%)[61].

Such explanation refers, frequently, to the current legal framework and, in particular, to the so-called "slate voting system". In other cases, companies account for this lack with the proactive role played by their controlling shareholder or with their ownership structure. Lastly, some other companies declare the application of the Code's criterion 4.C.2., which allows companies, under certain conditions, not to establish the nomination committee and to confer its tasks to the whole board.





Source: Assonime-Emittenti Titoli 2017

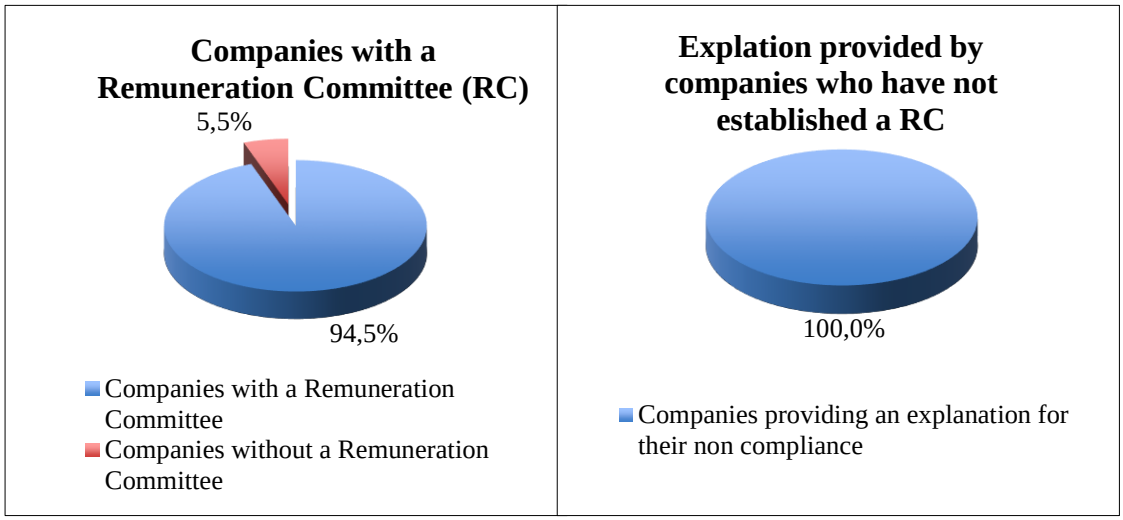
[61] Slightly increased from 95% of 2016. See Assonime-Emittenti Titoli, Tab. 17.

In the 41 companies where a stand-alone nomination committee has been established (namely, when it is not unified with other committees), its composition is almost always in line with Code's recommendations (in 95% of cases), as it is mostly composed of independent directors.[62]

The Committee reports the constantly low rate of compliance with the Code's recommendation about the establishment of a nomination committee, which plays an important advisory role. In fact, it helps the board in the definition of its optimal composition, irrespective of company's governance model and ownership structure. In the common cases of nomination committee unified with another board committee, the Committee requires companies to report separately their activities and decisions.

1.6.2. The remuneration committee

The remuneration committee has been set up by nearly 95% of the companies adopting the Code (188 out of 199)[63].



Source: Assonime-Emittenti Titoli 2017

The remaining 11 issuers, adopting the Code but without a remuneration committee, explain such choice (total compliance was achieved in 2016, while the percentage was about 87% in 2015).[64] The reason is often related to company size and the need to simplify its organizational structure.

[62] See Assonime-Emittenti Titoli, Tab. 52.

[63] See Assonime-Emittenti Titoli, Tab. 19.

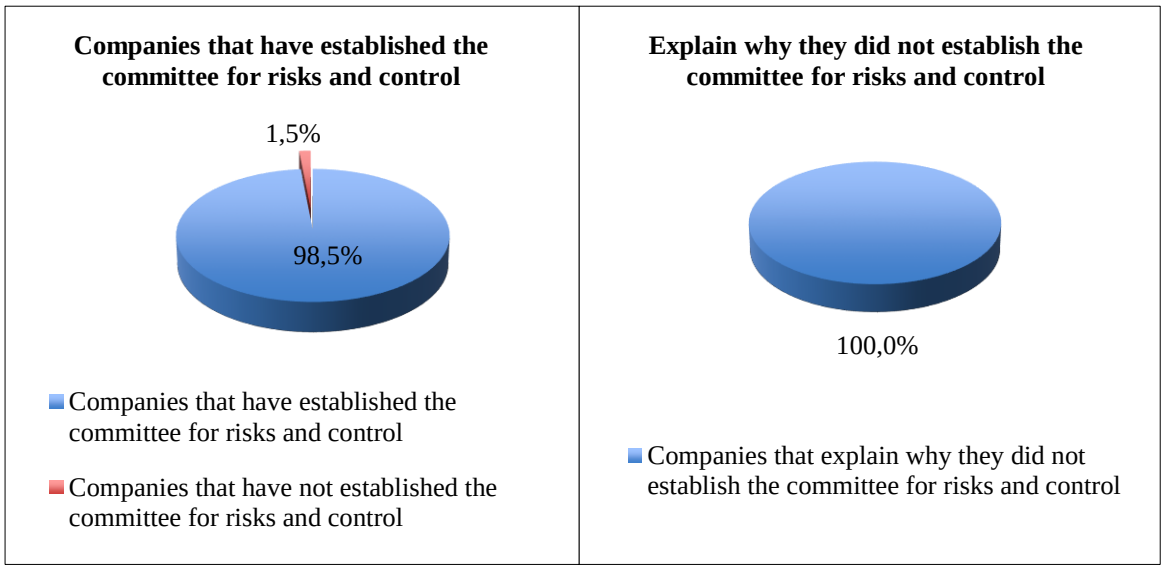
[64] See Assonime-Emittenti Titoli, Tab. 53.

In 89% of cases, the remuneration committee is not combined with other board committees, so that its composition is almost always in line with the Code's recommendations (the proportion was 90% in 2016 and 87% in 2015). However, the 13 non-compliant companies adopting the Code give an explanation. [65]

1.6.3. The control and risk committee

Most of the Italian listed companies have established a control and risk committee (98% of all the companies adhering to the Code, namely 196 out of 199).[66]

When this committee has not been set up, despite the adoption of the Code, a reason is given (as well as in 2016 and 2015). Once again, the reason often refers to the company's small size and to the need of simplifying its organizational structure. Sometimes, it is reported that its tasks have been conferred to company's executives or control bodies.



Source: Assonime-Emittenti Titoli 2017

In 93% of cases, the composition of the control and risk committee complies with the Code's recommendations, showing an improvement if compared to 2016 (92%) and 2015 (90%). The remaining 13 non-compliant companies adopting the Code, provide us with an explanation.

[65] See Assonime-Emittenti Titoli, Tab. 53.

[66] See Assonime-Emittenti Titoli, Tab. 22.

