FIN-GOV

THE FIN-GOV REPORT ON CORPORATE GOVERNANCE IN ITALY

edited by Massimo Belcredi and Stefano Bozzi

UNIVERSITÀ CATTOLICA del Sacro Cuore

Second edition | November 2022

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The Università Cattolica del Sacro Cuore Centre for Financial Research on Corporate Governance (FIN-GOV)

FIN-GOV, the Centre for Financial Research on Corporate Governance, was set up in July 2021 by a group of scholars from the Università Cattolica Faculty of Economics sharing some basic convictions about:

a) The opportunity to create a structured centre for studies and research, including applied research, in the field of corporate governance, characterised by a third-party status with respect to market players (issuers, investors, supervisory authorities, etc.) and independence of judgement;
b) The opportunity to bring into the public debate numerical evidence and data, collected and processed in a rigorous manner, in order to create a solid basis for assessing the need for and form of potential policy interventions;
c) The need to address governance and sustainability issues with a multi-disciplinary approach that combines expertise in law and economics and is open to new topics of importance to the financial community.

The funding model for FIN-GOV activities is crucial. Particular care has been taken to preserve the independence of the Centre, especially by seeking its essential financial support from:

a) stakeholders interested not only in developing studies but also good practice in the field of corporate governance;
b) a large number of players from all parts of the market (issuers, institutional investors, consulting firms operating in the fields of corporate governance and sustainability).

FIN-GOV aims to offer an authoritative, rigorous and independent point of reference for the scholarly and policy-related debate on corporate governance and sustainability. The location of the Centre within Università Cattolica is no accident. The ultimate aim of the Centre is to promote and spread a culture of governance based on principles of ethics and fairness, in line with the principles and cultural tradition of Università Cattolica.

FIN-GOV bases its activities on four pillars: the FIN-GOV Report on Corporate Governance in Italy, the production of monographic research, the organisation of conferences and direct participation in the policy debate.

Special thanks from FIN-GOV (and from me) go to the sponsors and supporters of the Centre. Without their support and encouragement this report simply would not have been possible.

Massimo Belcredi
7 november 2022

Executive Summary

This second report analyses the corporate governance and sustainability of Italian listed companies. The topics analysed are: composition and functioning of the board of directors, independence of directors (and statutory auditors), investor dialogue policies, board committees, remuneration policy, and sustainability disclosure.

The main conclusions can be summarised as follows:

a) Compliance with the Code and, more generally, the quality of corporate governance varies greatly from one company to another: generally speaking (and not without exception), it is good among large companies, especially if widely held or public, while it is more formal in small companies, especially if they are concentrated and/or family-controlled. The identity of the reference shareholder has a pervasive influence on governance choices.
b) The CG Code modulates the recommendations according to the size and ownership structure of the issuer. Given the variety of ownership structures of listed Italian companies, this rationale makes good sense. However, this choice is not without drawbacks: for instance, the new Code favours the adoption of tailor-made criteria for assessing director independence. This increased flexibility has generated a proliferation of evaluation models that complicates the reading of reports and may lead investors and proxy advisors to adopt their own alternative criteria for evaluating issuers' choices. The Corporate Governance Committee could consider developing guidelines to help issuers apply the recommendations of the Code according to a 'substantialist' approach, reducing the degree of heterogeneity of the parameters adopted today.
c) With regard to the functioning of the board of directors, the disclosure of (and compliance with) the deadlines for sending the pre-board meeting information is very good (especially among large companies). Moreover, issuers often place limits for 'confidentiality' reasons on the circulation of information. The point seems worthy of attention because the new Code explicitly states that 'the ways of protecting the confidentiality of the data and information provided' must not 'jeopardise the timeliness and completeness of information flows', the basis of directors' informed action.
d) The outgoing board of directors of non-concentrated companies should publish their guidelines on the optimal qualitative and quantitative composition of the body on their website. Compliance in this area is unsatisfactory: more than half of the companies that have renewed their board of directors either did not publish such guidelines, or published them without the required advance notice.
e) The role of the Nomination Committee was substantially enhanced by the new Code. Compliance in this area is patchy. On the one hand, the Committee is taking on broader functions. On the other hand, some companies continue to attribute these functions to the full board, which, however, often does not have the composition required by the Code. Other issuers have chosen not to set up the

Committee, giving questionable justifications, since the new Code attributes the Committee functions that cannot be easily taken on by shareholders. Finally, little visibility remains on the functioning of the Committee, where merged with others.

f) About half of the (mainly large) issuers have adopted a policy governing the dialogue with shareholders. The dialogue model is focused on the 'responsible' directors (CEO, possibly in agreement with the Chair), supported by the company structures. The board of directors is involved in policy-making but is rarely involved in the dialogue (it is usually 'informed about developments'). Many policies contain important openings, e.g., to one-way forms of investor engagement (as recommended by the I-SDX developed by Assogestioni), which allow for important future developments in the dialogue model. Today, however, such forms of engagement must pass through the filter represented by the 'responsible' directors. Time will tell whether these opportunities for dialogue will actually be exploited by investors interested in more direct communication with directors, and whether companies will follow up on the openings formulated in the policies by involving more directors or even the entire board in the dialogue.

g) The SHRDII implementation has produced a strong improvement in transparency regarding directors' remuneration policy. Information on the structure of incentive plans, however, is not always clear, especially among smaller companies. The provision of a tabular executive summary (now common among large companies) would be appropriate, replacing or supplementing lengthy descriptions that not infrequently leave doubts as to the actual structure of the compensation package.

h) The size and composition of the pay mix are important for investors called to cast a binding vote on the policy. Transparency in this respect can often still be improved: 'complete' numerical data on remuneration package dynamics (i.e., at least at target and cap performance) are provided by about 60% of the issuers. The package offered to CEOs (at target) consists, on average, of 49% fixed and 51% variable remuneration (24% MBO - short-term - and 27% LTI - long-term). The structure of incentive plans is very different from one company to another: preferences vary according to the size and ownership structure of the issuer. The frequency with which companies link variable compensation to the achievement of ESG objectives has increased significantly: this applies to both MBOs and LTIs. However, the average weight of this component is stable.

i) Only CEOs showed a significant remuneration dynamic in 2021; they achieved an increase in monetary compensation from €946,000 to €1,104,000 (+17%), mainly linked to a strong increase in bonuses (from €239,000 to €420,000). The reasons for this variation emerge from the comparison between pay opportunity and actually-paid remuneration (which can be derived for the first time in 2021). Fixed pay is substantially aligned with those provided for in the policy. With the return to a new post-pandemic normality, there is therefore no longer trace of the cuts to fixed fees that CEOs often accepted in an exceptional year such as 2020. Monetary bonuses are on average above target (€472,000 on average, against €395,000 promised at target and €579,000 at cap). This seems consistent with the rebound of the economy following the exit from the most critical phase of the pandemic (and before the Russian-Ukrainian war).

j) Information on sustainability issues is mainly found in non-financial statements (NFSs). These documents are often unfocused: a more concise document and/or an executive summary would be useful. The materiality analysis of sustainability issues is carried out by companies with strong employee, customer and supplier involvement but only limited (<50%) investor involvement. This seems to indicate a focus on social (rather than environmental or governance) issues. The picture is evolving: more than half of the issuers (61%) report the existence of a proper sustainability plan, which is frequently (69%) integrated into the business plan; in this case, the main sustainability targets (KPIs) are communicated ex ante in almost two thirds (65%) of the cases.

k) As of this year, non-financial enterprises required to publish the NFS are obliged to report, in accordance with the EU Taxonomy Regulation, the share of turnover, capital expenditures (capex) and operating expenses (opex) associated with activities 'eligible' for being qualified as environmentally sustainable. Almost half of the issuers (including all companies belonging to certain sectors) report an 'eligible' turnover share of 0; furthermore, divergent numbers are often observed between companies with comparable business. Finally, many small companies seem to have encountered difficulties in adapting to the new regulation. It is important that directors and statutory auditors pay attention to the performance of their role (and the associated responsibilities) in this regard. The work is still in progress: many small companies have encountered difficulties in adapting to the new regulations. On the one hand, the gradual entry into force of the European legislation has alleviated compliance for issuers but, on the other hand, it has resulted in disclosures that are not always easy to interpret.

l) Almost all companies report data on the distribution of personnel by gender. Women make up about 40% of total employees, but only 19% of total managers. About one third of the issuers provide information on the difference in remuneration between men and women. The gender pay gap, probably related to role differences in the organisational chart, is appreciable: women receive on average 89% of the remuneration of their male colleagues, at a general level, and 86% among managers. Almost all companies report information on energy consumption. The share of consumption powered by renewable sources is also often reported (in 58% of cases), at 18% on average. The use of renewables is higher among large companies (26% vs. 13% among small ones) and in the financial sector (28% vs. 17% in other sectors).

m) Transparency about ESG ratings is increasing, especially among larger companies and those with a sustainability plan. The usefulness of such ratings, however, is still unclear, as the ratings attributed by various providers are not easily comparable.

1. Introduction

This report[1] analyses corporate governance and sustainability issues within companies listed on the Mercato Telematico Azionario (MTA) managed by Borsa Italiana. It focuses on issues deemed to be of particular interest which may change from year to year. They will be dealt with in depth, identifying the strengths and weaknesses that sometimes characterise corporate governance: as in the 2021 edition, the aim is not to 'name and shame', but to highlight clearly areas where examples of best practice are widespread and those where there is room for improvement. This report contains food for thought and suggestions for issuers, investors and policy-makers on the issues analysed.

The report takes a broad approach to governance issues. It not only examines compliance with self-regulation, but the way in which companies have applied legislation in the areas of corporate governance and sustainability.

This second edition of the FIN-GOV Report focuses on the following issues:

a) Composition and functioning of corporate bodies;
b) Independence of directors and auditors;
c) Policies adopted by issuers for dialogue with shareholders;
d) Board committees;
e) Remuneration policies and fees paid;
f) Information on sustainability, with a focus on the first application of the European Taxonomy Regulation.

The choice of topics was influenced by certain recent developments.

The first is the entry into effect of the new Corporate Governance (CG) Code. The Corporate Governance Committee has thoroughly rewritten the self-regulation code, which has changed name and structure, based on a clear distinction between principles (which define the objectives of good governance and are mandatory) and recommendations, formulated on a *comply-or-explain* basis.

The CG Code contains several new features. The main one is the flexible approach, which (a) provides for differentiated recommendations depending on the size of the issuer (large/small) and its ownership structure (concentrated/non concentrated) and (b) allows issuers to adopt 'tailor-made' solutions (e.g., with regard to criteria for assessing independence, the structure of internal board committees or the maximum number of appointments compatible with directorships).

Issuers adopting the Code are required to apply it from the financial year beginning in 2021, informing the market in their corporate governance reports published in 2022. Almost all listed companies (96%) have adopted the Code. This second edition of the

[1] The authors wish to thank Martina Cefis, Lara Faverzani and Rachele Pirrelli for their help in building the database on which the Report is based. The authors are fully responsible for any errors or inaccuracies.

Report compares data with those of last year, a transitional phase in which the vast majority (83%) of issuers had already announced that they were adhering to the new Code.

As regards sustainability, the report not only analyses the recommendations of the CG Code but also the application of Legislative Decree 254/2016 which introduced the obligation to prepare a 'Dichiarazione di Carattere non Finanziario' or non-financial statement (NFS). Of particular interest are the innovations introduced by Regulation (EU) 2020/8525 (the so-called Taxonomy Regulation) which requires companies - among other things – to disclose certain summary statistics concerning the 'eco-sustainability' of their business in their non-financial statements.

The second new development is the transposition into Italian law of European Directive 2017/828, the so-called Shareholder Rights Directive II (SRD II), which contains – among others – interventions on engagement of institutional investors and asset managers with issuers, remuneration policy and Say on Pay, approval of RPTs. This report analyses several issues associated with this directive. First of all, as was the case last year, it considers the application of: a) the article 123-ter of the TUF (Consolidated Law on Finance - CLF) on the remuneration policy and fees paid and, above all, b) the application regulations (Article 84-quater CONSOB Issuers Regulation and related Annex 3A, Scheme 7-bis) published in December 2020.

The directive encourages institutional investors and asset managers to develop and communicate to the public a policy of engagement describing how they integrate shareholder engagement into their investment strategy. In response to this requirement, the CG Code recommends that issuers adopt (and describe in the CG report) their own policy for managing the dialogue with the general shareholders, including taking into account the engagement policies adopted by institutional investors. The report analyses – for the first time – the dialogue policies adopted by issuers.

The report is based on the analysis of four main sources:

a) the reports on corporate governance (RCG), published pursuant to Article 123- bis CLF;
b) the remuneration reports (RR), published in accordance with Article 123-ter CLF;
c) the non-financial statements (NFS) published pursuant to Legislative Decree 254/2016, after the intervention of the Taxonomy Regulation;
d) Shareholder Engagement Policies (EP), prepared by issuers in accordance with Rec. 3 of the CG Code.

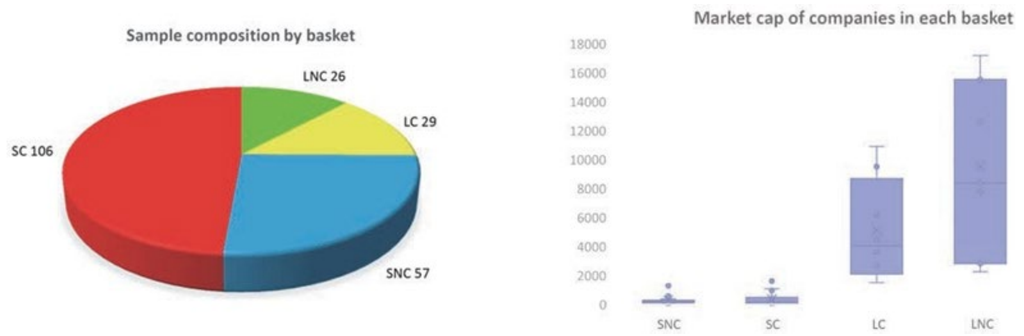
These documents are sometimes very information dense and sometimes quite the opposite[2]. This variability suggests a reflection is needed about the most appropriate content of the reports. We have drawn information both from the reports and from other public corporate and CONSOB sources.

[2] The average CG report is 78 pages (varying between 18 and 178); the RR is 44 pages (varying between 5 and 169); the NFS is 135 pages (varying between 7 and 499); the EP is 9 pages (varying between 1 and 18).

This report analyses the 211 Italian companies, listed on 31 December 2021, whose reports were available on 31 August 2022: the coverage of listed firms is substantially complete[3]. As last year, in addition to the results for the entire official list, this report includes statistics on, first of all, the CG Code classifications:

- Size: large vs. small companies according to the meaning of the Code[4];
- Shareholder concentration: concentrated vs. non-concentrated companies as per the definition in the Code[5];
- 4 Baskets: classification obtained by crossing issuer size and ownership concentration. Figure 1 shows that, among large companies, non-concentrated companies (LNC) are on average larger than concentrated companies (LC)[6]. This difference is not found, however, among small companies (SNC and SC, respectively).

Figure 1



Alongside these are the more traditional index and sector categories:

- Indexes of the Italian stock exchange: FTSE-Mib, Mid Cap, Other (in fact Small Cap; the terms will be used as equivalents); it is in fact a different classification by size;
- Sectors: financial vs. non-financial companies.

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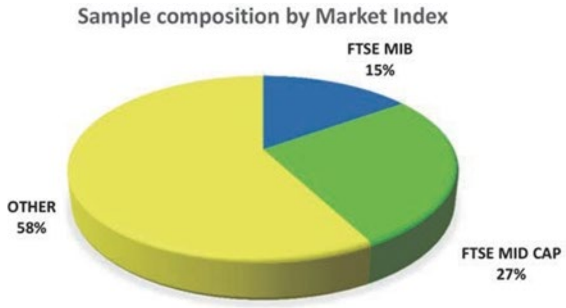
[3] The six reports missing at that date are generally related to cases of delisting and insolvency procedures. Companies incorporated under foreign law and companies listed on the *Euronext Growth Milan* market, which are not subject to the regulatory obligation to provide information on the application of the Code, are excluded from the study.

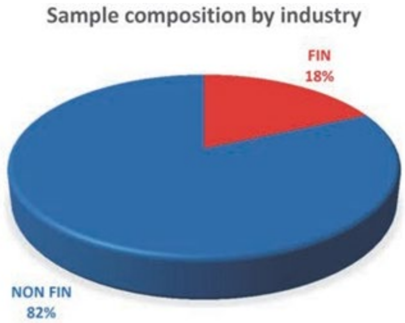
[4] Depending on whether market capitalisation is above or below €1 billion at the reference dates. In the CG Code, this distinction has an impact on minimum weight of independent directors on the board of directors and meetings of independent directors (Rec. 5), appointment of the lead independent director (LID) (Rec. 13), guidance on the maximum number of offices (Rec. 15), composition of committees (Rec. 17), frequency of self-evaluation (Rec. 22), succession planning (Rec. 24).

5 Depending on whether there is - or is not - a shareholder or group of shareholders holding a majority of the voting rights at an ordinary general meeting. This distinction has an impact on: minimum weight of independent directors on the board of directors (Rec. 5), flexibility in setting up the nomination committee (Rec. 16), frequency of self-assessment (Rec. 22), guidance on the optimal qualitative and quantitative composition at the time of board renewal (Rec. 23).

[6] 9 of the top 10 companies by capitalisation (including the first 7) are non-concentrated according to the Code.

Figure 2

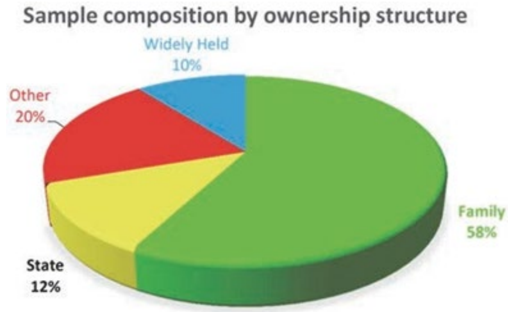




Finally, statistics are reported on the identity of the reference shareholder (identified using the standard threshold of 20% of voting rights used in finance literature):

- Ownership structure: classification referring to the existence (and identity) of one or more shareholders linked to each other, who hold at least 20% of voting rights. The following four categories have been identified: Family, State, Other structures, Widely Held[7].