1.7. The remuneration policy

Art. 6 of the Corporate Governance Code set forth best practice recommendations for the remuneration of all board members. In first instance, the Code recommends the board of directors to adopt, on remuneration committee proposal, the remuneration policy for all directors and executives with strategic responsibilities in order to attract, retain and motivate candidates with adequate professional skills for an efficient management of the company (see principle 6.P.1.).

In defining principles that should be followed by the board of directors and the remuneration committee, the Code distinguishes between the remuneration policy for executives (executive directors and executives with strategic responsibilities) and the one addressed to non-executive and independent members of the board.

As to executive directors, the remuneration policy should align their interests with the primary aim of creating value for shareholders in the medium-long term (see principle 6.P.2., first paragraph). The remuneration of non-executive directors, instead, should be proportional to the commitment required to each director, considering also their involvement in one or more board committees (see principle 6.P.2., second paragraph).

The Code provides the companies with some guidelines for the definition of the remuneration policy, especially the executives' one. Specifically, it offers parameters through which companies should define the fixed and variable component of each remuneration package, properly balancing each component according to the strategic objectives of the risk management policy and to the company's sector and business features.

The fixed component should be enough to reward director's performance (if no variable components will be paid out; see criterion 6.C.1. c), while the variable component should represent a significant part of the overall compensation but, at the same time, it should be paid out only in case of achievement of specific performance objectives, defined *ex ante*, measurable and linked to the creation of shareholder value in the medium-long term (see criterion 6.C.1. d). Moreover, a cap to the variable component should be defined, as well as the deferral in time of its significant portion (see criterion 6.C.1. b and e).

Companies should also establish a cap for severance payments. To this end, the Code recommends issuers to define, as cap, either a fixed amount or a fixed number of years of remuneration, exhorting them, as required by EU, to deny such severance payments when the end of the mandate is due to director's inadequate performance.

Since 2014, the Code advised issuers to introduce specific contractual arrangements that allow the claw-back or the retention of the variable compensation (or any parts thereof) based on manifestly misstated data. (see criterion 6.C.1. f). Companies are also required to provide periodic information on the severance payments paid out during the financial year (*principle* 6.P.5. and criterion 6.C.8.).

Information about art. 6 shall be included either in the corporate governance report[67] or in the remuneration report, drawn up by Italian listed companies in accordance with art. 123-*ter* CLF and related implementing regulations[68].

1.7.1. The variable component of remuneration

The Code's recommendations are focused on the remuneration packages of executive directors and managers with strategic responsibilities that should align their interests with the primary aim of creating value for shareholders in the medium-long term and that should realize a proper balance between fixed and variable components (with a clear identification of the key elements of the last one).

90% of the companies adopting the Code declares that executive directors' remuneration is partly based on a variable component. This is the case of 97% of large companies, 98% of medium companies and 81% o small companies.

1.7.2. Fixed and variable remuneration

One of the key principles of the Code, concerning the remuneration of executive directors and strategic management personnel, consists of an appropriate balance between fixed and variable component. Such principle was subject to specific Committee's recommendations in 2016 Report, where the importance of a proper disclosure about the structure of the variable component was particularly underlined.

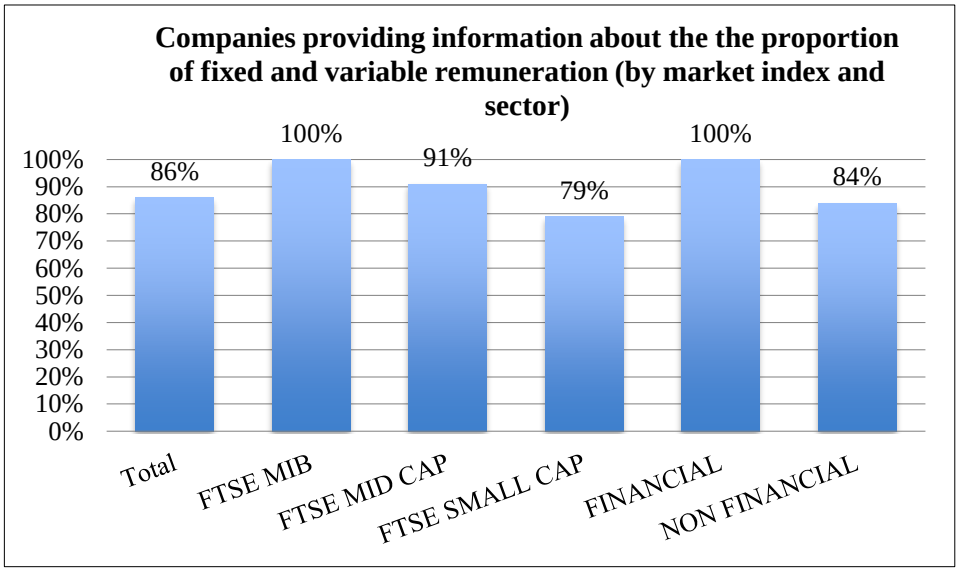
The analysis of the 2017 corporate governance reports shows that 86% of the companies adhering to the Code and declaring the existence of a variable component for their executives' remuneration disclose also the relative weight of the fixed and the variable

[67] In the governance relations, there is generally information on the establishment, composition and operation of the remuneration committee and a clarification of the policies introduced, like the provision of agreements for severance payments, the exclusion of such payments, or the introduction of caps on them.

[68] The report of the board of directors drafted pursuant to art. 123-*ter* CLF must at least include information specified in Schedule n. 7-*bis* of Annex 3A to Issuers Regulation. To this end, report must be composed of two sections: the first one identifies the policy adopted by the board and submitted to an advisory vote during the meeting, while the second section gives a detailed description, on an individual basis, of the remunerations actually paid to the members of the administration and control's bodies, to general managers and, in an aggregated form except special circumstances, to managers with strategic responsibilities.

component of each remuneration package. The frequency of such disclosure increases with company size, as it is given by all the large companies and only by 79% of the small companies. It can also be observed that the level of compliance is higher in the financial sector (100%), that includes only banks and insurances, than among non-financial companies (84%)

Given that in 2016 only 80% of the companies complied with this recommendation, and that the percentages of compliance related to small and non-financial companies were respectively 72% and 78%, it can be observed an improvement on this issue.



Source: Assonime-Emittenti Titoli 2017

The Committee observes an improvement in disclosing information concerning fixed and variable components of executives' remuneration. Nevertheless, the Committee considers it appropriate to underline the importance of such disclosure to achieve a clear definition of each remuneration component.

1.7.3. Parameters of the variable remuneration

The Code recommends issuers to identify in their remuneration policies some specific performance goals linked to the variable remuneration. These goals should be predetermined, measurable and connected to the creation of value for shareholders in the medium-long term.

Listed companies adopted remuneration policies that almost always disclose information about parameters through which the variable remuneration is defined. This happens in

93% of the companies adhering to the Code and having a variable component for directors' remuneration, proportion that is substantially stable over time.[69]

Companies may choose from several parameters. Most of them opt for accounting indicators (98% of the companies), while the use of business targets is less frequent (61% of the companies). Moreover, 52% of the companies' remuneration policies link the variable component to the stock price (stock-based compensation plans or phantom-stock plans), especially if the company is large (76% compared to 59% and 39% of medium and small companies) or belongs to the financial sector (77% with a higher percentage of 81% if only banks are considered).[70]

There are not significant changes from previous years among companies adopting the Code and having a variable component for their directors' remuneration. 74% of them link the variable component of remunerations both to short and medium-long term goals. In the remaining companies, 20% of the remuneration policies include only short-term goals, while 6% of them considers only medium-long term objectives.[71] Analysing only parameters with a short-term (related to 2015-2016), it is observed that they are rarely correlated with the net income (resulted in the 2014-2015 balance sheets).[72]

Overall, variable remunerations linked to medium-long term goals have been detected in 70% of the listed companies, with a higher compliance rate for large (about 90%) and medium (about 80%) companies than the small ones (less than 60%).

The Committee highlights the opportunity for issuers to increasingly link directors' remuneration to medium-long term objectives, so to ensure a greater alignment between executives' incentives and the company's sustainability in the mid-long term. To this end, the Committee recommends companies to evaluate their compliance rate with the best practices recommended by the CG Code.

1.7.4. The provision of a cap to the variable remuneration

The remuneration reports published in 2016 show that 88% of the companies adopting the Code and having a variable component complied with the Code's criterion 6.C.1.b), by introducing a cap on the variable remunerations.

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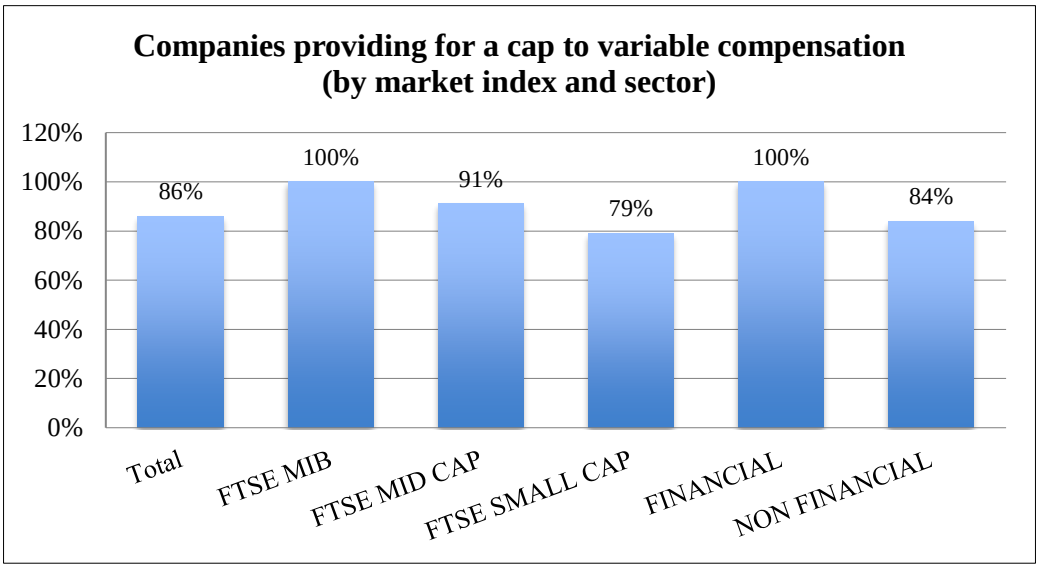
[69] See Assonime-Emittenti Titoli, Tab. 24.

[70] Data appears slightly increased from previous years. See Assonime-Emittenti Titoli, Tab. 24.

[71] See Assonime-Emittenti Titoli, Tab. 24.

[72] See TEH-Ambrosetti, p. 55.

The compliance rate increased from 84% of 2016 and it significantly varies according to company size. All the large companies (100%) have a cap on variable remunerations, while this recommendation is less adopted by medium companies (91%) and especially by small companies (81%).[73]



Source: Assonime-Emittenti Titoli 2017

Data about this recommendation reveals a slight improvement in 2017 from previous years, maybe because of the explicit advice given by the Committee in 2016 Report, along with the one concerning the disclosure about the weight of fixed and variable components.

The Committee points out the high percentage of companies providing a cap to the variable remuneration, but, at the same time, it calls upon non-compliant issuers to provide adequate explanations.

1.7.5. Claw-back clauses

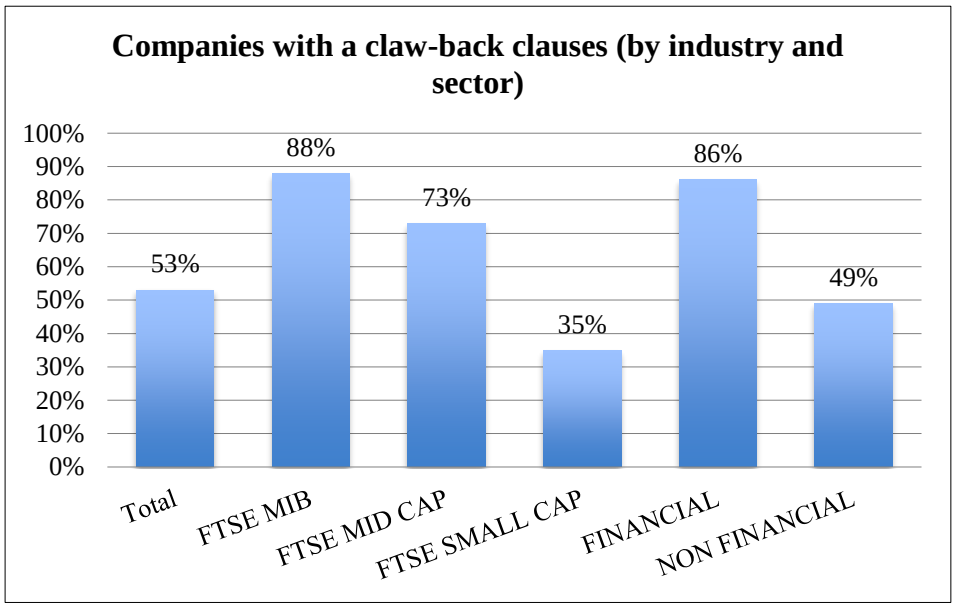
As already mentioned, the Code's 2014 edition recommends companies to introduce contractual arrangements that allow companies to reclaim, in whole or in part, the already paid portion of the variable remuneration or to retain the deferred payments of such variable remuneration if it is based on misstated data.

The provision of these clauses have been detected in the remuneration policies of 106 companies adopting the Code, namely 53% of the total, an increase compared to 48% of

[73] See Assonime-Emittenti Titoli, Tab. 24.

2016 and 34% of 2015.[74] There is a wide gap among companies with different capitalization (such clauses have been gathered in 88% of large companies, in 73% of the medium companies and only in 35% of the small ones) and between financial and non-financial sector (86% in the first case, 49% in the second one).