Figure 3



This classification is not directly relevant for measuring compliance with the Code or regulation, but it does allow for an analysis of the impact of two important factors, not considered by the Code, on governance decisions: a) situations of *de facto* control; b) identity of the reference shareholder, if any (depending on whether it is a family firm or state-owned enterprise). Please refer to Appendix 1 for the definition of the individual categories.

[7] Some classifications used in the text (concentrated/non-concentrated and identity of the reference shareholder with 20% threshold) are similar (though not identical) to those in CONSOB (2021). The first CONSOB classification is based on a distinction between controlled and non-controlled companies which, however, does not correspond to the 'Code' classification used here. The second CONSOB classification refers to the identity of the so-called ultimate controlling agent (UCA), divided into five sub-categories (families, state and local authorities, financial institutions, mixed and no UCA). For further details see the Appendix and the notes at the bottom of Tables 1.2 and 1.4 in CONSOB (2021).

2. Composition and functioning of the bodies

BOX 1

The Corporate Governance Code modulates the recommendations according to the size and ownership concentration of the issuer. Given the variety of ownership structures of listed Italian companies, this rationale makes good sense.
The *composition* of the board of directors is almost always compliant with the Code. In particular, this applies to the weight of independent directors. This is also due, at least in part, to the cautious approach of the Code, which essentially limited itself to reflecting current practice and refrained from proposing higher standards, especially to smaller companies.
The Code recommends that the board of directors express guidance on its optimal qualitative and quantitative composition, to be published well in advance of the convocation of the renewal meeting. The implementation of this recommendation is not satisfactory: in more than half of the cases, issuers did not publish the guidance or published it without adequate advance notice.
The presentation of a slate of candidates by the outgoing board of directors is a well-established practice in larger companies, especially if widely held, and in the financial sector. There has been a sharp increase (+33%) in the number of 'board slates' in 2021.
Crucial to the *functioning* of the board of directors is the pre-meeting circulation of information, which is a prerequisite for the fulfilment of the directors' obligation to '*act in an informed manner*'. Transparency in this regard is very good, but issuers often (38%) indicate limits to the circulation of information for reasons of confidentiality; this is especially (71%) found among widely held companies. The point deserves attention since the new Code explicitly states that '*the ways of protecting the confidentiality of the data and information provided*' must not '*jeopardise the timeliness and completeness of information flows*'.

The new Code has brought in several innovations regarding the composition and functioning of corporate bodies:

a) The recommended minimum number of independent directors has been raised for almost all of the (55) large companies (Rec. 5). The Code recommends that: in the (25) large non-concentrated ownership companies, independent directors make up at least half of the board of directors; in the (30) large concentrated companies, independent directors comprise at least one third of the board[8]. The previous

[8] The Q&As supporting the Code specify that if the quota of independent directors corresponds to a non-integer number, the latter is rounded off according to the arithmetic criterion (the previous reference provided for rounding off to the nearest lower whole number). The definition of independence has also changed: in particular, the chair may be qualified as independent under certain conditions and, in this case, is included in the calculation of the percentages.

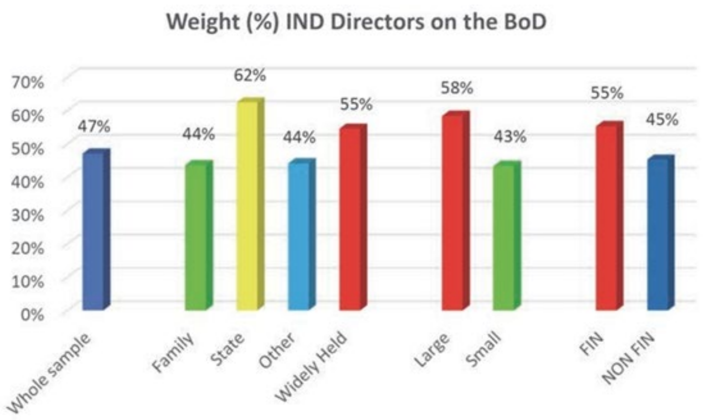
benchmark was one third for the (33) FTSE MIB companies, regardless of ownership structure;

b) Regular meetings of independent directors are recommended only in large companies (Rec. 5);
c) The expression of a board of directors' directive on the maximum number of offices compatible with effective performance as a director is recommended in large companies only (Rec. 15);
d) Small companies and large concentrated companies have more flexibility in assigning typical committee tasks to the board of directors (in particular as regards nominations for the 140 concentrated companies, and control and risk for the 156 small companies) (Rec. 16).

2.1 Composition of the board of directors

The composition of the board of directors, with particular regard to the breakdown between executive, non-executive and independent directors, is stable over time (26% executive, 74% non-executive). Only the weight of independent directors is increasing slightly, almost imperceptibly, year by year (in 2021 the weight of independent directors barely moved, from 47% to 48% of the board of directors). The weight of independent directors varies greatly in relation to company size (higher in large companies: 60%), the sector they belong to (higher in financial companies: 57%) and above all the ownership structure (higher in state-owned (66%) and widely-held companies (58%) and lower in family firms (43%).

Figure 4

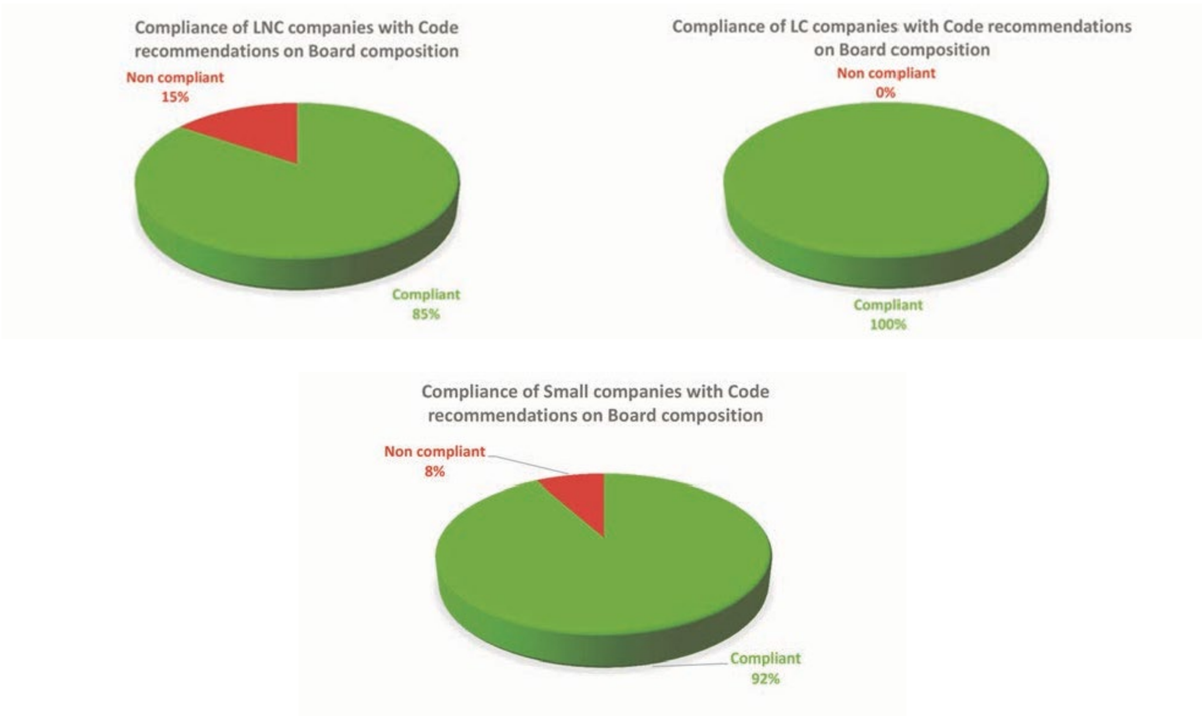


2.1.1 The weight of independent directors

The recommendation on the minimum weight of independent directors in large companies applies from the first renewal after 31/12/2020. The adjustment period is therefore not finished. The new Code has raised the bar for the largest companies (from 33 to 50% of the board) and extended the number of companies to which the enhanced regime applies (in addition to the minimum limit, applicable to all, of two independent directors, excluding the chair): from 33 issuers of the FTSE MIB subject to a floor of

one third, we have moved to 55 large companies, 25 of which are non-concentrated and therefore subject to the higher floor of 50% of the board.
Large companies are almost always in line with the new recommendations: the average weight of independent directors is 69% in large non-concentrated companies (up from 63% in 2020; minimum threshold = 50%) and 54% in large concentrated companies (as in 2020; minimum threshold = 1/3). At the level of individual issuers, among large non-concentrated firms, the board of directors is already aligned with the new Code in 96% of cases (24 out of 25; up from 85% of the previous year); large concentrated issuers are, actually, already aligned with the new standard. Indeed, the majority (70%; they were 62% in 2020)9 are aligned with the highest standard (50% independent).

Figure 5



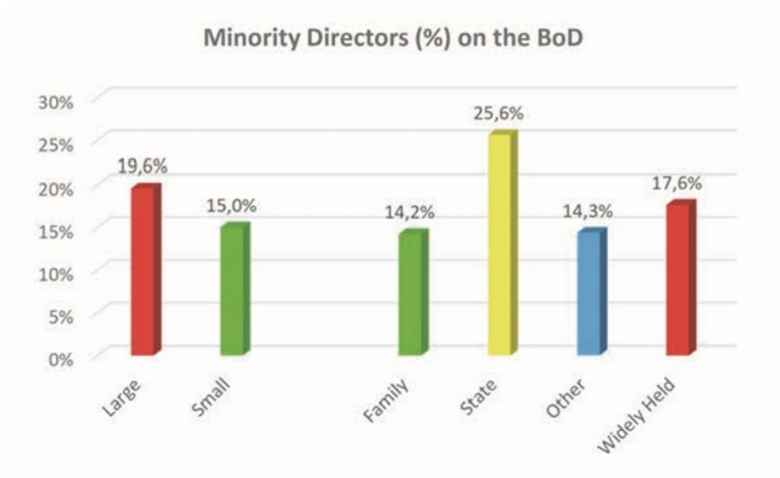
The picture is similar among smaller companies: the number of independent directors is below the minimum threshold (2) in only 12 issuers (8% of the total); moreover, these are often (8 cases) companies that have chosen not to adhere to the Code. In short, compliance with the new Code in terms of the composition of the board of directors is almost total. As a matter of fact, small companies are almost always already aligned with the model proposed to large concentrated companies: in 81% of them, at least one third of directors are independent (40% even have a majority of independent directors), so any further raising of the standard would not have caused (and would not cause) any particular problem.
Issuers are largely compliant with the new recommendations in terms of the *weight of independent direcctors*. This is, however, due, at least in part, to the prudential approach of the Code, which has merely taken a snapshot of current practice and has refrained

from proposing higher standards to smaller companies[9] in particular. Indeed, the Code alternates between high and low, bold and conservative standards, depending on the subject matter.
The independent directors' *quality*, which the new Code has affected through the introduction of new evaluation benchmarks is just as important as their weight. The topic is explored in detail below.

2.1.2 Minority directors

Including minority representatives in corporate bodies has become the prevailing practice: companies with minority directors (statutory auditors) are steadily, slightly increasing (59% and 61% of the total, respectively). Minority representation is strongly correlated with company size: minority directors are present in 93% of large companies, i.e., twice as often as in small companies (47%). The ownership structure also has a significant influence: minority directors are very often present in state (96%) and widely held companies (82%) but only in 46% of family firms[10].

Figure 6



The weight of minority directors (in companies where they are present) also changes according to size and ownership structure. This proportion, which is 14% in small companies, rises to 24% in large non-concentrated companies. The weight of minority directors is lower (13%) in family companies and increases to 24% in state-owned companies.
About 67% (63%) of minority directors (statutory auditors) are drawn from slates submitted by institutional investors, gathered under the aegis of Assogestioni. Among

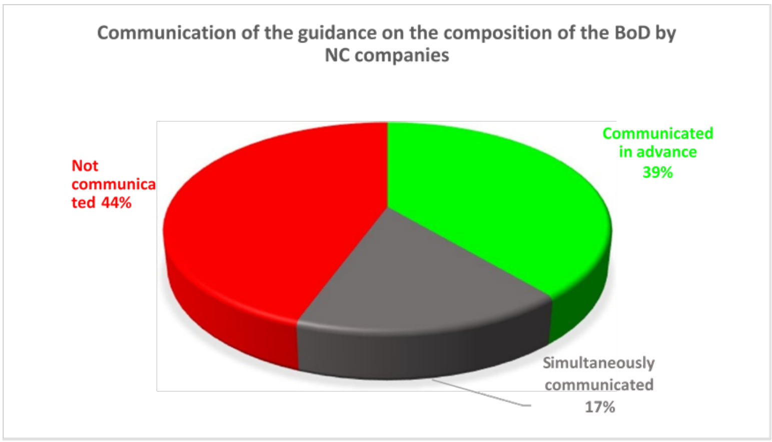
[9] LC-compliant companies with the highest parameter even rise to 83% of the total if we take into account the 'rounding' criterion provided for in Q Rec. 5(2) of the Q&A to the Code.
[10] A crucial point is the identification of the most appropriate level at which to set the bar. On the one hand, according to the comply-or-explain principle, it would make sense to propose a 'truly best' practice here; on the other hand, a defensive approach is understandable because proxy advisors tend to read any deviations from the recommendations of the Code negatively, regardless of the existence - and validity - of any explanations. The question of the preferred approach for the Code remains - to this day - open.

minority directors, those selected from 'Assogestioni slates' account for 89% among large companies (but only for 42% among small ones)[11].

2.1.3 Guidance on the optimal qualitative and quantitative composition of the board of directors

Recommendation 23 of the CG Code requires, in the (71) non-concentrated companies, that the board of directors sets forth guidelines on board composition deemed optimal before its renewal, considering the outcome of the board evaluation. It is recommended that the guidelines be published on the company's before the publication of the notice of the shareholders' meeting convened for the board's renewal.
Approximately three quarters of the issuers reported they have carried out the BoD evaluation; the percentage rises slightly (82%) among non-concentrated companies. The activity was carried out with the support of the Nomination Committee, as recommended by the Code (Rec. 12, letter e), in just over half of the cases (55%). In 57 cases, or 35% of the total, companies used an external consultant (the frequency varies between 19% of Small Cap and 90% of FTSE Mib).

Figure 7



The implementation of the recommendation on the publication of the board's guidelines is not yet satisfactory: 58 companies renewed their BoDs between January and June 2022; 18 of these are non-concentrated. Just over half of the issuers published the guidance required by the Code on their website (10). Moreover, in three cases the publication was simultaneous with the notice of the shareholders' meeting (i.e. without advance notice). It seems appropriate to send a reminder to issuers to prepare and communicate the guidelines on board composition on a timely basis.
Among the few companies (7, or 39% of the total) that have already implemented the recommendations of the Code, the publication of the guidance took place between 17 and 118 days in advance of the notice of meeting (on average 29 days).

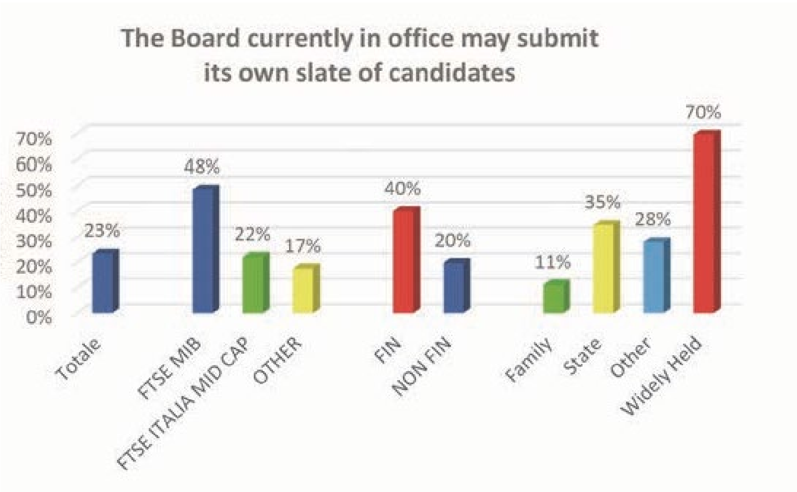
[11] The trend is similar, but with less marked differences, for the board of statutory auditors.

Among concentrated companies, which are not subject to the recommendation of the Code, a minority disseminated nonetheless their BoD guidelines (15 out of 40 cases, or 37.5% of the total). Guidance was provided at the same time as the notice of the meeting (in 10 cases) or even (up to 20 days) after such date. In the last four cases, the guidelines were published just a few days (11 on average) before the notice.

2.1.4 The slates presented by the outgoing board

The submission of a slate of candidates by the outgoing board of directors is not common practice, but it is increasingly popular among certain categories of issuers. This power is granted to the Board of Directors through specific statutory provisions, found at 50 issuers (24% of the total), concentrated among the largest companies (FTSE Mib), where the frequency more than doubles (48%, against 28% among Mid Cap and 15% among the others). Similar numbers are found among financial companies (38%), compared to non-financial companies (20%).

Figure 8



The decisive element behind the decision to allow the presentation of a 'slate of the Board' is, however, the ownership structure. A vast majority (71%) of widely-held companies allow the board to submit a slate of candidates in their by-laws. The frequency drops to 38% among state-owned companies and to as low as 12% among family firms.

The right of the board to present a slate of candidates does not imply that such slate is actually submitted. The number of cases in which the Board took advantage of the opportunity to present its own slate is however clearly increasing (from 9 to 12: +33%). Here, too, we can observe a clear relationship between the presentation of the slate of the board, company size, sector and, above all, ownership structure. 6 companies belong to the FTSE MIB index, just as 6 belong to the financial sector. But above all, they are all non-concentrated companies as defined in the CG Code; moreover, 7 out of 12 companies are widely held and in the remaining 5 companies the share of the first shareholder is comprised between 20% and 31% of the voting rights.

2.2 Functioning of the board of directors

The topic is extremely broad. It was decided to focus on three points: a) frequency of meetings, time commitment required of directors and attendance at meetings; b) pre-meeting circulation of information; c) appointment of the Lead Independent Director (LID) and meetings of independent directors only.

2.2.1 Frequency of meetings and time commitment

Companies almost always (96%) publish sufficiently detailed information on both the number of board meetings (11.7 on average) and the actual time commitment of directors (No. of board meetings x average duration = 29 hours on average)[12]. Information is almost equally widespread for the Boards of Statutory Auditors and the Remuneration and Control and Risk Committees (between 80 and 90% of cases). *Disclosure is* rarer for other committees (e.g., sustainability committees, RPT committees).

The disclosure of directors' attendance at board meetings is excellent (99% of the cases). Attendance is generally very high (96% of meetings); 85% of board members attended at least 90% of meetings; only 1% (3%) of board members attended less than 50% (75%). Similar numbers can be found for the board of statutory auditors[13].

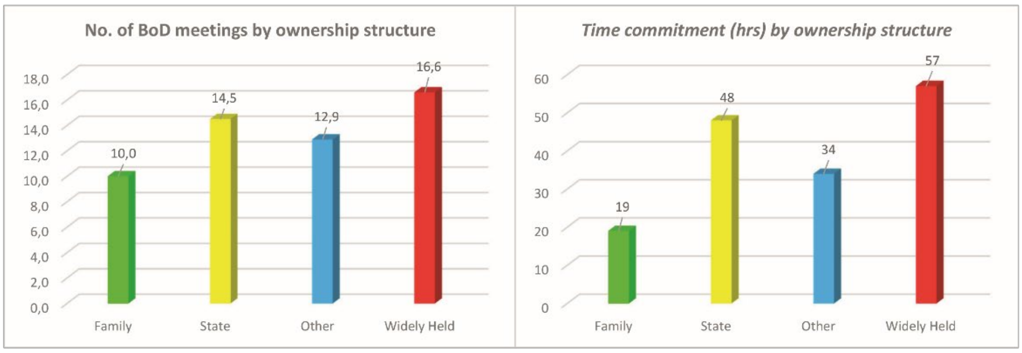
The number of meetings and, even more, the time commitment vary greatly in relation to company size and ownership structure. The average number of meetings varies, for example, between 10 in *family firms and* 16.6 in widely held companies (+66%). The time commitment for board meetings also varies between 19 hours in family-owned and 57 hours/year among widely held companies (+197%). At the level of the individual issuer, the annual number of board meetings varies from 2 (in a family firm) to 38 (in an insurance company); the total annual time commitment varies widely, between 2 hours (in two family firms) and 185 hours (in a bank)[14].

[12] This is, of course, a largely default proxy for the actual time commitment required, which includes - in addition to time for meetings - at least that for reading preparatory material and for any interactions with other directors. The numbers in the text refer to board meetings only. The overall time commitment also requires considering the time for attending meetings of the committees of which the director is a member (Executive Committee = 26 hours; nomination committee and remuneration committee = 8/9 hours; control and risk committee = 24 hours; Sustainability Committee = 13 hours; RPT committee = 7 hours). The time commitment for meetings of the Board of Statutory Auditors is 37 hours.

[13] The numbers are also similar for the Code Committees, the Sustainability Committees and the RPT Committees (if set up autonomously, i.e., where they are not merged with other committees).

[14] At the level of individual board members, the total time commitment (including committees) varies from a minimum of 2 hours (for 19 board members, in the 2 small family companies mentioned in the text), up to a maximum of 405 hours/year (for a board member engaged in several committees, in a large bank)

Figure 9



Time commitment is not only linked to differences in the complexity of the issues the boards face, but also differences in the way corporate governance is structured.

Directors' time commitment is a key element in the Board's guidance on the number of offices in other companies, the disclosure of which is recommended for large companies. Information on the number of permitted offices is provided by 85% of such companies (up from 69% last year), while disclosure (on a voluntary basis) is less frequent (33%) in smaller companies. It is not easy to report statistics on the number of allowed offices, since this is often based on complex algorithms. In the (36) large companies where the guideline refers to non-executive directorships, the maximum number allowed is on average 5[15].

Approximately half of the directors (53%) hold offices other than the one they hold with the issuer: the average number of other offices held by these individuals is 3.6; 189 directors have more than 5 (up to a maximum of 54). Multi-role situations like this are much more widespread (77%) among statutory auditors, who - among other things - hold a much higher number of offices (9.2); moreover, almost half of the statutory auditors hold more than 5 (up to a maximum of 57).

2.2.2 Circulation of information

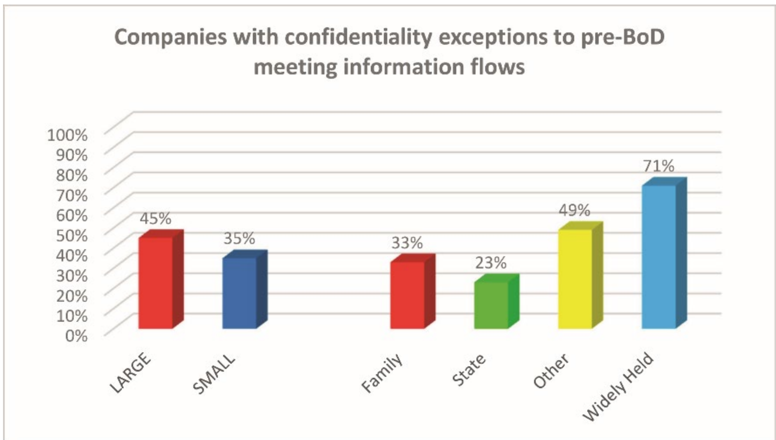
The pre-board-meeting circulation of information to board members (and the possibility for members to request further information during board meetings) are a prerequisite for the fulfilment of the codified obligation (Art. 2381, para. 6) that directors '*act in an informed manner*'. Compliance with Code recommendations in this respect has an importance that goes beyond mere compliance with the Code, also in the light of sanctions recently imposed by Consob[16].

[15] The maximum number allowed varies widely (between 2 and 10 offices in other companies) from one issuer to another. Among small firms, the maximum number of offices is slightly higher (5.8) than in large ones.

[16] Consob objected to the '*concrete non-application of the recommendations provided for by the Code*' to which an issuer had declared to adhere, concerning pre-meeting disclosure, the role of the chair and the functioning of the Board. In particular, the body remarked on the inadequacy of pre-meeting information and the frequency with which information on items on the agenda was omitted or provided to members with a delay, all in the absence of any disclosure (or explanation of the reasons) '*regarding the cases in which the notice period for sending board documents was not respected*'.

Companies very often (in 85% of cases) disclose the deadlines for sending the pre-meeting information. The reports often indicate (in 82% of the cases) that the deadline was met (i.e., complete information on compliance with the recommendations was provided by 85% x 82% = 70% of the total issuers)[17]. The deadline for sending the documents is always indicated by large companies, which, in 91% of the cases, state that it has usually been met. The situation is quite different among small companies, which indicate the deadline in 80% (and its actual compliance in 78%) of the cases: complete information is thus provided in only 63% of the cases.
Companies indicate fairly frequently (in 80 cases, or 38% of the total) that the circulation of information is limited for 'confidentiality' reasons; this case appears more frequent (45%) among large companies and is clearly linked to the ownership structure (the clause is present in 23% of state companies, in 33% of family firms and more than twice as frequently - 71% - among widely held companies). This appears to be related to a greater reliance on board members' confidentiality in the presence of concentrated ownership structures. The point seems worthy of attention because the new CG Code explicitly states that '*the ways of protecting the confidentiality of the data and information provided*' must not '*jeopardise the timeliness and completeness of information flows*', the basis of directors' informed action.

Figure 10



Issuers very often report (82% of cases; up from 74% last year) that managers of the company participated in the relevant board meetings to provide insights on the agenda items.
However, it is not always clear how such participation is envisaged (e.g., whether managers systematically carry out structured interventions or are simply available to provide further details).
Compliance (on a comply or explain basis) with the Code recommendations on the circulation of pre-board-meeting information is an issue of crucial importance for the

[17] Only one issuer specifies that the deadline *'was not always met and the convocation was made within the urgency period provided for by the Articles of Association, i.e., the meetings were held in full. The lack of timeliness that emerged on some occasions is mostly attributable to the fact that the timing was dictated by very fast and intense corporate activity due to business needs'*

functioning of the system, on which, however, a minority of companies appear to be lagging far behind. This is a point that might require a call for attention by the Corporate Governance Committee.

2.2.2 Lead Independent Director and the independents' meetings

Regular meetings of independent directors took place almost always (91%) in large companies[18] (where they are explicitly recommended) and quite often (58%) also in small companies. Such institution seems to be appreciated even where it is not explicitly recommended.

Meetings of independent directors are coordinated by the Lead Independent Director (LID) (Rec. 14). However, the CG Code recommends their appointment only in specific situations[19]. Therefore, in many companies the coordinating figure is not identified. This seems to be a coordination flaw in the Code, which might require further consideration by the Corporate Governance Committee.

The problem becomes more relevant among large companies, where the designation of the LID is recommended - in fact - in only 15% of the cases (in such cases the LID was always designated): large companies identified the LID in 44% of the cases, thus even where it is not recommended by the Code. This, however, leaves the remaining 56% without a coordinating figure for the independents. Meetings of the independents were, however, held in 91% of the large companies, which solved the problem by designating the LID on a voluntary basis or by giving the task of organising the meetings to the most senior or longest-serving independent candidate[20]. There is no way of saying, based on these numbers alone, whether the solutions adopted are as effective as the presence of a figure expressly dedicated to the coordination of independent directors.

[18] Reference here is made only to companies where there are at least 2 independent directors.

[19] If the roles of chair and CEO are occupied by the same person, when the chair is the person who controls the company or – in large companies only – if required by the majority of independent directors (Rec. 13).

[20] Among small companies, the appointment of a LID is recommended in 49% of the cases; a LID has been actually appointed in 55% of the cases. 45% of the companies do not have a figure coordinating the independents, who nevertheless met in 58% of the cases

3. The dialogue with shareholders

BOX 2

The Code recommends that issuers adopt a policy for dialogue with shareholders but does not indicate its contents. Both Assonime and Assogestioni have developed guidelines to help issuers and asset managers in the definition of their respective policies and in the concrete initiation of dialogue. These guidelines contain significant differences on a number of points, e.g. with regard to the forms of engagement considered possible.
About half of the (mainly large) issuers have adopted a policy in this respect. Dialogue is centralised with the 'responsible' directors (usually the CEO, possibly in agreement with the Chair), supported by the company structures. Policies assign the board of directors the task of setting policy but rarely provide for a direct involvement in the dialogue (usually the board of directors is 'informed about developments').
However, important openings can often be found in the policies, which allow for future developments of the dialogue model: e.g. almost half of the companies contemplate forms of one-way engagement by investors (as recommended by the I-SDX elaborated by Assogestioni). Today, such forms of engagement are subject to the filter of the 'responsible' directors who have the power to decide whether - and in what way - to involve other board members.
Time will tell whether these opportunities will be exploited by investors interested in more direct communications and whether companies will follow up on the openings formulated in the policies by involving more directors or even the entire board in the dialogue.

Principle IV of the CG Code assigns the board of directors the task of promoting dialogue with shareholders and other relevant stakeholders in the most appropriate forms. Recommendation 3 entrusts the board of directors, upon proposal of the chair in agreement with the CEO, with the task of adopting and describing in the Report '*a policy for managing dialogue with the majority of shareholders, also taking into account the engagement policies adopted by institutional investors and asset managers*'. The chair is also encouraged to ensure that the board of directors is informed on the development of dialogue with the shareholders, and on any significant content, within the first suitable meeting.
The Recommendation should be considered in the light of the *Sh.Rights II* Directive, which encourages investor activism: it requires Member States to ensure that institutional investors and asset managers develop and communicate to the public an engagement policy towards investee companies, as well as the manner in which such a policy is implemented[21]. The provision of the Directive was transposed in Italy through

[21] According to Art. 3g(1)(a) of the Directive: '*shall develop and publicly disclose an engagement policy that describes how they integrate shareholder engagement in their investment strategy. The policy shall describe how they monitor investee companies on relevant matters, including strategy, financial and non-financial*

Article 124-quinquies of the CLF. In the post-Directive world, the importance for issuers to ensure a constructive dialogue with investors will inevitably grow.

3.1 The guidelines of Assonime and Assogestioni

After the approval of the new Code, both Assonime and Assogestioni developed their own guidelines to help issuers and asset managers to define their respective policies and to make a concrete start with the dialogue. In particular:

a) The Assonime Principles (2021b) assign the BoD of issuers the function of guiding and monitoring the dialogue by approving the policy and verifying its implementation. The implementation of the policy is the sole responsibility of the directors designated by the board of directors (CEO and/or chair, in accordance with the powers delegated to them): they are 'responsible' for managing the various stages of the dialogue and the related choices. The task of ensuring the unified handling of dialogue requests from investors and dialogue initiatives initiated by the company is assigned to a contact point (normally the Investor Relation function and/or the company secretariat), which reports to the responsible directors.
b) The Assogestioni Principles (2021) or I-SDX, inspired by the Shareholder-Director Exchange (SDX) Protocol adopted in 2014 in the United States, recommend that investors and issuers adopt mutually beneficial procedures to organise and manage Shareholder-Director engagement in a predefined and transparent manner. The emphasis on dialogue between shareholders (S) and directors (D) (rather than generically with the investee companies) should be highlighted.

While the purpose (i.e., identify good practices of dialogue between issuers and investors) and part of the structure are common, the two sets of principles differ in some respects:

a) The Assonime principles are directed only at issuers (who remain free to accept or reject engagement), while the I-SDX are directed at both investors and issuers[22] who are encouraged to engage in a fruitful dialogue.
b) The Assonime principles dictate guidelines applicable to dialogue initiated both by the issuer (investor relations activity) and by shareholders ('true' engagement, pursuant to SHRD II). I-SDX are concerned with shareholder-director dialogue and call for it to be coordinated with '*other ordinary forms of shareholder and market dialogue*'.

The Assonime principles identify the main logical and organisational pillars of dialogue procedures, but leave companies substantially free with regard to concrete choices (e.g., with regard to the matters of the dialogue, the powers of the responsible directors,

performance and risk, capital structure, social and environmental impact and corporate governance, conduct dialogues with investee companies, exercise voting rights and other rights attached to shares, cooperate with other shareholders, communicate with relevant stakeholders of the investee companies and manage actual and potential conflicts of interests in relation to their engagement".

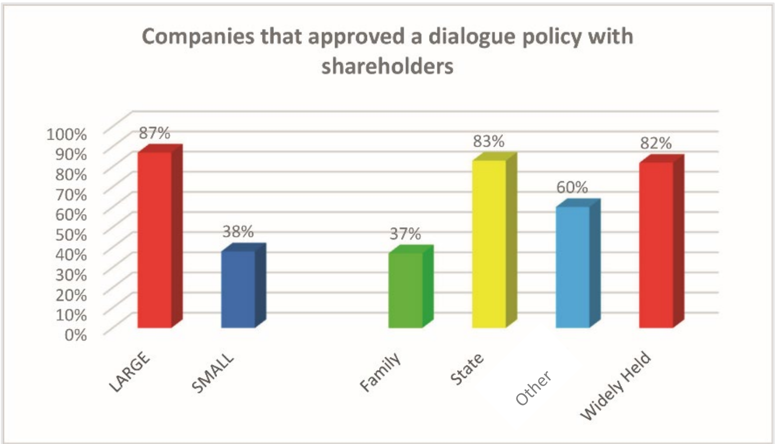
[22] For example, they recommend that: '*Procedures for organising and managing S-D engagement should identify the criteria used to decide whether and when to make a proposal or grant a request.*' The first recommendation concerns investors, the second issuers.

whether and how to conduct the dialogue). The Assogestioni principles go more into application issues and make more detailed suggestions, also with reference to concrete cases. For example, lists of topics are proposed that issuers and investors could take into account in the definition of their respective policies and in the concrete development of dialogue. Furthermore, I- SDX suggest articulating the interaction in different ways (one-way or two-way, one-on-one or collective engagement), each of which may be appropriate in a given context.

3.2 The dialogue policies of the issuers

About half (51%) of the issuers have adopted (and made available on their website) a policy for dialogue with shareholders. When adopted, the policy can be almost always found (87%) among large companies and much less frequently (38%) among small companies, especially where ownership is concentrated (33%). A considerable influence is also exerted by the identity of the first shareholder: a policy is adopted by 85% of state (82% of widely held) and only 37% of family firms.

Figure 11

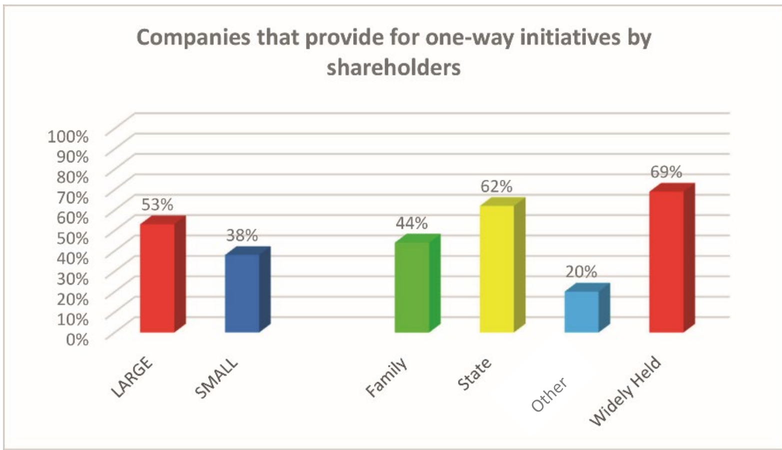


The policy is frequently (83%) described in the CG Report, as recommended by the Code. Sometimes, the policy merely makes general remarks regarding dialogue with shareholders or describes normal investor relations activities. We decided to focus our analysis on the 100 companies whose policy incorporates provisions designed to (also) regulate dialogue initiated by institutional investors and/or other parties.