Companies adopting the Code and providing their remuneration policy with claw-back clauses always define also the causes and the events that trigger such clauses.[75]



Source: Assonime-Emittenti Titoli 2017

Despite an improvement in recent years, the recommendation regarding the provision of claw-back clauses is still at a low compliance rate, inasmuch it is envisaged by only half of Italian listed companies. Therefore, the Committee calls upon issuers to introduce such clauses in their remuneration policies.

1.7.6. Policy on severance payments

The Code recommends issuers to fix a cap on severance payments if their remuneration policies provide for such payments when a director or the strategic management leaves

[74] Data refers only to companies adopting the Code. See Assonime-Emittenti Titoli, Tab. 26.

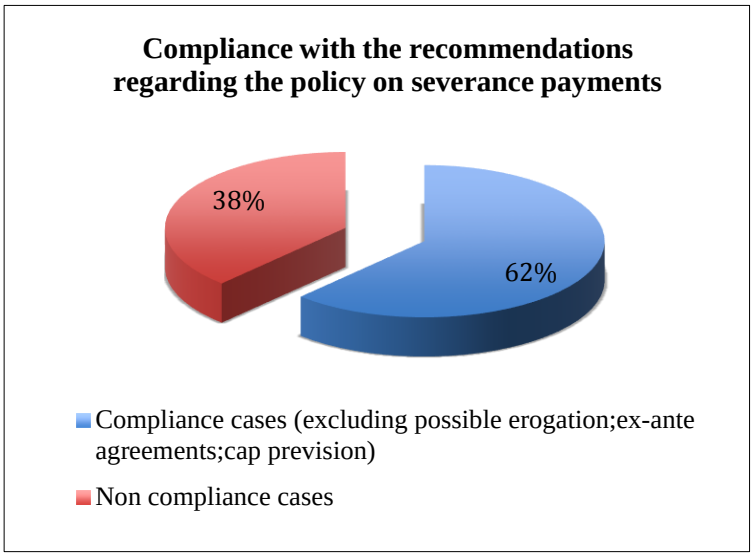
[75] See Assonime-Emittenti Titoli, Tab. 26.

the company. Such limit could be represented both by a fixed remuneration and a fixed number of years of annual compensation.[76]

Information on this matter is not always clear. On the one hand, 16% of the companies exclude the possibility of paying severance indemnities to their directors in case of future resignations or firings. On the other hand, of the remaining 84% of companies that envisage such payments, only half of them explicitly introduced a cap on severance payments[77], while the others neither excluded caps nor introduced specific agreements on this matter.[78]

From these figures, it can be noted that only 62% of the companies adhering to the Code are compliant with its recommendations on this matter, excluding such severance payments from their remuneration policy, or stating the existence of specific agreements or, alternatively, introducing a cap on such payments. The compliance rate rises to 78% among large companies, while it falls to 62% and to 54% among medium and small issuers.

There have not been significant improvements from previous years; quite the opposite, there is still a low compliance rate especially among small caps.



Source: Assonime-Emittenti Titoli 2017

[76] The parameter identified by the European Commission (Recommendation n. 2009/385/CE) is twice the annual fixed remuneration or its equivalent.

[77] 50% of these companies have also specific agreements with each director about possible future payment of severance indemnities.

[78] See Assonime-Emittenti Titoli, Tab. 25.

The Committee observes that, in several cases, remuneration policies show insufficient information about severance payments, as they do not provide for either specific agreements or caps on such payments, or any other measure that limits the discretion of such remuneration component. To this end, the Committee wishes for issuers to introduce an appropriate policy about severance payments and, in cases when such an indemnity is effectively paid out, to promptly provide for complete information.

1.8. Sustainability

In 2015, the Committee introduced some amendments aimed to raise the Italian listed companies' awareness about mid-long term corporate sustainability, strengthening those principles that had already required the board to pursue the objective of creating value for shareholders in the mid-long term (art. 1) and of defining a variable remuneration linked to long term goals (art. 6).

The new recommendations introduced in 2015 exhort companies: 1) to consider, in the definition of risks consistent with the issuer's strategic objectives, also those risks that could become relevant in a mid-long term perspective (criterion 1.C.1.b) to give appropriate sustainability tasks to a committee for this purpose specifically established or to another already existing Committee (art. 4).

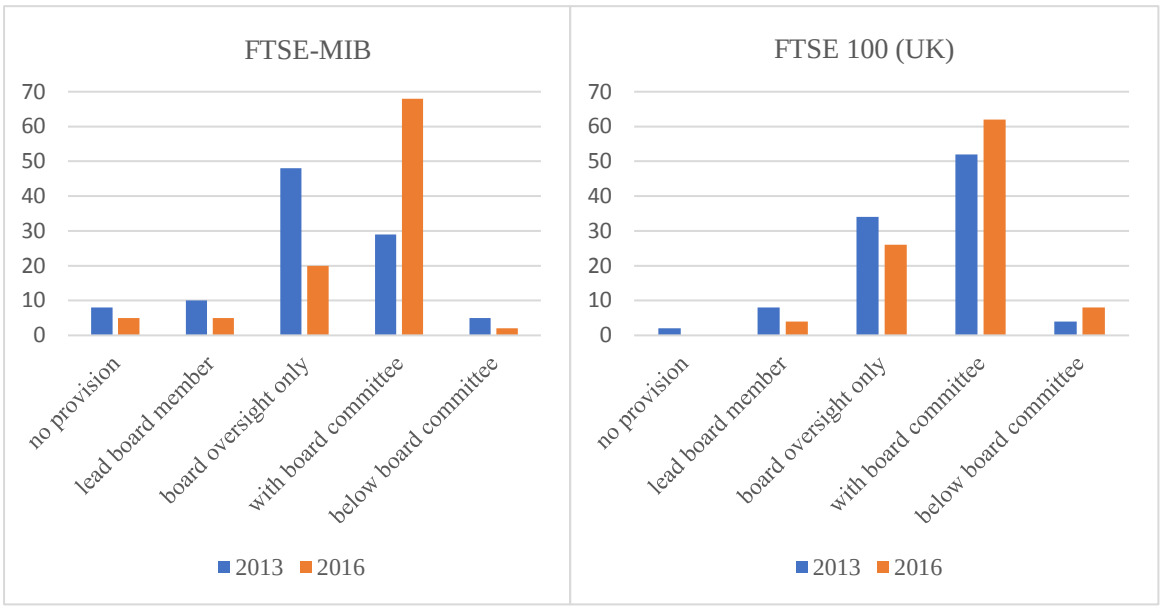
Over the period 2013-2016, more than half of the companies listed on the FTSE Mib changed their governance structure to include some themes about sustainability, showing a much more notable evolution that the one concerning companies included in the FTSE 100 of *London Stock Exchange*. Such evolution, even if monitored every three years, has become significant since 2015, when the Code was revised on this matter.[79]

The main changes carried out by Italian companies consist in creating a specific committee or in giving, to an already existing board committee, specific tasks on sustainability themes, with the function of advising and making proposals according to its competence.