Nearly half of such companies (45 out of 100) adopt a broad definition of interaction with investors: their policy includes not only real dialogue initiatives (two-way) but also participation in one-way 'listening' initiatives, where investors present their views on specific issues. The reference to such forms of communication, proposed by the I-SDX, is most frequent

in large companies (56% in the FTSE-Mib, 37% among small caps), in the financial sector (57%), as well as among widely held (69%) and state companies (62%); among family firms, such a provision is made in just under half of the cases (44%).

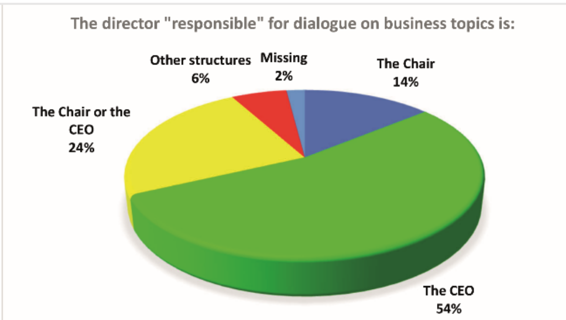
Figure 12



In the vast majority (83%) of cases, the policy identifies the areas where the company accepts shareholder engagement, usually (82%) by way of example; in the remaining 18% of cases, it apparently refers to a closed number of topics. A large majority (70%) of the companies, however, explicitly reserve the right to decide 'whether' to accept (therefore also to reject) the dialogue requests received.

Issuers almost always (98%) identify one or more individuals responsible - in the first place - for the dialogue with investors. Provisions are sometimes differentiated depending on the topic, particularly whether the dialogue concerns governance rather than business issues. As far as governance is concerned, the director responsible is typically the CEO, individually (41% of cases) or in agreement with the chair (27%); the role is attributed to the chair alone in 20% of the companies; in the remaining 10% of cases, other governance models are adopted, which, however, still normally identify individuals reporting to the CEO (general manager, investor relations manager; more rarely the secretary of the board of directors) as the figure responsible for dialogue. The model is even more focused on the CEO when the dialogue concerns business issues[23]. The direct involvement of other actors (VPs, LID, chairs of the relevant committees) is uncommon.

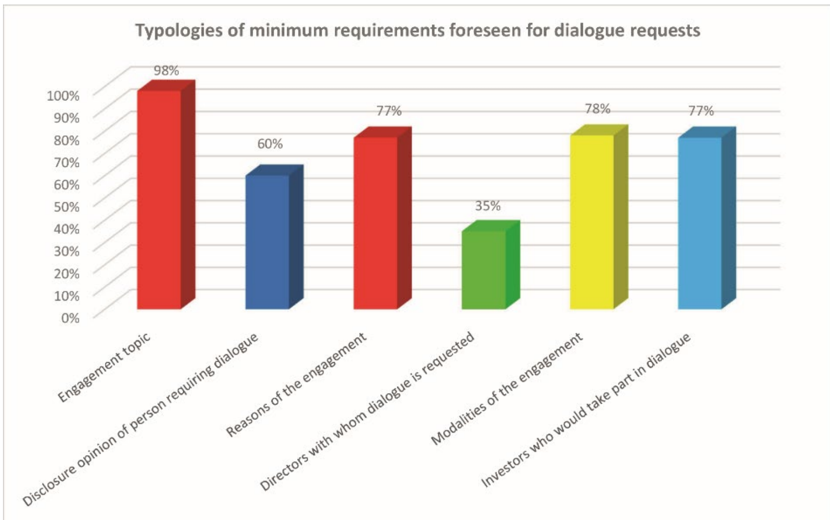
Figure 13



[23] The CEO is solely responsible in 54% of the cases, and shares responsibility with the chair in 24% of the cases; the responsible person is the chair alone in 14% of the companies; other structures are in place in 6% of the cases.

Policies almost always identify the point of first contact (the only exceptions being two banks). Although the organisational structures vary from one company to another, points of contact are almost always figures working in the investor relations function.
Almost 2/3 of the policies (65%) stipulate that the request for engagement must contain certain minimum indications. The formalisation of minimum indications is more frequent in large companies (71%), the financial sector (83%) and widely held companies (77%).
The minimum contents for a request of dialogue to be considered almost always (98%) include the topic of the dialogue, in the vast majority of cases (77/78%) the reasons for the request, the modalities of the engagement (one-way or two-way, etc.) and the representatives of the investors who would be participating in the dialogue; the request to provide notice of the opinion of the person making the request on the topic is also frequent (60%). In a minority of cases (35%), the request should indicate the board members with whom investors would like to engage[24].

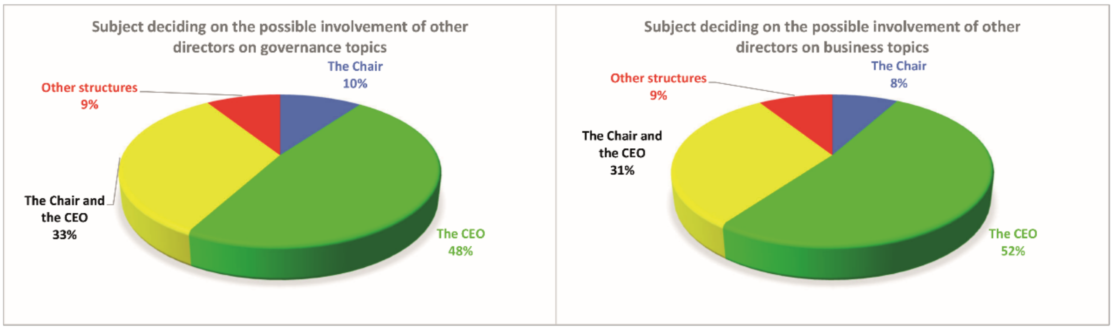
Figure 14



Companies also often reserve the right to consider the involvement of additional persons (including directors other than those responsible). The decision, in this case, is usually left to the CEO, alone (in about half of the cases) or in agreement with the chair (in about 1/3 of the cases). It should be underlined that the policy is still an act of the board of directors, which has the right to change the structure of the dialogue: a fairly large group of issuers (23% of the total) explicitly provide that the board may delegate the dialogue - for individual points - to directors other than those responsible.

[24] Some companies limit the involvement of directors other than the 'responsible' ones to one-way initiatives only (i.e., in listening mode). Moreover, a couple of issuers do not explicitly mention the involvement of 'directors' but use the generic formula of 'representatives' of the company.

Figure 15



No policy provides for the possibility of individual directors to participate *motu proprio* (without an invitation from the responsible directors or the board) in meetings with investors; furthermore, there is no provision allowing investors to directly engage individual directors or the board without passing through the pre-established point of contact. On the contrary, it is frequently indicated that directors contacted by one or more shareholders should avoid engaging in a direct dialogue, inform the responsible directors and refer the shareholders to the procedure and contact point identified in the policy.

Prior communication to the board on the requests received is never (systematically) provided for: in rare cases, a report on the requests should be given to the board at the first suitable opportunity (11%) or periodically (2%). Reporting back to the board almost always concerns developments in the dialogue, either at the first suitable opportunity (75%) or periodically (17%).

The vast majority (91%) of policies contains provisions regarding monitoring of its implementation and the formulation, when necessary, of updating proposals. In general (62%), the formulation of amendment proposals is jointly assigned to the chair and the CEO. Companies seldom (22% of cases) explicitly communicate the involvement of a committee in the policy update: where this happens, it is either the Control and Risk Committee or a committee with governance responsibilities.

In brief, slightly less than half of the issuers approved a policy for dialogue with shareholders. The dialogue model is centralised on the 'responsible' directors (CEO, possibly in agreement with the chair), supported by the company structures. The board is involved in policy-making but is seldom involved in the dialogue (generally it is only 'informed about developments'). Many policies (45% of the total) contain important openings, such as the readiness for one-way forms of investor engagement (envisaged by Assogestioni's I-SDX), thereby allowing for future important developments in the dialogue model. However, investor engagement is today invariably subject to the filter of the directors 'responsible' for the dialogue, who may decide whether to involve additional directors or the entire board. It will take time to understand whether the novel opportunities will be exploited by investors interested in more direct communication with directors, and whether companies will be open to further openings, involving other directors in the dialogue.

4. Independence of board members and statutory auditors

BOX 3

It is not only the number but also the quality of the independent directors that is important. The Code encourages the adoption of tailor-made criteria for assessing directors' independence. This increased flexibility, reasonable in itself, has generated a proliferation of definitions, which complicates the reading of the Reports and may lead investors and proxy advisors to adopt *their own* alternative criteria for assessing issuers' choices. The point is especially relevant with regard to '*commercial, financial or professional*' relationships and '*additional remuneration*' that may impair the independence of directors.

The figure of the 'independent chairman' can be found in 28 companies, a strong increase (+65%) compared to last year. The independence of the chairman can also be assessed according to different parameters. The new Code has chosen to replace the old comparative parameter (how much he/she is paid compared to the other non-executives - €59,000 on average) with one referring to the chairman himself/herself (how much he/she receives in addition to the fixed remuneration for his/her office and committee membership - €259,000 on average). However, some of the issuers retained - on a voluntary basis - the old parameter.

The values of the two parameters are very far apart. As a result, 25 out of 28 independent chairpersons would be 'at risk' (for high fees) under the old parameters, while only 2 are 'at risk' under the new ones.

It seems appropriate to identify guidelines to help companies apply the recommendations of the Code according to a substantive approach, reducing the degree of heterogeneity of the parameters adopted today.

The Code recommends that the board of directors predefine 'quantitative and qualitative criteria for assessing the significance' of additional remuneration and potentially significant commercial, financial or professional relationships. The definition of independence is a central point for the quality of independents. On this subject, the CG Code has brought significant novelties (Rec. 7):

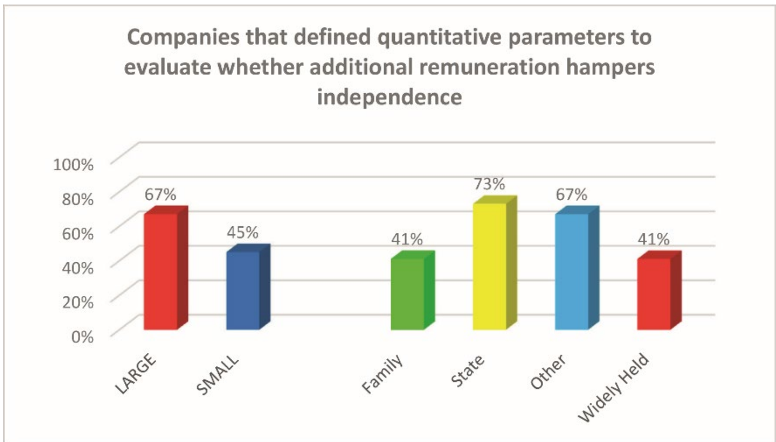
a) The old Code included among the circumstances that appear to compromise independence being (or having recently been) a 'significant figure' (chair of the board, executive director or manager with strategic responsibilities); this reference has been replaced by that to the category of 'executive directors only'; this allows chairs to be considered independent 'where none of the circumstances' indicated in Rec. 7 are present.

b) The 'significant additional remuneration' impairing independence, moreover, no longer refers to the 'fixed' fee of a non-executive director of the issuer but to the 'fixed remuneration for the office' and the 'participation in the committees recommended by the Code or provided for in the regulations in force'.

The new Code has therefore relaxed the parameters for assessing remuneration that may compromise independence: first of all, from a quantitative point of view (the new reference base incorporates committee fees and the - often large – fees paid for offices held within the firm); secondly, an external benchmark (the fixed fee of non-executives) has been abandoned, in favour of an 'internal' and potentially self-referential one (the base remuneration of each individual director)[25]; finally, the reference to 'tailor-made' assessment criteria creates a risk of proliferation of assessment models and makes analyses and comparisons across companies very difficult.

The new Code is now fully in force. Disclosure has significantly improved since 2021 – the transition year – but is still far from the proposed model: information on the adoption of criteria for assessing additional remuneration was provided by only 51% (up from 18% in 2021) of issuers. Similar numbers (52%, compared to 22% in 2021) are found for the adoption of parameters concerning other 'commercial, financial or professional' relationships that may impair independence. As expected, transparency is better among large non-concentrated (60%) than among small companies (45%) and among state (73%) rather than among family firms (41%). However, the parameters adopted are not always made explicit in the Reports.

Figure 16

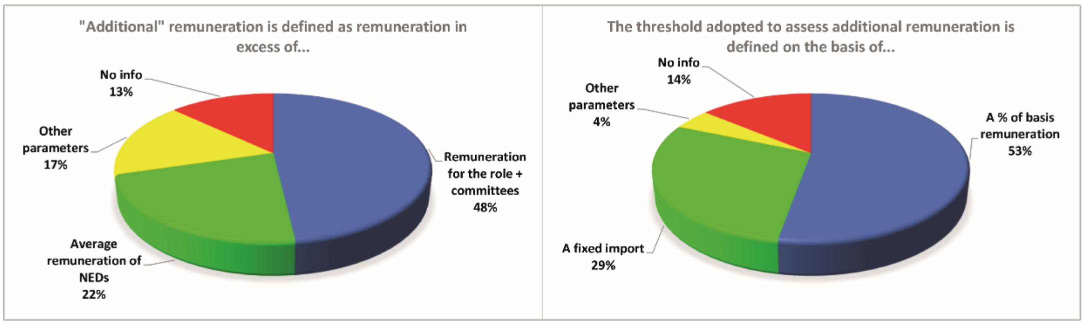


We analysed the parameters defined by the Boards of Directors for assessing the significance of commercial/financial/professional relations (Rec.7(c)) and additional remuneration (Rec.7(d)). We report some summary information, but it is not possible to calculate aggregate statistics because the algorithms used by individual companies are often complex and based on heterogeneous measures.

[25] The new definition captures remuneration in addition to the basis remuneration for the role, but cannot take into account situations where the policy provides for an all-inclusive ('base') remuneration. In summary, the new definition seems to be intended to target additional remuneration for professional assignments, leaving out other, equally dangerous situations, such as the proliferation of offices in subsidiaries or the payment of 'high' base fees '

With regard to 'relationships' (subparagraph c), it is often possible to find the thresholds of significance concerning the provision of professional services[26] that may jeopardise independence. In 53 cases (out of 110), the threshold refers to the director's consulting firm turnover (9% on average), in 24 to the his/her income (15% on average), in 15 cases it is identified as a monetary amount (€110,000 on average)[27]. Such parameters are not mutually exclusive: some issuers combine several benchmarks.
With regard to 'additional remuneration' (subparagraph d), the discussion is more complex because two distinct aspects have to be considered: a) the definition of 'base remuneration' against which additional remuneration is to be measured and b) the additional amount above the threshold a) that puts independence at risk.
With regard to the first point (basic remuneration), we found a great variety of situations: the prevailing solution (52 out of 108 cases, i.e., 48% of the total) refers to '*fixed remuneration for the office and (...) for participation in committees*', according to the new Code; a strong minority of issuers (24, i.e., 22%), however, continues to use the - more stringent - parameter of the old Code ('*the 'fixed' fee of a non-executive director')*; 18 companies have formulated alternative definitions[28]. The remaining companies did not disclose the parameters adopted.
As to the second point (materiality of additional remuneration), the threshold is defined as a % of the emoluments already received by the director in 57 cases (53% of the total): on average, it is 96% of the base remuneration. In a further 31 cases (29% of the total), the threshold is defined in terms of absolute amount (average €90,000, median €67,000)[29]. In 5 cases (4% of the total), other parameters are used. In the remaining cases, the parameter is neither disclosed nor re-constructible.

Figure 17



In brief, with the new Code, the criteria for assessing independence have indeed proliferated. This complicates the reading of CG Reports and makes it difficult to make comparisons across issuers; it also creates the risk that investors and proxy advisors

[26] Often differentiated according to whether services are provided by the individual adviser or by an associated firm/company.
[27] The variation across issuers is very strong: the materiality threshold varies from 2.5 to 20% of the firm turnover, from 5 to 30% of the director's income and from 20 to 300,000 € for lump sums.
[28] Sometimes referred to the total remuneration received by the director, sometimes to his/her income.
[29] Or, more rarely, of the total amount (€114,000). In terms of individual issuers, the materiality threshold varies from 30 to 300% of the base emolument and from €20 to 250,000 for lump sums.

adopt *their own* alternative criteria for assessing issuer choices. The implications of such a choice would merit further reflection by the Corporate Governance Committee: for example, one could consider identifying guidelines to help companies apply the Code recommendations according to a substantive approach, avoiding counterproductive formalisms and reducing the degree of heterogeneity of the parameters adopted today.

4.1 The presence of 'at risk' independent directors

It has been known for some time that not all directors qualified as independent by issuers (998 in all) always appear in line with the Code recommendations. Any measurement in this field could be objected, even more after the paradigm shift introduced by the new Code.

Given the extreme variety of the parameters adopted in practice (not always explicitly disclosed), it is a difficult task to verify the precise application of the independence assessment criteria declared by individual issuers. Instead we decided to investigate 'at risk' situations according to two conventional, alternative definitions, the same for all societies:

a) using the same parameters as Assonime (2021a)[30]; and
b) following the parameters of the new Code, considering 'at risk' those independent directors who receive remuneration in addition to the basic remuneration for their office (and for participation in committees)[31].