In fact, in 2016 68% of the FTSE Mib companies give, to one of their board internal committees, tasks associated with sustainability, compared to 29% of 2013. This great leap, occurred from 2013 to 2016, is almost equally due to the establishment of an *ad hoc* sustainability committee (from 12,5% in 2013 to 32,5% in 2016), to the assignment of

[79] Data stems from the analysis of Assonime, CSR Manager Network and ALTIS

competences about sustainability themes to another internal committee (from 12,5% in 2013 to 25% in 2016) and, even if less frequently, to the assignment of such competences to committees composed also of external managers (from 5% of 2013 to 10% of 2016).



Source: Assonime, CSR Manager Network and ALTIS 2017

The increasing attention to sustainability themes is highlighted also by the definition of sustainability objectives and plans that large companies identified in two third of cases. By contrast, there still are some unclear aspects about sustainability, like the definition of internal rules and procedures that should be followed in this field.

Definition of competences about sustainability[80]	**Board of directors only**	**Also Committee**	**Not explicitly attributed**
Sustainability plan/objectives	11,54%	53,85%	34,62%
Main business rules and procedures from the social and environmental side	12,00%	36,00%	52,00%
Identification of risks connected with social, environmental and sustainability issues	20,00%	36,00%	44,00%

[80] I dati sono tratti dall'analisi di Assonime, CSR Manager Network e ALTIS, cit..

Monitoring of the positioning of Companies with respect to financial markets about sustainability issues	8,00%	40,00%	52,00%
Monitoring of the relations with stakeholders	0,00%	44,00%	56,00%

Source: Assonime, CSR Manager Network and ALTIS 2017

2. A synthetic overview

Overall, it can be affirmed that the quantity and quality of information have progressively improved.[81] Companies usually describe appropriately their corporate governance models, irrespective of whether they comply with the Code, or they partly or totally do not comply with it.

When companies decide not to comply with the Code's recommendations, they usually explain exhaustively their choice, and such explanations are properly underlined so that investors are able to evaluate them and to draw the necessary conclusions, in terms of both trading and engagements purposes with the issuer.

2.1. The compliance rate with main Code recommendations

In order to assess the real compliance rate with the Corporate Governance Code, the Committee carried out an additional analysis of data commented in this Report, focusing on those recommendations that are related to the effective functioning of the board and the remuneration of its executive members.[82]

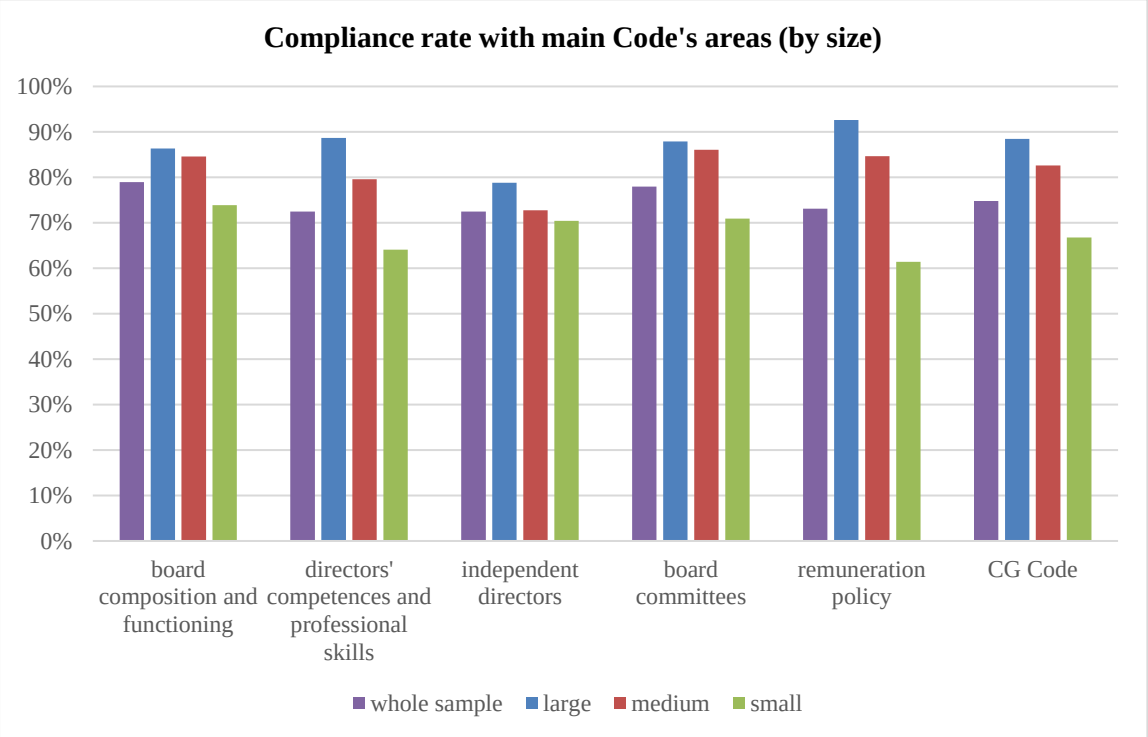
[81] Such improvement is underlined also when only FTSE Mib companies are considered. According to the rating assigned by TEH-Ambrosetti, p. 18, the *EG Index* registers a constant improvement from 5,8 of 2010, to 6,63 of 2016 and 6,76 of 2017.

[82] In particular, the assessment concerns the Code's recommendations on these issues: the provision of a succession plan for executive directors, the completeness and promptness of pre-meeting information, the effective attendance of managers to board meetings, the disclosure about board evaluation, the board's guidance on the maximum number of appointments and on the optimal board composition, the independent directors meeting, the institution of a lead independent director, the application of independence criteria, the institution and the appropriate composition of the board internal committees, the definition of long term goals to determine the variable component of the remuneration, the definition of the weight of fixed and variable remuneration, the provision of a cap for the variable remuneration, the claw-back clauses, the definition of a specific policy about severance payments.

Such an analysis is aimed to evaluate the actual application of the best practices defined by the Code, going beyond a mere evaluation of the compliance with its recommendations. To this end, only companies adopting the Code in practice have been considered, while those companies that partly or totally do not apply its recommendations have been excluded, irrespective of whether they give or not an explanation of their non-compliance.

This analysis shows that companies achieve a satisfying level of application for three quarter of the analyzed recommendations, and that this application is substantially consistent for different aspects of the corporate governance systems.

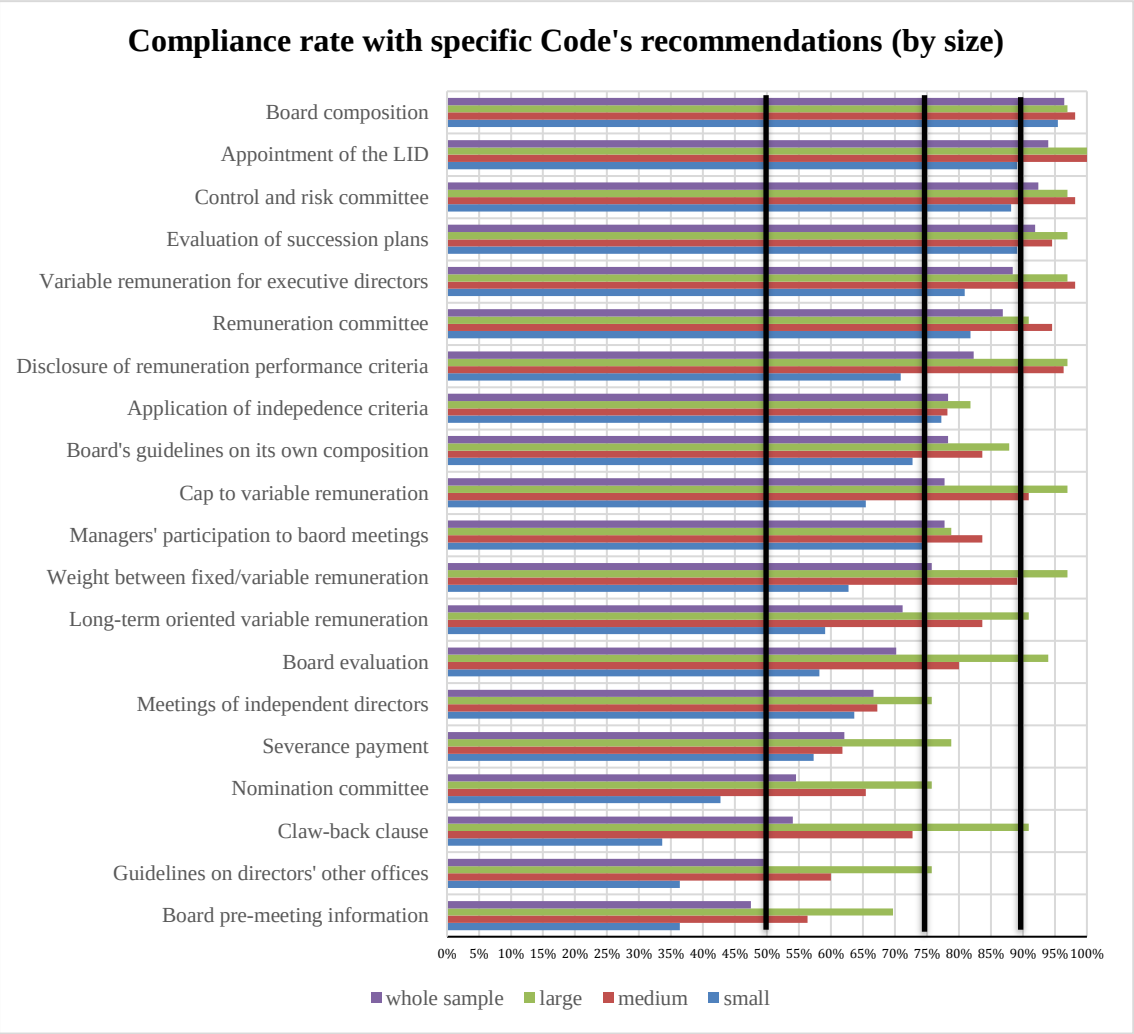
On average, in large companies the compliance rate is around 90%, while it is just over 80% in medium companies and lower than 70% in small companies.



Source: Assonime-Emittenti Titoli 2017

In the detailed table below, it may be observed that there are some areas where the compliance rate is still low, having regard, in particular, the pre-meeting information, the

nomination committee, the board evaluation and some components of executive directors' remuneration.



Source: Assonime-Emittenti Titoli 2017

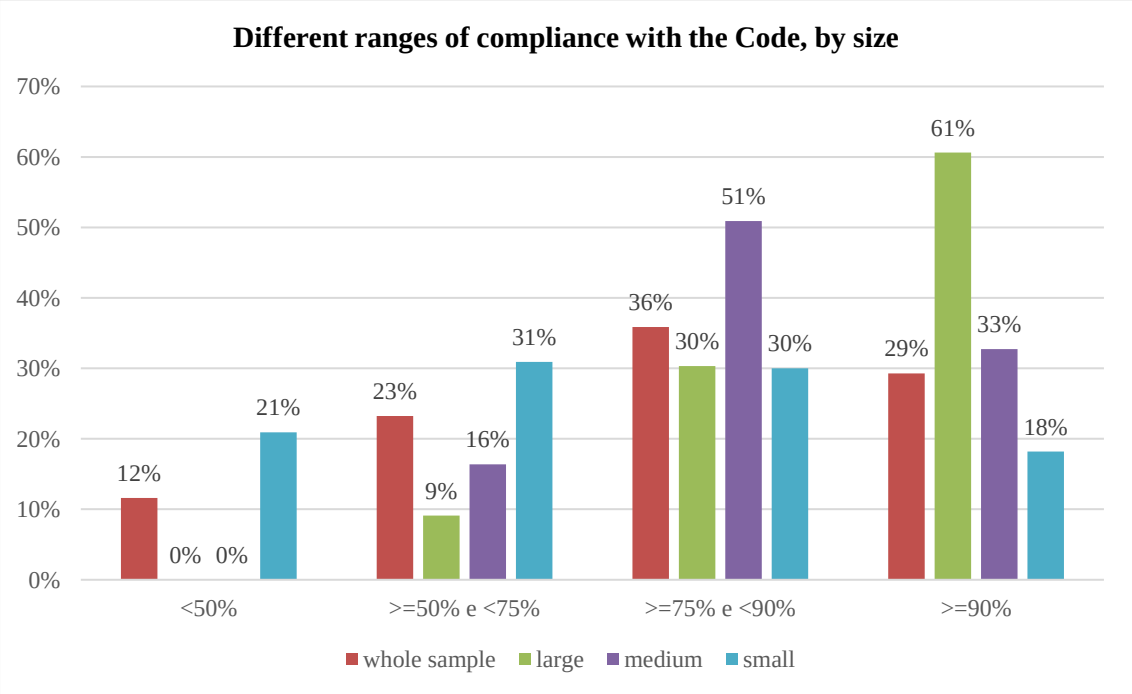
Adequate disclosure about the completeness and promptness of pre-meeting information flow has been detected in less than half of the companies considered and in less than 75% of the large companies.

There still are critical aspects also with regard to the establishment, composition and functions of the nomination committee. Less than half of the all issuers, and less than 40% of the small ones, established a nomination committee that meets also the composition criteria set by the Code. Moreover, when it is established, the nomination committee is often unified with another internal committee (in most cases with the remuneration committee): this circumstance usually affects negatively the quality and the clarity of information regarding nomination committee's functions and activities.

As to the governance of the board, data show that, the board evaluation, even if very frequent, might be enhanced by a better structure of its process, especially in smaller companies. Only 20% of board evaluations regard also individual directors.

Moreover, there is still a room for improvement in relation to directors' remuneration policy, as already underlined by the Committee. In fact, issuers, even the larger ones, should increase the provision of claw-back clauses, clearly treat severance payments, and improve in the definition of long-term objectives and their link to directors' variable remuneration.