These definitions differ, in fact, almost only in the threshold of significance of additional remuneration that may undermine independence[32]. Following the first route (Assonime parameters), 83 independents are 'at risk': this number is in line with that of 2019 (the last year before the implementation of the new Code)[33].

Following the second way (parameters of the new Code), we found 144 independents who have received additional remuneration, but for amounts that are generally very small (on average €14,000; their median is €4,000)[34]. A potentially serious problem

[30] Under the old Code, Assonime (2021a), using a series of conventions characterised by a wide tolerance, had identified 88 'at risk' independents (representing 10% of the total). The main reasons for misalignment were threefold: a) tenure in office of more than nine years; b) receipt of 'high' additional remuneration (more than double the average remuneration of non-executives) and, to a much lesser extent, c) assumption of positions qualifying directors as 'significant exponents'.

[31] The first definition corresponds to the position of issuers who have maintained benchmarks in line with the old CG Code, the second to the position of issuers who have taken full advantage of the flexibility allowed by the new CG Code.

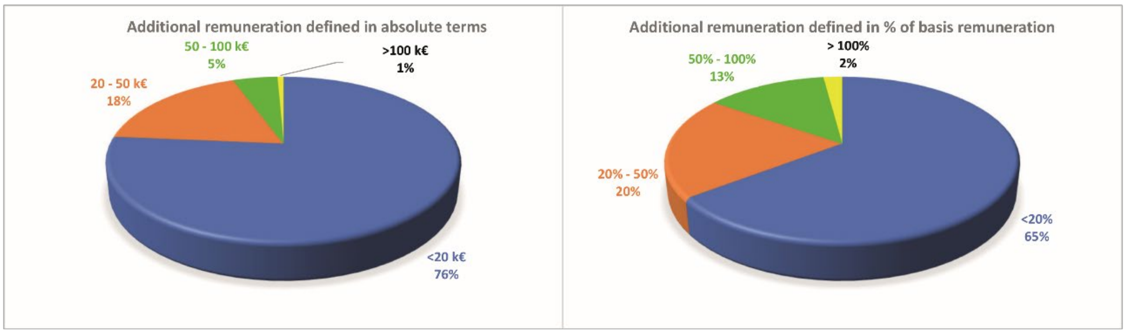
[32] A second difference actually concerns whether the chair can be considered independent. It is, however, of little relevance, since independent chairs are almost always also recipients of significant additional remuneration and are, therefore, already 'caught' by the 'additional remuneration' parameter.

[33] Cases of tenure > 9 years decreased (from 54 to 40), but there is an increase in the number of cases of high additional remuneration (37 cases against 31) and especially 'tenures' (29 cases as against 9). This dynamic is due to the increase in chairs qualified as independent (analysed below).

[34] Leaving aside cases where additional remuneration is very small (< €20,000), we found that 26 independents received additional remuneration between €20 and €50,000, 7 between €50 and €100,000, while only one director received additional remuneration of €200,000. Looking at additional remunerations in percentage terms, the average is 21% and the median 7% of the base fee. In 29 cases, the additional remuneration is between 20 and 50% of the base remuneration, in 19 cases between 50

here is identifying beyond which threshold the additional remuneration becomes 'relevant' (and the independent who receives it is 'at risk').

Figure 18



The topic was explored by analysing four alternative materiality thresholds, defined according to the criteria adopted by the companies[35]. Our analysis shows that the specific definition adopted has little relevance: only a handful (between 3 and 6) of independent directors perceived additional remuneration relevant to the new benchmark, whatever the benchmark adopted for their identification.

Combining the three criteria (tenure > 9 years, membership of the Executive Committee and significant additional remuneration), the number of directors 'at risk' under the new Code is just under 50[36].

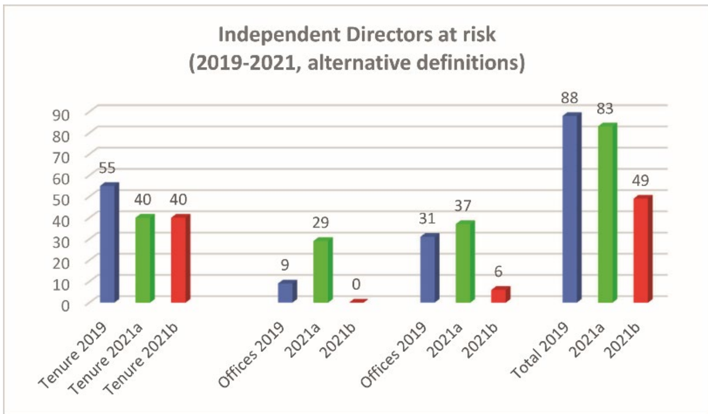
The total number of independents 'at risk' therefore varies according to the evaluation criterion used (more stringent under the old benchmark, more tolerant under the new one). The numbers show that the new Code has indeed brought about a relaxation of the criteria for assessing independence. Whatever parameter is used, the number of independent directors 'at risk' is appreciable but not particularly high (between 4.9% and 8.3% of the total).

and 100% of the base remuneration, three directors receive additional remuneration exceeding 100% (up to a maximum of 167%).

[35] The four thresholds were identified according to alternative definitions of the additional remuneration that places the independence of directors 'at risk'. These are, respectively, the average and median of the thresholds identified as % of the fee-base (respectively 96% and 100%) and those identified as lump sum (respectively 90 and 67 thousand €).

[36] The precise number varies between 46 and 49 (as shown in the Figure) depending on which selection parameter is used to identify the relevant additional remuneration.

Figure 19



The risk of 'loss of independence' is much greater among statutory auditors, to whom the CG Code extends the recommendation on independence requirements for directors (Rec. 9). The number of statutory auditors qualified as independent is 610 out of 638 (96% of the total). However, 99 of them (15.5% of the total) are 'at risk' because they have tenure > 9 years and/or receive significant additional remuneration. Even using the new parameters, the number of auditors 'at risk' remains high: the reason is that 74 independent auditors have tenures > 9 years.
The Committee could consider whether to draw the attention of issuers to the proper application of the assessment of the independence of statutory auditors, which is the responsibility of 'the board of directors or (the) supervisory board, based on the information provided by each member of the supervisory board'.

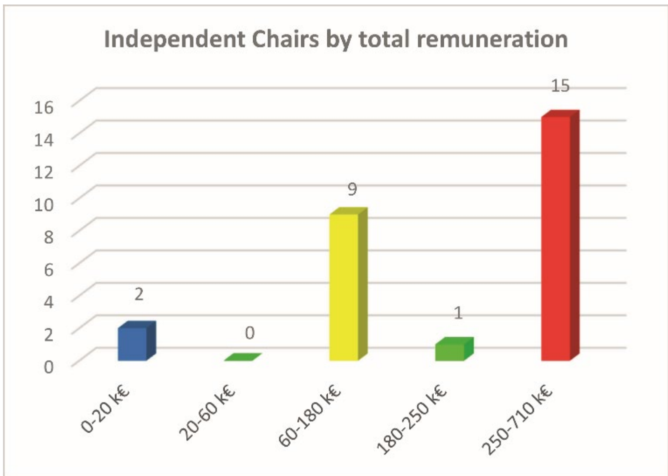
4.2 The independent chair

The new 'independent chair' role has inherent application problems, since the chair is not – and cannot be – an independent director like all the others, in view of his/her role of 'linking executive and non-executive directors' and of 'managing the board of directors', assigned by primary legislation and the Code itself (Rec. 12)[37].
The opportunity offered by the new Code to define their chair as independent was seized by 28 companies, a strong increase (+65%) compared to last year, when only 17 companies had and independent chair. The frequency is higher among widely held and state companies (whose chair is independent respectively in 35% and in 31% of cases). The presence of this figure in family firms is marginal (6% of cases).
The independence of the chair can now be assessed according to benchmarks different from those adopted in the past (especially with regard to his/her remuneration). The

[37] This resulted in recommendations based on detailed case studies, which can be found partly in the Code, partly in the Q&A prepared by the Corporate Governance Committee. see Rec. 5 (the board of directors shall include at least two independent directors other than the chairperson), Rec. 7 (if the independent chairperson participates in the committees recommended by the Code, the majority of the committee members shall be other independent directors; the independent chairperson shall not chair the remuneration committee and the control and risk committee). See also Q Rec. 5 (2) and the very detailed Q Rec. 7 (1) in the Q&A. See also Q Rec. 12 concerning the role of the chairperson in organising the work of the board of directors.

new Code has chosen to replace the old comparative parameter (how much is the chair paid compared to other non-executives?) with one referring to the chair himself/herself (how much more does he/she receive in excess of his/her fixed remuneration for the office and for committee membership?). However, as already noted, a significant minority of issuers retained - on a voluntary basis - the old benchmark.
The values of the two benchmarks are very far apart: the average emolument for non-executives is €59,000, making it a very stringent benchmark; the fixed remuneration for the office (and committees) is instead €259,000 for the 28 chairs qualified as independent, i.e., almost four and a half times the old benchmark.
The total remuneration of independent chairs averages at €271,000; this figure conceals a great deal of variability (from €15 to over €700,000). The majority of the independent chairs (15 out of 28) receive a total remuneration exceeding €250,000.

Figure 20



Adopting Assonime's parameters (2021a), the average difference between the total remuneration of independent chairpersons and the base remuneration of non-executive chairpersons is €192,000 (varying between €1,000 and €486,000), whereas, by adopting those of the new Code, the difference with respect to the base remuneration of chairpersons is only €14,000 (varying between €0 and €200,000). As a result, 25 out of 28 independent chairpersons would be 'at risk' according to the old parameters[38], while only 2 are 'at risk' according to the new ones (because they receive additional remuneration - in subsidiaries - of €100,000 and €200,000 respectively)[39].

[38] The difference between the remuneration of independent and non-executive chairs is so big that any reference to alternative parameters would not change the terms of the question. Simulations were conducted - with respect to the Assonime benchmark - adopting alternative definitions of 'additional remuneration', in absolute and in percentages terms, with respect to non-executives, independents and board committee chairs; with respect to the latter, the independent chair receives almost € 200,000 more (his/her remuneration is 2.3 times that of average committee chairs).
[39] Evaluating the additional fees in terms of a lump sum, no chair would be 'at risk' in terms of a percentage of the basic amount (in the two cases cited, the additional fees are respectively 56% and 64% of the basic fee (thus below, albeit slightly, the 67% or 100% used here as conventional thresholds).

4.3 The explanations offered for 'at risk' situations

The Code recommends, in the event of non-compliance, to provide detailed explanations as to the reasons for the choices made. The frequency with which an explanation for the independent status attributed to individual directors (and auditors) can be found in 'at risk' situations was analysed. This represents an indirect test, based on conventional criteria, of the quality of information on independence assessments. The number of 'at risk' independents was 83 (or 49, depending on the parameters adopted). However, only for 29 of them were explanations found for the reasons[40] why they were regarded as independent despite their non-compliance with the Code recommendation. The situation is similar for the 92 (or 79, depending on the parameters used) independent auditors 'at risk': only for 17 of them was it possible to identify an explicit explanation.

Even bearing in mind that the identification of 'at risk' situations is based on questionable criteria, the disclosure seems open to improvement. For example, taking the most objective risk factor (tenure > 9 years), an explanation was only found for 26 'matured' independents out of 40 (and for 17 independent statutory auditors out of 74). Where the 'at risk' situation is more questionable (such as for additional compensation), an explanation is rarely provided.

[40] In 26 cases, these were directors with tenures spanning more than nine years; in 4 cases, high remuneration compared to non-executives; in 3 cases, 'tenure' (and remuneration, according to Assonime parameters). In two cases, the companies voluntarily adopted the basic remuneration of non-executives as a benchmark, while in the third, reference is made to a generic (and ambiguous) 'basic remuneration resolved by the shareholders' meeting'. Four board members for whom an 'explain' is available are affected by two different reasons for misalignment.

5. Board committees

BOX 4

Almost all issuers have established Remuneration (RC) and Control and Risk Committees (RCC), in line with the recommendations of the Code. The situation is different for the other committees, which are the subject of regulatory measures (RPT Committee) or self-regulatory measures (Nomination and Sustainability Committee), set up less frequently and/or merged with the RC or RCC.
The new Code has substantially enhanced the role of the Nomination Committee. Compliance in this area shows light and shadow. First of all, the Nomination Committee is still established relatively infrequently (68% compared to 93% for the RC and RCC); moreover, it often (74%) continues to be merged with the RC.
The issuers who formed the Committee are adapting its mandate to the new recommendations. On the other hand, some companies continue to attribute its functions to the full Board, which often does not have the composition required by the Code, or have chosen not to set up the Committee, giving questionable justifications. Finally, there is little visibility on the functioning of the committee, where it is merged with others.
This problem is also found for the Sustainability and RPT Committees, where they are merged with a more active committee, typically the RCC (this happens in 60% of cases for the former and 50% of cases for the latter).

In addition to the three Committees (Nomination, Remuneration and Control and Risk) recommended by the Corporate Governance Code, we extended the analysis to the Sustainability and RPT Committees. A few words suffice for the Remuneration Committee (RC) and the Risk and Control Committee (RCC), the establishment of which is common practice and whose alignment to the 'Code' model has long been established. They were established almost always (93%) and their composition was (RC 97%, RCC 96%) in line with that recommended by the Code (only non-executives, majority of independents and independent chairperson). The frequency of meetings is made known very often (RC 86%, RCC 87%). These committees are fairly active (6.1 meetings/year for the RC, 9.2 for the RCC, for an average *time commitment* of 9 and 24 hours respectively)[41].
The situation is different for the other committees, which are subject to significant regulatory (RPT Committee) or self-regulatory measures (Nomination Committee and Sustainability Committee).

[41] Cases of low meeting numbers are rare for the RCC: it always met at least once (this happened in 9 companies); in 4 cases it met twice, in 11 it met three times. These are always small companies, almost always (21 out of the 24 cases mentioned) family-owned. In 20 cases they are companies that have formally adhered to the new Code. As far as the RC is concerned, it has never met in a company (adhering to the Code), in 22 cases it met once, in 13 cases it met twice, in another 22 cases it met three times.

5.1 The nomination committee

Under the old Code, the functions of the Nomination Committee were limited: it was almost exclusively responsible for proposing candidates as directors in the event of co-option, only where it was necessary to replace *independent* directors[42].
Consequently, the creation of such a committee was less frequent (66% compared to 94% for the RC and RCC); moreover, it was often (68% of cases) merged with the RC into a single 'nomination and remuneration committee', which devoted its time almost exclusively to remuneration issues.
The new Code has proposed a model of best practice for the nomination committee, which is assigned more functions as well as greater importance to support the board of directors:

a) self-evaluation of the board of directors and committees (a function attributed 'exclusively' to the committee);
b) definition of the optimal composition of the board and its committees;
c) identification of candidates for the office of director in the event of co-option (function extended to the replacement of *all* directors, rather than just independent directors);
d) presentation of a slate by the outgoing board of directors (possible function).

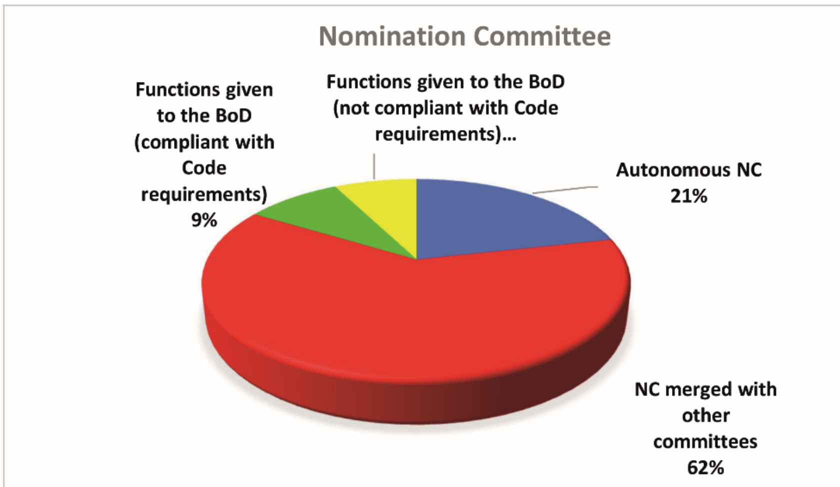
In the intentions of the new Code, the Nomination Committee is destined to take a central role, similar to the one it has in the banking sector following the Supervisory Provisions (Circular 285) of the Bank of Italy[43]. Companies are adapting to the new model, but there is still a long way to go.
First of all, the Nomination Committee is still set up relatively infrequently (68% compared to 93% for the RC and RCC); moreover, it continues to be often merged with the RC (74%). In short, only 37 companies (18% of the total) have an autonomous Nomination Committee. The Code paradigm shift has not affected issuers' decisions so far. The Nomination Committee is set up more frequently in large, non-concentrated companies (92%), where it is often autonomous: 57% of cases) than

[42] Other functions were to formulate opinions to present to the board of directors on its size and composition, and to perform investigative functions in relation to the (possible) succession plans of executive directors. However, in this last area, the competence of the nomination committee was not exclusive, since the issuer could assign it to another board committee.
[43] In the Bank of Italy model, the board of directors is required to: 1. identify in advance its optimal qualitative and quantitative composition, identifying and justifying the theoretical profile (including professionalism and possible independence) of the candidates considered appropriate; 2. subsequently verify the correspondence between the optimal qualitative and quantitative composition and the actual composition. The activities carried out by the board must be the result of an in-depth and formalised examination: in banks of a larger size or greater operational complexity, they are carried out with the active contribution of the nomination committee. The nomination committee is called upon to express its opinion on the suitability of the candidates identified by the board. The nomination committee performs support functions for the bodies with strategic supervision and management functions in the following processes: a) appointment or co-option of directors; b) self-assessment of the bodies; c) verification of the conditions (of independence) laid down in Article 26 (Consolidated Banking Law); d) definition of succession plans at top management positions.

in small concentrated companies (62%, where it is often merged with the RC: 88% of cases).

The choice made by 28 issuers to attribute the Committee's functions to the full Board is not without problems. Almost half of them (13, in the majority of cases small companies), in fact, do not meet the Board composition requirements (majority of independents: see Rec. 16) laid down by the Code for this choice.

Figure 21

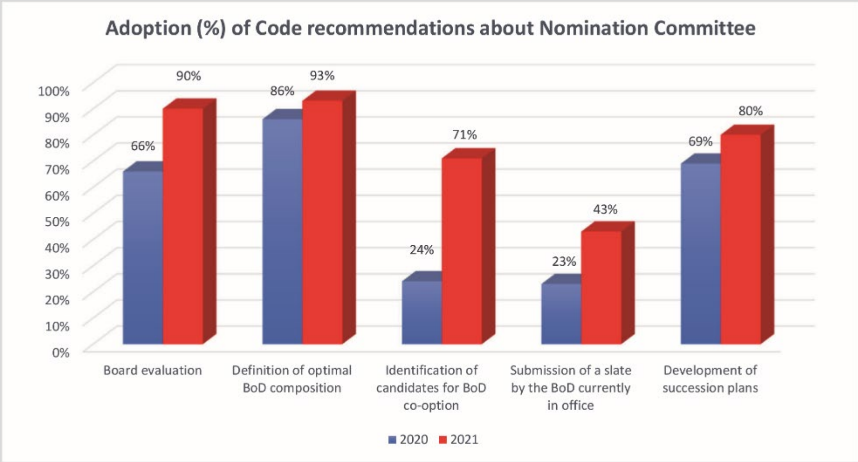


The decision not to set up the Committee (made by the remaining 39 companies) appears hard to understand in light of the justifications offered, which typically refer to the concentrated ownership structure and the existence of a transparent nomination procedure based on slate voting: the new functions attributed to the Nomination Committee are not, in fact, easily attributed to shareholders.

The issuers who formed the Committee, on the other hand, are gradually adapting its mandate to the recommendations of the new Code; the evolution here has been considerable, albeit with some diversity from one function to another. The assignment of tasks in the area of defining the optimal qualitative and quantitative composition of the board is now almost always envisaged (93% of the companies that have the Committee, up from 86% last year), as is the assignment of a support role in the area of board evaluation (90%; up from 66%) and succession plans (80%; up from 69%). The gap is wider when it comes to the co-option of directors: only 71% of issuers (up from 24%) have extended the Committee's competence to the replacement of *all* directors (not just independent directors, as under the old Code)[44].

[44] A support role of the Committee in the possible preparation of the ' Board slate' is communicated by 62 companies (43% of the total), thus also by issuers that have not provided in their articles of association for the outgoing Board of Directors to submit a list of candidates.

Figure 22



In the 37 companies that have set up an independent nomination committee, its composition is almost always (95%) in line with the recommendations of the Code (majority of independent directors).

Disclosure on meeting frequency and time commitment is almost always provided among companies that have established an autonomous committee, but almost never where it is merged with others. In fact, this situation applies to all committees (thus also to the Sustainability Committee and, to a lesser extent, to the RPT Committee, if merged with other, more active committees, RC and RCC respectively).

This lack of transparency is a problem that should not be overlooked. The Code allows the combination of functions in a single committee but such a choice entails burdens: a combined committee may, in fact, be considered compliant with the Code (Rec. 16) as long as the Code recommendations for its composition are complied with, and '*adequate disclosure of the tasks and activities carried out by each of the assigned functions*' is provided[45]. In the case of merged committees, information is often provided on the tasks attributed, but not on the tasks actually carried out by each function; moreover, disaggregated information on the number of meetings and the time actually spent on each function is occasional. Transparency in this area is therefore largely improvable. The autonomous Nomination committees are, on average, fairly active (6.9 meetings/year, for an average time commitment of just over 8 hours, numbers comparable to those of the RC). However, situations vary according to sector (among financial companies, the frequency of meetings is more than three times as high (11) as among non-financial companies (3)) and ownership structure (13 meetings among widely held companies, 8 among public companies, but only 3 among family firms)[46]. At the level of the single issuer, the differences are remarkable:

[45] This recommendation is likely to extend to cases in which a 'Code' committee (e.g., RC or RCC) is given additional functions, also not of the Code (e.g., on sustainability or RPT).

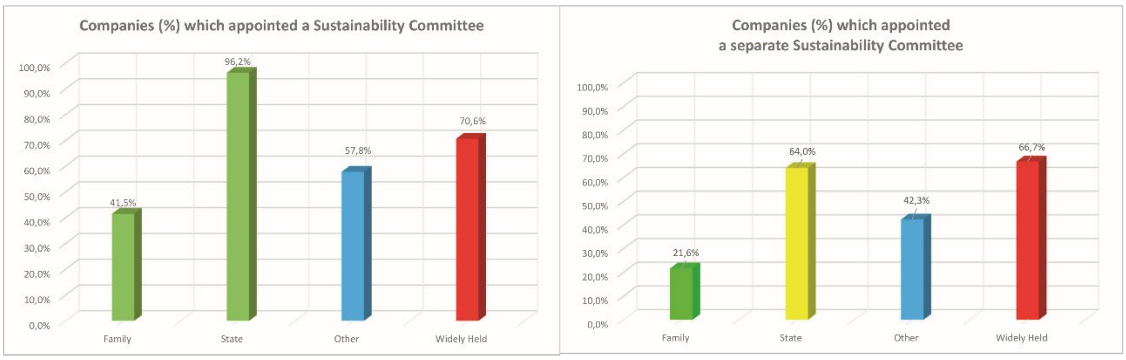
[46] The autonomous Nomination committees always met at least once (this was the case in 6 cases); in two cases the Committee met twice, in two others it met three times. The statistics for the RC are similar to those of the Nomination Committee: 6.1 meetings/year (varying between 0 and 28) for a time commitment of 9.2 hours (varying between 0 and 61 hours). Quite higher, however, are those for the

in some companies the Committee met only once, while in one large bank it met 22 times in one year (for a total commitment of almost 25 hours).
In summary, the new Code has set a high benchmark for the Nomination Committee; issuers' compliance is improving strongly. However, there is still little visibility on the functioning of the committee, where it is merged with others; moreover, when the committee's functions are attributed to the board of directors, critical issues often arise in terms of the body's composition. In this regard, a reminder from the Corporate Governance Committee seems appropriate.

5.1 The sustainability committee

The new Code (Rec. 1) calls for the approval of the business plan to take place '*also on the basis of the analysis of issues relevant to the generation of long-term value carried out with the possible support of a committee*'. The establishment and composition of the committee, frequency of meetings and time commitment required were examined[47].
The Sustainability Committee was established by just over half (54%, up from 47% last year) of the issuers. There is strong variability linked to size and ownership structure: the Committee was set up by only 41% of small companies; the frequency rises to 91% among large ones. The identity of the reference shareholder also exerts a strong influence: the Committee was set up by only 41% of family firms, while it is found with high frequency (71% and 96% respectively) at widely held and public-controlled companies.

Figure 23



In 68 cases (60% of the total) the Committee is merged with others, almost always with the RCC. Thus, only 46 (22% of the total) issuers have established an autonomous Sustainability Committee. Size and ownership structure also influence this choice: the establishment of a separate committee is rare (24%) among small concentrated companies and the majority case (74%) among large non-concentrated

RCC: 9.2 meetings/year (varying between 1 and 52) for a time commitment of 24.2 hours (varying between 0 and 295 hours).
[47] The information should be provided at all times, because Article 123-bis, paragraph 1(d) of the Consolidated Law on Finance requires that the CG Reports include, *inter alia*, information concerning 'the composition and functioning of the management and supervisory bodies and their committees' (from the Code and not from the Code).

companies. The establishment of a separate committee is rare among family firms (22%), but the majority case among widely-held companies (67%) and state-owned companies (64%) which – as will be seen later – pay particular attention to sustainability issues.

The prevailing composition of the committee (almost only non-executives, the majority of whom are independent) seems consistent with a monitoring and relational role with regard to issues *'relevant to the generation of long-term value'* identified by management, rather than direct involvement in the development of sustainability strategies.

In the 46 companies with an autonomous Sustainability Committee, an average number of meetings per year of 6.9 is observed, for a total commitment of approximately 13.5 hours. The averages hide highly variable numbers at the level of the individual issuer: the number of meetings varies between 0 and 20[48], for a total commitment of between 0 and 42 hours. The average commitment is 11 hours in small companies and rises to almost 15 hours in large, non-concentrated companies (+34%); similarly, the average commitment is 7 hours and 40 minutes among family-owned companies, but rises to 17 and a half hours (+127%) in public companies.

Figure 24

No specific recommendations on the Sustainability Committee have been made in the Code. The Committee is established in about half of the cases; the autonomous Committee model is adopted in the minority of cases and, especially, by more structured companies; the assignment of sustainability functions to existing committees (usually the RCC) is more frequent.

5.2 The RPT committee

The RPT was established in the vast majority of cases (97%). Only 6 (small) companies merely indicate the rules that will be followed, if need be, to set it up or report that it has been set up without indicating its current composition.

[48] In one case, the committee never met. Low numbers of meetings are rare: in 3 cases the committee met once, in another 3, twice, in 4 cases three times.

In slightly less than half of the cases, the Committee is merged, almost always with the RCC, which is sometimes also assigned competence for sustainability matters. 5 issuers attribute competence for RPT matters, alternatively, to the RC (for resolutions on remuneration matters) or to the RCC (for other matters). Size and ownership structure influence the establishment of an autonomous RPT Committee, which is more frequent among large, non-concentrated companies (68%). The establishment of an autonomous committee is relatively rare among publicly controlled companies (42%), more frequent among family firms (52%) and widely held companies (75%).

Figure 25

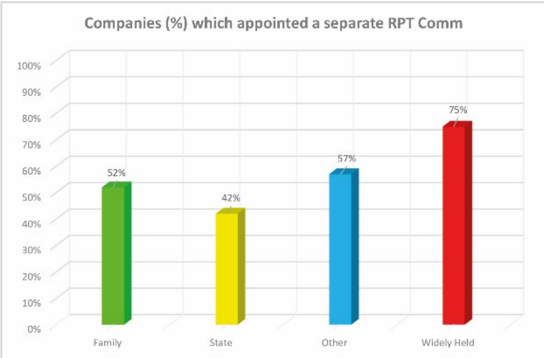


Figure 26

Disclosure on the frequency of meetings is widespread (91%, up sharply from last year's 75%) where the Committee is autonomous; however, compared to the Sustainability Committee, the provision of information on the time commitment required of RPT Committee members is less frequent (61%, up from 40% last year). As already noted, where the committees are merged, disclosure is lower: for the RPT Committee, information on the number of meetings (24%) and time devoted to each function (8%) is occasional. Transparency can be largely improved.

In the (123) reporting companies, the RPT Committee met on average 4.6 times a year; the average commitment in the (75) reporting companies was 6.7 hours[49]. Here, too, the averages conceal highly variable numbers at the level of individual issuers: the

[49] Low numbers of meetings are quite frequent for the RPT Committee: one company reports that it has never met; it has met once in 22 companies; in 26 cases, it has met twice; in 14, three times.

number of meetings per year varies between 0 and 21, for a total commitment varying between a minimum of 30 minutes and a maximum of 31.5 hours. Committee activity varies according to the number and complexity of transactions to be examined and the degree of governance structure. A significant number of issuers (29 out of 75, or 39% of the total) report a time commitment of 3 hours or less; only 15 issuers (including 4 banks and 2 insurance companies) report a commitment of more than 10 hours. The average commitment is 4 hours and 20 minutes among family companies and more than doubles (almost 10 and a half hours) in widely held companies. In summary, transparency regarding the functioning of the RPT Committee shows much room for improvement. Where information is provided, situations are varied. In a significant number of cases, the Committee appears to have devoted little time to the performance of its duties. However, it is difficult to understand the reasons for this; a more frequent description of the tasks actually performed, even where the Committee is merged, could help the market to understand its actual role.

6. Remuneration policy and fees paid

BOX 5

Transparency about remuneration policy has increased considerably. Information on the structure of incentive plans, however, is not always clear, especially among smaller companies. It would be of great help to systematically provide a tabular executive summary (now widespread among large companies), replacing or in addition to lengthy descriptions that often leave the reader in doubt as to the actual structure of the compensation package.
Remuneration level and composition of the pay mix are important for investors called upon to cast a binding vote on the policy. Transparency can often be improved in many respects: 'comprehensive' numerical data on the dynamics of variable remuneration (*i.e.,* at least at target and cap levels) are provided by about 60% of the issuers.
The package offered to CEOs (at target) consists, on average, of 49% fixed and 51% variable remuneration (24% MBO – short-term – and 27% LTI – long-term). The structure of incentive plans varies widely, especially in relation to the size and ownership structure of the issuer. The frequency with which companies link variable pay to the achievement of ESG objectives has increased significantly: this applies to both MBOs and LTIs. However, the average weight of this component in the package is stable.
CEOs recorded a significant pay increase in 2021, from €946,000 to €1,104,000 on average (+17%), mainly due to a sharp increase in bonuses (from €239,000 to €420,000). The reasons for this dynamic emerge from the comparison between pay opportunity and remuneration actually paid (which can be derived for the first time in 2021). Fixed pay is aligned to the value provided for by policy. Thus, we found no longer trace of the reductions in fixed pay that CEOs had often accepted in an exceptional year such as 2020. Moreover, monetary bonuses are on average above target (€ 472,000 on average, against € 395,000 promised at target and € 579,000 at cap). This seems consistent with the improvement in market conditions that occurred in parallel to the exit from the most critical phase of the pandemic (and before the Russian-Ukrainian war).

The Corporate Governance Code has essentially limited itself to rearranging the provisions concerning the remuneration of directors and top management, partly because the subject matter has been revolutionised by the transposition of the SHRDII Directive, which has brought numerous innovations, including:

a) The binding effect of the policy approved in the shareholders' meeting, the implementation of which requires the use of RPT procedures whenever it involves 'discretionary evaluations';
b) The possibility of deviating from the approved policy in 'exceptional circumstances', provided that the policy includes the procedural conditions under

which the exception can be applied and specifies the elements of the policy from which an exception is possible;

c) A strong increase in transparency with regard to the remuneration structure, especially for executive directors: a broad disclosure of the chosen algorithm and its functioning seems to be required in relation not only to the pre-set targets, but also to the floor and cap levels and the possible existence of further conditions - entry gates - the attainment of which triggers the right to receive the variable. The exact boundaries of what is the minimum acceptable disclosure are, however, still unclear.

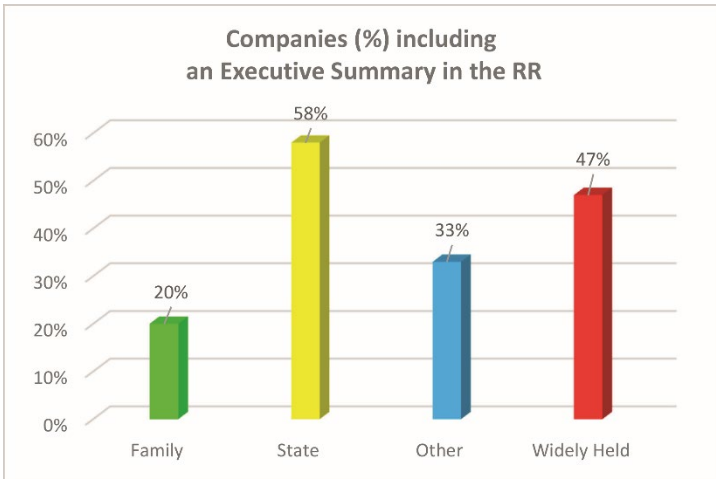
6.1 The remuneration policy

The remuneration policy is described in Section I of the RR, which was the subject of a pervasive regulatory intervention. Schedule 7-bis annexed to the Regulation on Issuers requires, *inter alia*, with reference to variable components, '*a description of the financial and non-financial performance objectives, where appropriate considering criteria relating to corporate social responsibility, on the basis of which they are assigned, distinguishing between short-term and medium to long-term variable components*'.

The improvement in transparency after the reform has been significant. However, the degree of detail of the RR continues to vary greatly from one company to another. Some issuers, usually small and/or with a concentrated ownership structure, provide very concise information on the structure of the compensation package, so that the information required by regulation is not always completely available: for instance, Schedule 7-bis requires, where the policies of other companies have been used as a reference, not only an indication of the criteria used for the choice of the benchmark but also '*an indication of those companies*'. However, out of 100 companies that explicitly indicate the use of peers, only 56 identify them by name (while another 38 merely describe the peer group in general terms).

The presence of an *executive summary* recapitulating the salient aspects of the governance of the process and of the pay package attributed to the CEO and other directors/managers allows investors to easily find the key information for evaluating the policy, which would otherwise be scattered throughout the report. This practice is spreading progressively: 63 issuers (up from 55 last year), mainly large and non-concentrated (where they account for 84% of the total, compared to 15% in the small ones), included an executive summary in Section I of the RR. This practice is widespread among public (58%) and widely held companies (47%), and much less so (20%) among family firms.

Figure 27



This practice deserves to be evaluated by issuers and, possibly, also by the Corporate Governance Committee with a view to a possible reporting in the Code or in the Q&A regarding its application.