In general, there are significant differences according to company's size and sector. Around 15% of the companies (nearly all small-sized) comply with less than 50% of the Code's recommendations, and a proportion of 30% of the companies (even in this case the majority consists of small issuers) apply from 50% to 75% of the Code's recommendations.



Source: Assonime-Emittenti Titoli 2017

This additional and synthetic analysis points out that smaller companies encounter serious difficulties in complying with the Code and in providing information about all non-compliance cases (which are usually poorly explained). This aspect affects not only small

companies, but also mid cap ones (i.e. listed on the FTSE Mid Cap Index)[83]. For this reason, the Committee is considering the opportunity of carrying out a thorough analysis of the Code's recommendations in order to introduce some simplification measures for smaller companies.

2.2. Looking ahead to further corporate governance improvements

The Committee underlines the importance of focusing on issues that are usually linked to high level of formal compliance with Code's recommendations but reveal, at the same time, a significant room for improvement when we look at the substance of such best practices.

This is the case of succession plans, independence criteria and independent directors' remuneration. Apparently, companies meet very high level of compliance regards such issues: 90% of companies are "evaluating" the opportunity to adopt a plan, 75% of companies comply with Code's recommendations regarding directors' independence and the remuneration of such directors is almost always in line with the Code, which recommends it to be made up of only fixed components.

At the same time, the Committee believes that the substantial governance of listed companies and, above all, the Code itself still lags behind, if compared to some market expectations. In particular, corporate practices about succession plans, independent directors and their remuneration, even if highly compliant with Code's recommendations, need to be enhanced looking at the quality of substantial corporate governance practices. For example, even almost all companies declared to have assessed the opportunity of introducing a succession plan, only 20% of them (60% of the large ones) have actually adopted it, and rarely provide information about their effective implementation.

As to independent directors, there are two aspects to improve.

The first aspects regards a clear and exhaustive application of the comply or explain principle: a thorough analysis of the so-called directors "at risk" (as they have been appointed for more than nine years, or they have a too high remuneration, or they hold high positions in other companies) shows that in around 50% of cases companies do not provides for a proper explanation about such non-compliance[84].

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[83] See TEH-Ambrosetti, p. 21, that underlines how the highest compliance rate (EG Index between 7-10 points) has been reached by 41,9% of FTSE Mib companies, compared to 14,3% of Mid-Caps and to 7,3% of Small-Caps.

[84] See *supra*, par. 1.5.1.

The second aspect regards the need for an enhancement of the substantial compliance with Code's general principle about remunerations: despite a high formal compliance rate with the Code's criteria, independent directors' remuneration seems to be, on average, too low if compared to market expectations[85] (in more than 50% of the small companies it is less than € 25'000, in more than 50% of the medium companies it is less than € 50'000, while in less than 20% of the large companies it is less than € 50'000).

[85] Spencer Stuart, p.9, has come to the same conclusions, in relation to the average remuneration of independent directors in FTSE Mib. Here, it is said how *"the profile of non-executive directors (both independent and non-independent) is generally not in line with the commitment required in terms of both professional background and increasing responsibilities".*

II. COMMITTEES' ACTIONS FOR A BETTER COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

1. Monitoring activities and interaction with the listed companies

The effectiveness and reliability of self-regulation needs a proper monitoring system of effective companies' compliance with the best practices set by the corporate governance code. This monitoring system can be managed by the same authority that draws up and updates the code's recommendations or, as happens in few European cases, by other entities. On this issue, there is a great variety among European countries.

In the United Kingdom, Netherlands, Belgium and Germany, corporate governance rules are usually established by a committee with a hybrid nature (partly public and partly private). In fact, in these countries, the Committee is often composed by members of listed companies and, sometimes, of other stakeholders like academic and asset management institutions [86], but these members are completely or partly appointed by the State. Indeed, the German[87] and Dutch[88] Committee are entirely chosen by the State, while in the United Kingdom[89] only the Chairman and the deputy Chairman are publicly appointed.

In other countries, the institution and composition of such committees is completely handled by private entities representing the capital market. For instance, in France, the Committee pursues interests of business associations (AFEP and MEDEF), while in Italy and in Sweden it includes also members of listed companies (belonging both to financial and industrial sector), asset management institutions and other institutional investors.

[86] An example is given by the composition of the Ducth and German Committee.

[87] In Germany, the whole *Regierugngskommission*, its Chairman included, has been appointed by the Ministry of Justice and Consumer Protection (*Bundesministerium der Justiz und für Verbraucherschutz*) that chooses its members among members of corporate bodies, institutional or retail investors, academic bodies, audit companies and employee associations. The appointment can be also recommended by the Commission itsself.

[88] The Monitoring Commissie is appointed by the Ministry of Economy, along with the Ministry of Justice, that choose each cmembers among corporate governance experts of listed companies, investors, auditors, academics and employees.

[89] The Secretary of State for Business, Innovation and Skills is in charge of the appointment of the Chairman and Deputy Chairman of the Financial Reporting Council's board. It must be specified that the FRC, whose activity is to draw up and monitor self-regulation codes, is an independent regulator and its powers have been regarded as "Department for Business, Energy and Industrial Strategy".

This great variety in the composition of the Italian Committee is ensured also by the fact that the chairman is usually chosen among members of listed companies, and the deputy chairman among members of asset management institutions.

By contrast, in Spain and Portugal, the best practices concerning corporate governance are defined by the market supervisory authority: the *Comsiòn Nacional del Mercado de Valores* (in Spain) and the *Comissão do Mercado de Valores Mobiliários* (in Portugal).

1.1. Monitoring activities

In Europe, monitoring activities on the application of corporate governance recommendation, included in the so-called self-discipline codes, are carried out by different institutions and in different ways. On the one hand, more than one entity can be appointed to perform this activity, each one with its own aim and specific field. On the other hand, the entity entrusted with the monitoring activity can be different from the one that draws up and updates the Corporate Governance Code.

In most countries, the entity that draws up the Code and the one carrying out the monitoring activity are the same. This is the case of United Kingdom with the Financial Reporting Council, Netherlands with the *Monitoring Commissie*, Spain and Portugal with their respective supervisory authorities, namely *CNMV* and *CMVM*. By contrast, in Germany the *Governance Regierungskommission* is only in charge of the Code's drafting, while the monitoring activity is carried out by the academic world, namely by the Berlin Corporate Governance Center and recently also by the University of Leipzig.

In Italy, three main monitoring activities are conducted, and their results annually published, by three different entities with as many aims. First of all, the Italian supervisory authority, *CONSOB*, carries out a statistical analysis of the Italian governance systems, focusing on ownership structures, corporate bodies and their evolution. Secondly, Assonime and Emittenti Titoli, representing the business and corporate world, thoroughly analyses corporate governance reports and remuneration reports, assessing the compliance with the Code's main recommendations. In this research, published on annual basis since 2001, the evolution of the Italian corporate governance systems is described in detail, underlining improvements and critical issues. Lastly, the Corporate Governance Committee, that pursues interests of both listed companies and investors, integrates and critically examines data gathered by Assonime-Emittenti Titoli with other specific studies, in order to promote a better compliance with the Code. In particular, this analysis points out those aspects that companies should improve and those ones that could be subject to future revisions of the Code.