6.1.1 The right to deviate from the policy

Article 123-ter of the CLF allows companies to '*temporarily make an exception as regards the remuneration policy, provided that the policy sets out the procedural conditions under which the exception may be applied and specifies the elements of the policy from which the exception may be made*'. Actually, the policy approved by the shareholder meeting often gives the board discretionary powers in the implementation of the incentive plans (e.g., through the possibility to 'adjust' the results for any extraordinary components). The use of these powers, within the limits set by the approved policy, is substantially pre-authorised by the shareholder meeting and does not technically constitute an exception (even though it requires – post SRD II – the application of the RPT procedures).
It should be noted, in this respect, that the possibility of awarding *ad hoc* bonuses on the basis of *ex post* evaluations continues to be provided for rather frequently in remuneration policies (43% of cases). Companies that provide the option to grant such bonuses always provide information on the conditions under which this is possible. They are generally linked to the execution of extraordinary operations of great strategic importance.
The option to deviate from the policy approved by the shareholders' meeting is provided for in the vast majority of cases (79%). It mainly covers short-term incentive plans (MBO) or the relative weight of fixed/variable component (72%); less frequently also (or only) long-term plans (LTI: 63%) and/or fixed emolument (40%). The clause normally follows (76% of cases) the wording of the CLF. Fairly frequent, but in the minority, is the indication of cases justifying the use of the exception, such as the power to pay extraordinary bonuses to attract or retain talented managers (44% of cases) or to adjust remuneration to take account of exceptional external circumstances (46%) or significant changes in the group perimeter (45%). The option of paying bonuses to reward exceptional performance is seen more rarely (25%).

6.1.2 Variable remuneration

The CG Code recommends that the remuneration policy for executive directors and top management should define a balance between fixed and variable components which is consistent with the strategic objectives and characteristics of the company, providing in any case that variable remuneration: a) has a significant weight on the overall remuneration and b) is predominantly linked to a medium-long term horizon (Rec. 27).

A variable component for the CEO is very often present (84% of cases; always in large non-concentrated companies). Variable remuneration is present almost everywhere (above 90% of cases) except in family companies where - in 24% of cases - the CEO receives only fixed remuneration: this situation is found more often (31%) where the CEO is a member of the controlling family; where the CEO is a manager outside the family only fixed remuneration is rarely found (15%).

Variable remuneration can be short-term (Management by Objectives or MBO) or medium- to long-term (Long Term Incentive or LTI). An MBO plan is almost always envisaged (95%); an LTI is identified less frequently (76%). In those (41) issuers where an MBO but not an LTI is present, an explanation is rarely provided (it would, however, be required under the Code)[50]. In both cases, the application of the comply-or-explain principle is clearly improvable.

6.1.2.1 MBO plans

MBO plans are in the vast majority of cases (98%) monetary plans, linking the payment of compensation to the achievement of budget targets. A small patrol (13%) of issuers, often large non-concentrated companies (32%), also provide for disbursements of shares or other financial instruments, usually deferred over time.

The structure of MBOs was investigated with reference to four categories of objectives: a) financial (typically accounting or budget figures); b) business (e.g., market shares, development of new products, compliance with capex timelines, customer satisfaction, etc.); c) share value performance; d) ESG parameters (e.g., reduction of CO_2 emissions, workplace accidents, equal opportunities, etc.).

Transparency regarding the type of objectives and the weight given to each category is positive (78% of cases). Financial parameters are almost always used (96%); business objectives (52%) or ESG parameters (56%, up from 42% last year) are also frequently used. The direct link with equity objectives is rare (5%), whereas they are frequently used in LTI plans. The use of non-financial parameters mainly depends on the identity of the reference shareholder: in particular, ESG parameters are used more often by public and widely held companies (around 75%) and less by family-owned companies (45%).

[50] Rec. 27(c) requires that the performance targets to which the payment of the variable components is linked be 'linked in significant part to a long-term period'.

Figure 28

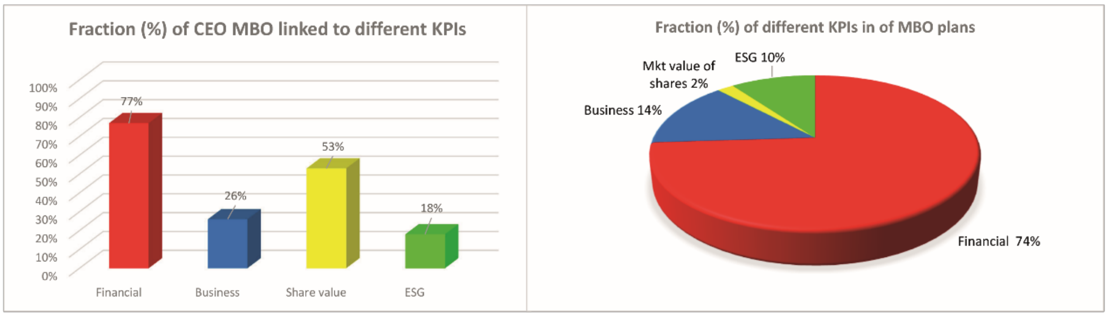
Issuers define the cocktail of MBO plan targets differently. Small, concentrated companies make almost sole use (83%) of financial targets, while large, non-concentrated companies use them to a lesser extent (68%), so as to leave room for other performance parameters (business and ESG targets).

In order to analyse the compensation packages, the average weight of the individual components was calculated in two alternative ways: a) as a % weight out of the total target MBO remuneration in those companies where that particular component (e.g., compensation linked to equity targets) is present, and b) as an overall weight at system level. The first statistic captures the actual weight of the individual variable components (on the target MBO) in the pay packages where they are present; the second reflects also the frequency with which the individual plans include the various components and thus returns the overall weight of each (again calculated on the total of target variable pay) at system level[51].

The first statistic shows that issuers give much importance in MBOs to financial objectives (77%), but – where (also) other parameters are used – their weight on variable pay can be significant: 53% for equity objectives in the (very few) companies that use them; 26% for business objectives; 18% for ESG objectives. Such weights are essentially stable over time. The second statistic shows that, at the system level, the variable remuneration attributed by MBO plans is predominantly (74%) linked to financial parameters; the other components, on the other hand, assume very low weights (business objectives 14%; ESG 10%; equity 2%); however, it is worth noting the strong marginal increase in the weight of ESG objectives (+38.5% in the last year, from 7% to 10%), linked to the growing spread of ESG-based variable components.

[51] In order to understand the relationship between the two statistics, an example may be useful: ESG objectives are used by only 56% of companies, where they have a weight of 18%. The product of these percentages generates the 10% observable at system level. The system-wide weights add up to 100%, while the weights in companies that use a certain category of objectives do not, because the reference samples change for each category.

Figure 29



6.1.2.2 LTI plans

LTI plans can be both cash and/or share-based. In the first case, they are similar to MBOs, but structured over a multi-year period. In the second case, the allocation of financial instruments is envisaged, which may be immediate (standard for stock options) or deferred (standard for stock grants) and is linked to the occurrence of two types of conditions: a) permanence in office until the effective assignment date (vesting) and b) achievement of predetermined performance objectives (entry gates)[52]. LTIs include monetary (cash-based) plans in 46% of the issuers; in 51% of the cases there is a stock grant/performance share plan; in 15% a stock option plan; in 5% one or more phantom plans53[53]. Options, once prevalent, are now far less popular than stock grants. LTI plans can be single-allocation (60% of cases) or rolling (40%), i.e., with allocations repeated every year during the reporting period54[54].

The average duration of LTI plans at the time of their approval is 3 years (varies between 2 and 6 years), without much variation depending on the type of plan (cash- or equity-based, single allocation or rolling).

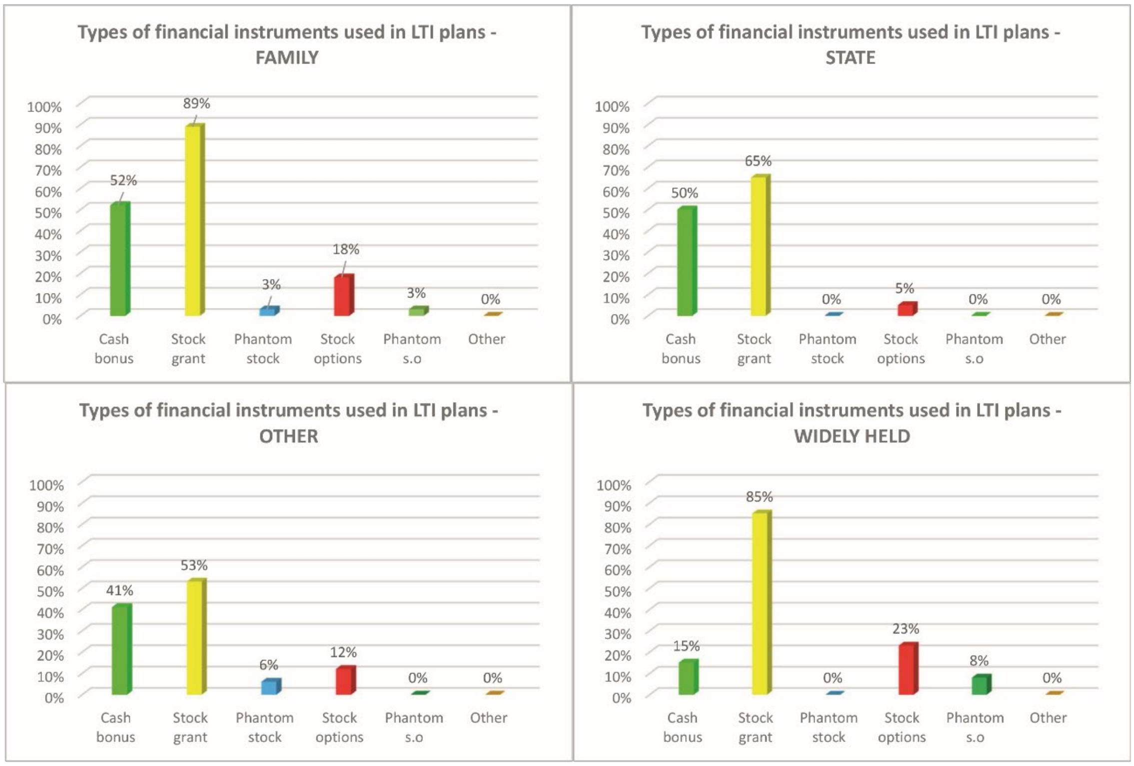
The plan typology varies according to the size of the issuer and its ownership structure. Large non-concentrated companies predominantly adopt stock grant plans (83%) and rarely monetary plans (22%); small concentrated companies prefer monetary plans (53%) to stock grants (40%); stock option plans are infrequent (around 10%) in both groups. Significant differences also exist between family firms (52% adopt cash plans, 39% stock grants) and widely held companies (15% adopt cash plans, 85% stock grants). State companies also prefer stock grants (65%, against 50% adopting monetary plans).

[52] Sometimes the plans do not provide for the assignment of shares or options, but only the payment of a fee based on their value. These are called phantom plans.

[53] The percentages do not add up to 100% because two or more plans of different types may be adopted at the same time.

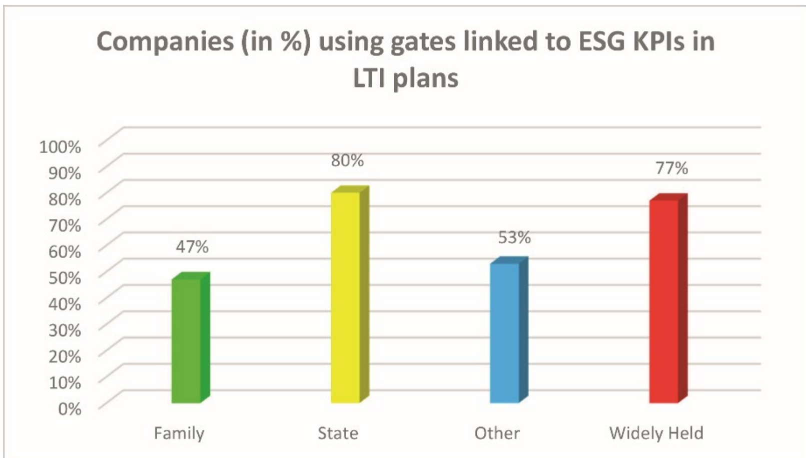
[54] This point is very important. Since the values reported in the text are calculated on an annual basis, the incentives awarded according to rolling plans have been re-expressed on a pro-rata basis.

Figure 30



Almost all (95%) LTI plans include one or more *entry gates*: these are in the vast majority of cases (90%) thresholds linked to financial objectives; *gates* linked to share performance (43%) and/or ESG parameters (57%, up sharply from 38% last year) are also fairly frequent. The use of ESG parameters is less frequent among family firms (47%, up from 27% last year) and significantly higher among state (80%) and widely held companies (77%).

Figure 31



LTI plans (even more than MBOs) are based on complex algorithms, which make the calculation of aggregate statistics problematic: for example, it is common to identify entry gates linked to parameters other than those to which the variable compensation is linked or to combine several performance parameters (e.g. through the use of

multipliers/dividers of the main parameter). Where possible, the weight of the individual target categories within the LTI plan was calculated, similarly to what was done for MBOs.
LTI plans are heterogeneous. Therefore, as with MBOs, the average weight of the individual components was calculated (in the 89 companies for which information is available, i.e., 66% of those that have adopted one or more LTIs) in the two alternative ways already seen: a) as a weight on the total LTI target in the companies adopting that particular component, and b) as an overall weight at system level.
The first statistic shows that issuers attribute more weight in LTIs to financial objectives (69%), but - in companies using (also) other parameters - these can assume significant weights: 44% for equity objectives in a number (47% of issuers for which information is available) of companies that use them; 30% for business objectives; 21% for the many companies (81% of the total) that make use of ESG objectives.
The second statistic shows that, at system level, the variable remuneration related to LTI plans is linked (as for MBOs) predominantly (63%) to financial parameters; the other components, have lower weights (business objectives 4%; equity 21%; ESG 12%). The differences between MBOs and LTIs are induced by a different frequency of adoption of the individual parameters, rather than by attributing different weights to each of them.
In brief, the structure of incentive plans is very different from one company to another, and there are clear preferences depending on the size of the issuer and its ownership structure. Information on the type and structure of the plans is not always clear, especially among smaller companies. There is often still a long way to go to comply with the new legislation. The provision of a tabular executive summary would be appropriate, in replacement or in addition to long descriptions that often leave doubts about the actual structure of the package.

6.1.3 The pay mix

6.1.3.1 Disclosure

Scheme 7-bis requires, among other things, '*information on the connection between the variation of results and the variation of remuneration*' as well as a description of '*criteria used to evaluate achievement of the performance objectives (...), specifying the variable remuneration portion that is assigned on the basis of the level of objectives achieved*'. According to the prevailing interpretation of this formulation, Consob requires issuers to provide information on the so-called pay mix relating to the CEO and the other directors. Scheme 7-bis, however, is not explicit about the minimum detail of the pay mix; on the other hand, incentive plans have a rather differentiated structure, so that a binding regulatory intervention seems inappropriate.
The description of the pay mix requires information on the variable amounts that can be paid (the so-called pay opportunity) according to different degrees of achievement

of the objectives: entry threshold (floor), target and maximum amount (cap)[55]. In this report, disclosure of the amounts achievable in the event of target and cap performance has been considered 'complete' information.
Information on the fixed component is often available; basic information on the variable is available in the vast majority (80%) of cases. In the remaining 20%, the information is insufficient to identify the amounts (and thus the relative weight) of the variable, neither target nor cap, or the plans link the remuneration linearly to one or more parameters (i.e. neither a cap nor a floor are indicated). Several companies provided sufficient information to identify variable remuneration (MBO + possible LTI) at cap but not at target (15%) or, vice versa, at target but not at cap (6%). Sufficient information to calculate the pay mix both at target and at cap levels can be obtained in 126 companies (59% of the total).

6.1.3.2 The composition of the CEO's package

Among the 126 companies providing 'complete' (both target and cap) information in the RR[56], however, 33 (16% of the total) awarded the CEO only a fixed remuneration. The other 93 issuers (43% of the total) have both fixed and variable remuneration and provide sufficient information to derive the *pay mix* at both *target* and *cap* levels. The numbers are stable compared to last year.
In these 93 companies, the pay opportunity offered to the CEO can be analysed:
a) under standardised management assumptions;
b) based on information provided by the company itself[57].

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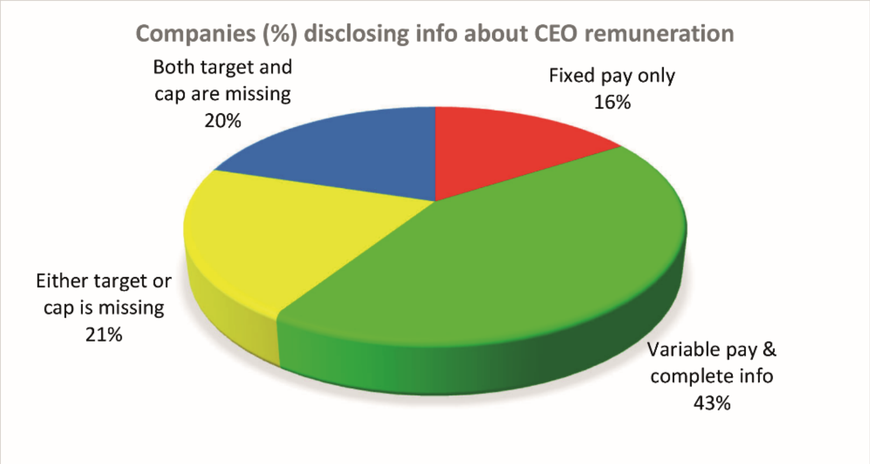
[55] The three levels correspond to the widely prevailing structure of the plans (which link remuneration to the so-called 'incentive split'). The entry threshold (floor) corresponds to the attainment of the minimum objectives (there may be more than one) that allow the opening of the gates, and thus the payment of variable remuneration; the target corresponds to the attainment of the objectives (typically of the business plan) declared in the remuneration plan, the cap (almost always envisaged) corresponds to the level of performance reached at which no further variable remuneration is paid to the beneficiary.
[56] The analysis is based on the information provided in the RRs. It is possible that additional information may be found in other documents, to which the RRs not infrequently refer (including the regulations of incentive plans and the documentation provided - pursuant to Article 114-bis of the CLF - for the approval of share-based plans). The survey therefore does not assess the completeness of the information tout court, but its ease of retrieval.
[57] This offers two major advantages over the ex-post quantifications found in Table 1 ex Scheme 7-bis: a) it is possible to consider the LTI components attributed to the CEO (under standardised assumptions); b) it is possible to have an estimate of the equity components regardless of accounting conventions.