1.2. Interaction with the listed companies

In some countries, an effective monitoring activity led the Committee to develop a direct relationship with the listed companies to which the corporate governance code is mainly intended. In some cases, a transparent consultation mechanism about the Code's update has been adopted, as any proposal for revision is published [90]. Other countries have developed a direct relationship with listed companies, answering questions concerning the correct interpretation of the Code's recommendations.[91] This is the case of the French *Haut Comité,* specifically established to answer questions about the correct application of the Code and to interact with companies that did not comply with some important recommendations or did not follow the interpretation suggested by the Committee. This interaction consists of two phases: first, companies, in their corporate governance reports, are required to provide the Committee with proper information about the correct application of those recommendations contested by the Committee. If such information is still not enough, the Committee starts a second phase of "enforcement", in which the identity of the non-compliant company is made public.

In Italy, the Committee's awareness about the importance of an adequate monitoring activity has increased over time, firstly with the publication of the Corporate Governance Annual Report and, afterwards, with a letter sent to all listed companies to formally report the main critical aspects found during the monitoring activity. In this letter, the board of directors of listed companies are invited to take into accounts such critical aspects in the evaluation of their organizational model and actual application of the Code's recommendations.

2. The Committee recommendations to listed companies

With the purpose of enhancing the effectiveness of the system defined by the Corporate Governance Code, since 2015 the Committee sends its Report to all Italian listed companies, together with a formal letter highlighting the main critical areas of compliance with the CG Code and encouraging the board of directors and the internal control body of companies adhering to the Code to evaluate their real degree of compliance with the

[90] This occurs especially in those countries where the Committee is partly or entirely appointed by the State, namely UK, Germany and Netherlands.

[91] This is the case of France and Sweden, where the Committee is a private entity.

recommendations and the quality of information given, either in case of their compliance or of their non-compliance. In this section, we analyze the effects of the 2016 Committee's recommendations and, at the same time, we point out the main non-compliance issues emerged in 2017, that are considered in the letter sent to all listed companies by the end of this year.

2.1. Assessment effects of 2016 recommendations

The 2016 letter highlighted two main areas of non-compliance, inviting companies to carefully consider them and, if necessary, to take action to improve their adoption within their governance practices. The 2016 letter identified two areas of possible improvement, concerning the role of the board in its optimal composition and the clarity and the completeness of the executives' compensation policies.

With regard to the role of the board, the Committee highlighted the opportunity for a greater accountability of the exiting board when evaluating the professional skills of the future board members, emphasizing their important role of advisors in this choice.

The choice of listed companies to comply with the strategic decisions of the board about its optimal composition is still a critical point, even though some improvements can be observed with respect to 2016. This year, board guidelines on its optimal composition have been issued by one third of the companies, showing an improvement if compared to the previous year, when they account just for one fourth. On the contrary, the percentage of companies that have created a nomination committee is stable over time (50%), notwithstanding several Committee's recommendations about the importance of such an advisory committee also within companies with a more concentrated ownership structure.

As for the compensation, the clarity and the completeness of the related policies seem to have improved, especially for what concerns their weight and maximum amount. There are still some critical points though: only half of the Code-compliant companies adopt claw-back clauses, even if this percentage is increasing with respect to previous years; whereas it is stable over time the limited number of companies choosing to comply with the recommendations of the Code related to the possible severance payment.

2.2 The 2017 recommendations

Taking into consideration the comments in Chapter II of this report and, particularly, the evolution of the critical areas highlighted in the letter sent to all the listed companies at

the end of 2016, the Committee has sent another letter, identifying the main areas that need an improvement in the compliance with the CG Code.

Considering data provided in this report, the Committee identified three main areas of further improvement in the compliance with the CG Code.

The first critical area regards the quality of the pre-meeting information about which **the Committee highlights the opportunity to ensure a complete transparency about the timing, completeness and availability of the pre-meeting information, providing for detailed insights about the effective compliance with the deadline identified by the issuer for the submission of the pre-meeting documentation.**

The second critical area is about, as in 2016, some specific elements that might contribute to the clarity and the completeness of the remuneration policy. On this point, **the Committee recommends issuers to enhance the long-term perspective of their remuneration policies, to introduce claw-back clauses and to clearly identify rules and procedures for possible severance payments**.

The third area of improvement refers to the establishment and the functioning of the nomination committee, which have also been considered in Committee's past recommendations. **The Committee recommends to all issuers, including those with more concentrated ownership structures, to establish a nomination committee and, in case of its unification with another internal committee, to clearly distinguish its functions and report separately on its activity.**

At the same time, the Committee has also detected some other governance areas that, notwithstanding their good level of compliance by issuers with the recommendations of the Code, can still be qualitatively improved. The Committee is considering the possibility of enhancing Code's recommendations regarding these topics, taking into consideration the attention given to them by institutional investors and also the opportunity to align the Code to international best practices.

The first area regards succession plans for executive board members: even though companies reach a high level of compliance with the 'mandatory' recommendation of the Code, which only requires the evaluation of the opportunity to adopt a plan, **the Committee underlines the importance of establishing succession plans for the executive board members, in order to ensure the continuity and the stability of the management and to enhance the transparency of the adopted plans.**

Also an improvement in the quality of independent board members is desirable. **Taking into consideration their important role in the decision-making of the board, the**

Committee highlights the importance of an adequate assessment of their independence. In particular, appropriate information should be given when the company decides not to apply certain independence criteria or to apply them with a "substance over the form" approach, as they should both represent limited exceptions.

Finally, also the board evaluation might be improved. **The Committee**, even if observing a good degree of compliance with the recommendations of the Code, **underlines the importance of adopting structured procedures for the board review and recommends the boards of directors to consider in their evaluations also the effectiveness of their functioning, especially focusing on the board's contribution to the definition of the strategic plans and the monitoring of the management activity and the adequacy of the internal control system and risk management.**

Both the Committee's analysis and the studies regarding the compliance with the CG Code give all issuers a comprehensive outlook on corporate governance best practices and allow them to assess their own compliance rate with the CG Code. For this purpose, the Committee encourages issuers to apply more substantially individual Code's recommendations and to verify the quality of the information given in their corporate governance reports, both in the case of compliance and in that of non-compliance with the CG Code.

Taking into consideration the responsibility given to company's internal control body to monitor the concrete applications of the corporate governance rules, the Committee encourages listed companies to carefully consider also the critical points emerged in Chapter II of this report, having particular regard to the most significant issues that have been considered also by the Committee's 2017 letter to all the listed companies.

The Committee wishes for the board and the internal committees to adequately assess the letter and to consider its critical issues, also during the board evaluation process, in order to consider possible evolutions of its governance practices or to fill in possible gaps in its compliance with Code's recommendations, including the consistency of the explanations given in case of non-compliance. To this end, the Committee recommends companies to include in their next corporate governance report the evaluation of such issues and the eventual actions taken to improve their corporate governance.

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