Figure 32



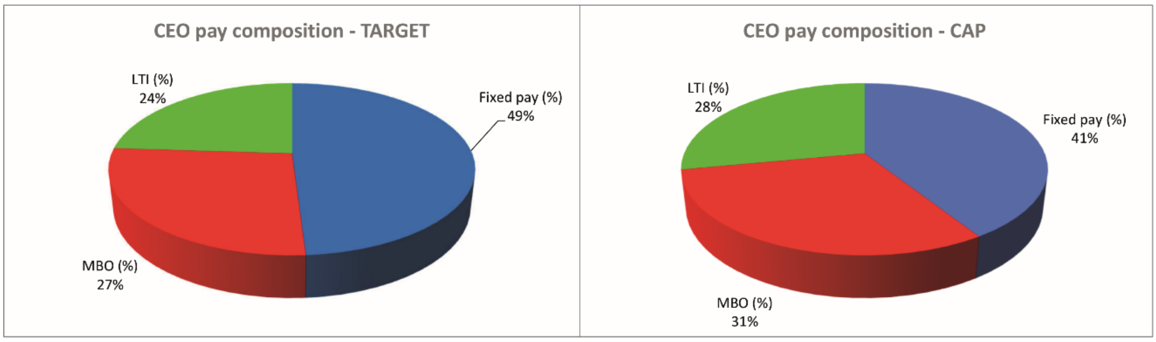
Disclosure of the pay mix is much better in large non-concentrated companies (72%, compared to 35% in small) and in state-owned companies (62%, compared to 39% in family and 41% in widely held). The sectoral figure may look surprising: sufficient information to calculate the CEO pay mix was provided by only 41% of financial companies. However, as already noted in last year's Report, these companies (especially banks) typically provide information referring to the total of the so-called 'most relevant personnel' (MRP within the meaning of the CRD IV Directive) and in compliance with the limits on the ratio between variable and fixed (1:1 or 2:1 as the case may be). The information provided does not, however, always allow one to extrapolate the value of the package due to the CEO.

In the companies that provide complete information on the pay mix, the average CEO's package includes a fixed remuneration of €839,000; in addition, an MBO and an LTI are worth – at target - €605,000 and €620,000 respectively: the average total remuneration at target is thus just over €2 million (€2,064,000). The composition of the package at target is 49% fixed and 51% variable (of which 27% for MBO and 24% for LTI)[58].

If performance reaches the cap level, variable remuneration changes significantly: the MBO part reaches, on average, €886,000 (+46%) while the LTI part reaches €965,000 (+49%).

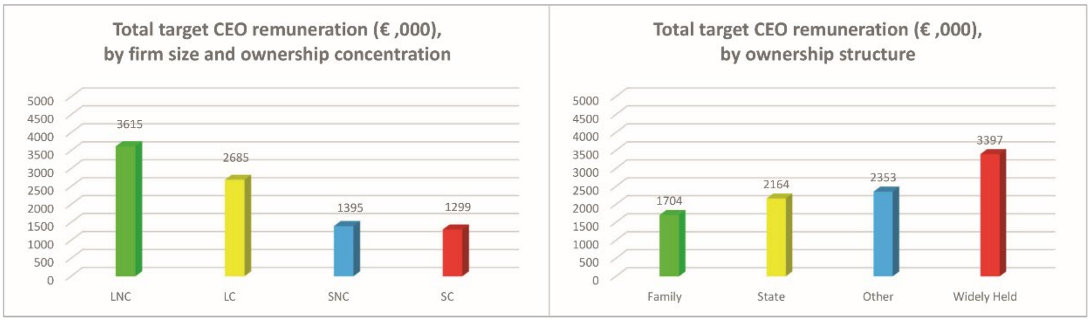
[58] The values reported are calculated according to a different methodology from that used for calculating the weight of the individual components of the MBO and LTI packages. The percentages given in the text measure the weight of fixed, MBO and LTI (however internally composed) on the *total pay opportunity* (target and cap respectively). The percentages calculated in the preceding paragraphs, on the other hand, measure the weight of the individual components (linked to financial, business, ESG, etc. objectives) of the MBO (or LTI) plans out of the *total (target) variable pay* linked to the individual plan (MBO or LTI respectively).

Figure 33



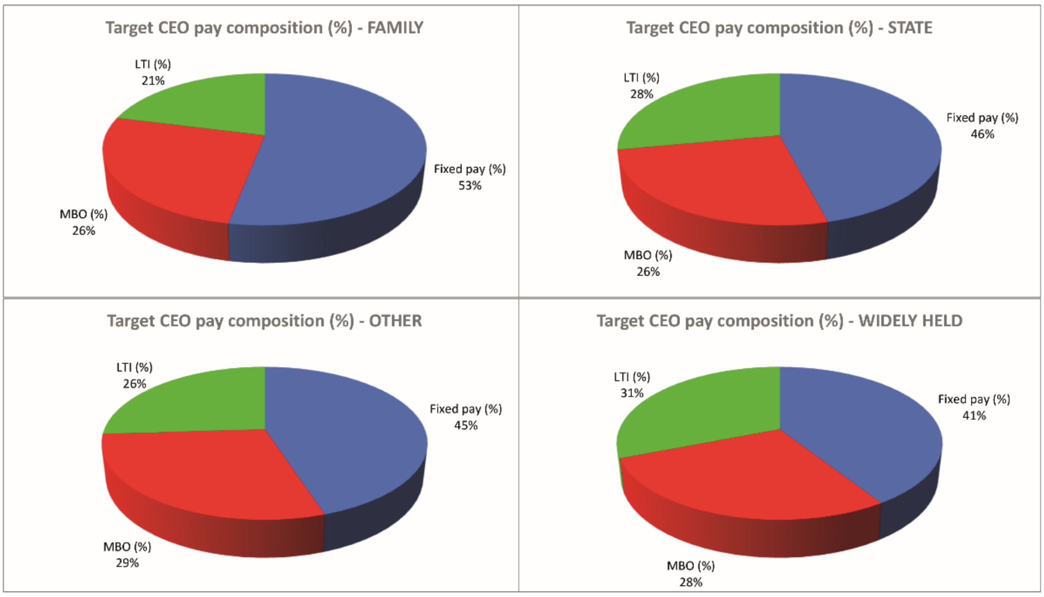
The composition of the remuneration package changes accordingly: the fixed part decreases from 49 to 42%, while the variable part increases from 51 to 59, due to the increase in both MBO and LTI (which rise from 24 to 28% and from 27 to 31% respectively). Over the past year, fixed emoluments rose on average by 6.9%, the pay opportunity of the MBO component increased significantly (12.5% at target and 20.8% at cap), while the LTI component did not change substantially. As a result of these dynamics, the overall pay opportunity rose by 6.1% at target and 8.6% at cap. The increase was concentrated in Mid Cap companies (11.3% at target and 12.7% at cap); in the pay opportunity remained stable Small Cap, and even decreased in FTSE Mib companies (-7.8% at target and -5.6% at cap).
The amounts vary with size and ownership structure. Fixed pay Is lower (around €600,000) in small companies and rises significantly in large companies, especially if not concentrated (€1.4 million). The variable portion is subject to similar dynamics. Therefore, total CEO remuneration varies – at target level – from just over €1.3 million in small companies to €3.6 million in large, non-concentrated companies. Total remuneration at target is approximately €1.7 million in family firms, approaches €2.2 million (+27%) in state-owned companies and reaches €3.4 million (+96%) in widely-held companies.

Figure 34



The package structure changes according to size and ownership structure. Small concentrated companies (and families) rely less on the variable: the composition of the target package is 56% fixed and 44% variable (of which 27% for MBO and 17% for LTI). Large, non-concentrated companies, on the other hand, give the variable at target a preponderant weight (60% vs. 40% fixed). The difference is mainly attributable to the LTI component: in the large non-concentrated companies, the MBO component rises by 2 percentage points compared to the small ones (29% vs. 27%), while the LTI component rises by as much as 11 points (31% vs. 20%).

Figure 35



The amounts vary significantly if company performance reaches the cap: in small companies, the MBO part reaches, on average, € 537,000 (+39% compared to the target) while the LTI part reaches € 501,000 (+49%). Among the large, non-concentrated companies, remuneration is much higher: MBO and LTI per cap come close to €1.6m (+47%) and €1.7m (+46%) respectively.

In brief, not only the amounts but also the pay mix of CEOs do change significantly according to company size and ownership structure: small companies target a variable of less than 50% of the package and mainly linked to the short term (MBO). On the contrary, large companies (especially non-concentrated ones) award pay packages in which the variable and, within it, the long-term component (LTI) have a predominant weight.

6.2 Remuneration actually paid

6.2.1 Remuneration paid

Directors' remuneration depends on the role held (CEO, Chairperson, other directors, executive or non-executive, membership to one or more committees) and the size of the issuer.

The only class of directors showing a significant dynamic is that of CEOs, who saw an increase in monetary compensation from €946,000 to €1,104,000 (+17%), mainly linked to a strong increase in bonuses (from €239,000 to €420,000). It is the tangible manifestation that 2021 was for many issuers a year of strong recovery after the first phase of the pandemic (and before the Russian-Ukrainian crisis). Part of the increase is related to higher fixed emoluments (increased by 4%). These dynamics are

widespread among almost all categories of issuers: only in state-owned companies higher fixed emoluments have been more than offset by a decline in bonuses.
Chairs also recorded a slight increase in remuneration; this was induced for executive chairs (+6%) by an increase in bonuses, and for non-executives (+11%) by an increase in fixed emoluments. The other classes of directors (from vice-chairs to 'others' independent directors[59]) received either unchanged or slightly higher remuneration. As regards the independents in particular, the increase in remuneration was 6% (due to +8% in fixed fees and +4.5% in committee fees). The remuneration of statutory auditors is substantially unchanged.

6.2.2 The fees paid in relation to the pay opportunity

It is now possible to compare pay opportunity and remuneration actually paid to CEOs. To this end, the 2021 pay opportunity and remuneration actually paid to 89 CEOs for which complete information is available were analysed[60]. In particular, we compared: a) the fixed remuneration actually paid by the issuer with the amount provided for in the policy and b) the monetary bonuses actually paid with the target amount of the MBO plans (which are almost always only cash-based).
The 2021 fixed remuneration is substantially in line with the fixed remuneration awarded by last year's policy. With the return to a new post-pandemic normality, we find no longer trace of the fixed remuneration cuts that CEOs had accepted in 2020 as a contribution to the company's stability or in order to donate the countervalue to charitable initiatives, especially in the health sector (Belcredi-Bozzi 2021).
Monetary bonuses are on average above target (€472,000 on average, compared to €395,000 at target and €579,000 at cap)[61]. This seems consistent with the improving of market conditions that occurred in parallel with the exit from the most critical phase of the pandemic.

[59] These are the independent directors (according to the CG Code) who neither hold an office (chair, vice-chair) within the issuer nor are part of any executive committee.
[60] The selection of the sample is not random (full information is more frequent in large and better structured companies). The value of the packages is therefore higher than average, since company size is the main factor determining directors' remuneration. Moreover, the average remuneration of the CEO is higher than that of the CEOs: the two categories do not coincide because some forty companies identify multiple CEOs, who normally receive lower remuneration than the CEO. The average fixed remuneration of the 89 CEOs was €755,000 in 2021, 39% higher than the average remuneration of CEOs (€545,000).
[61] This comparison is subject to a certain degree of approximation because bonuses also include – generally on a pro-rata basis – compensation paid in relation to any cash-based LTI plans (especially common among small companies and family firms). On the other hand, it is not possible to directly compare equity-based remuneration paid (the amount of which is calculated following accounting conventions that impose the spreading of the cost over the vesting period) with the amounts calculated *ex ante*.

6.2.3 Severance pay

Information was sought on the severance (or termination) payments received by executive directors who left their office (the most likely recipients of significant amounts of severance pay).
Of the 37 executive directors who left office in 2021[62], only 12 received severance payments (in line with previous years)[63]. The allowances, when paid, average €1.8 million (median is €1.2 million). The variability across individual beneficiaries is very high (from a minimum of €120,000 to a maximum of €6.9 million).

6.2.4 Variation in remuneration and pay ratio

Scheme 7-bis requires, among other things, the provision of '*comparative information (...) between the annual change in: a) total remuneration of directors; b) company results; c) average gross annual remuneration of employees*' over the last 5 years. Information was provided by about 70% of the issuers.
The regulatory provision requires disclosure of the dynamics of directors' and employees' remuneration, but not of the so-called pay ratio (the ratio of total CEO remuneration to average employee remuneration). Nevertheless, more than half of the issuers (54%) disclosed their value on a voluntary basis or otherwise provided sufficient information to calculate it. As usual, the most complete information can be found at the largest companies with unconcentrated shareholders (76% at large unconcentrated, 46% at small concentrated). The remuneration of the CEO varies widely by issuer size, sector and ownership structure, whereas the remuneration of employees is more uniform; the pay ratio varies accordingly (on average it is 37.7 in large against 22.6 in small; 39.1 in financial against 24.4 in non-financial; 24.5 in family against 29.9 in public and 37.4 in widely held). The pay ratio increased by 12% in the last year (from 24.7 to 27.7).

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[62] The total number of executives in office at the end of the year was 493. The turnover is therefore less than 10% of the total.
[63] These included five individuals who held the dual position of CEO and General Manager (GM). In four out of five cases, the allowance was determined in an all-inclusive manner, i.e., without distinguishing the components possibly linked to the two posts of CEO and GM. It should be noted, however, that issuers provided, in the vast majority (80%) of cases, details of the remuneration of CEOs in office at the end of 2021 (at least at the level of fixed remuneration; with regard to variable remuneration, it is often not specified whether it is awarded in one and/or the other capacity).

7. Sustainability and non-financial statements (NFSs)

BOX 6

Non-financial statements (NFSs) are often unfocused: a shorter text and/or an executive summary would be helpful. The focus on sustainability issues is growing: more than half of the issuers (61%) report the existence of a proper sustainability plan, which is frequently (69%) integrated into the business plan; where the plan is integrated, the main targets (KPIs) are communicated *ex ante* in almost 2/3 (65%) of the cases.

As of this year, non-financial enterprises required to publish the NFS are obliged to report, in accordance with the EU Taxonomy Regulation, the share of turnover, capital expenditures and operating expenses associated with activities 'eligible' for being qualified as environmentally sustainable. Almost half of the issuers (including all companies belonging to certain sectors) report an 'eligible' turnover rate of 0. Moreover, divergent numbers are often observed across companies with comparable business. It is important that directors and statutory auditors pay attention to the performance of their role (and the associated responsibilities) in this regard. The work is still in progress: many small companies seem to have encountered difficulties in adapting to the new regulations. The gradual entry into force of European legislation has, on the one hand, alleviated compliance for issuers but, on the other hand, has resulted in disclosures that are not always easy to interpret.

The NFSs often provide information on certain issues deemed of particular importance (e.g., gender equality, energy consumption and greenhouse gas emissions). Almost all companies report data on the distribution of personnel between men and women. Female employees make up about 40% of the total. The presence of women is halved (19%), however, at management level. About 1/3 of the issuers provide information on the difference in remuneration between men and women. The gender pay gap, probably related to role differences in the organisational chart, is appreciable: women receive on average 89% of the remuneration of their male colleagues, at a general level, and 86% among managers.

Almost all companies report information on energy consumption. Often (58%) the share of consumption powered by renewable sources is also reported, 18% on average. The use of renewables rises among large companies (26% vs. 13% among small ones) and in the financial sector (28% vs. 17% in other sectors).

Transparency about ESG ratings is increasing, especially among larger companies and those with a sustainability plan. The usefulness of the ratings, however, is still unclear, as the ratings attributed by various providers are not easily comparable

According to the Corporate Governance Code, the objective guiding the Board's action is *'sustainable success'*, i.e., the *'creation of long-term value for the benefit of shareholders,* *taking into account the interests of other stakeholders relevant to the company*'. The view remains shareholder-oriented, in line with the Italian legislator's position on the role of the board of directors. However, the new Code contains an opening to stakeholders' interests, which the BoD must *'take into account'*. It is up to the BoDs to determine, in practice, what is *'sustainable success'* for the individual company, and to specify whether, and to what extent, the interests of stakeholders are part of the management's function-objective.

The Code recommends that the Board of Directors also examine and approve the business plan on the basis of '*the analysis of issues relevant to the generation of long-term value*' carried out with the possible support of 'a *committee*' (Rec. 1). A crucial role is played by the incentive system in the remuneration policy, which must be '*functional to the pursuit of the company's sustainable success*' (Principle XV). It is recommended that the performance targets to which the payment of variable components is linked be *'consistent with the strategic objectives of the company' and 'aimed at promoting its sustainable success, including, where relevant, non-financial parameters*' (Rec. 27). The assessment of these parameters is closely linked to the assessment of the issues relevant to value generation, which is referred to the Board of Directors with the possible involvement of the Sustainability Committee.

Sustainability information can be found in the Non-Financial Statements (NFS), introduced by Directive 2014/95/EU (implemented in Italy by Legislative Decree 254/2016). Listed companies are subject to the obligation to publish the NFS, unless they fall into one of the exemption situations provided for (due to size or because they belong to a group whose parent company already publishes a consolidated NFS).

The main novelty of the year is the entry into force of the first obligations under Regulation (EU) 2020/8525 (the so-called Taxonomy Regulation): it defines, *inter alia*, the criteria for determining whether an economic activity can be considered environmentally sustainable[64]. Article 8 requires companies required to publish the NFS to include information on how and to what extent their activities are associated with environmentally sustainable economic activities. As of this year, non-financial enterprises subject to the obligation to publish the NFS are required to provide information on the share of turnover, capital expenditures (capex) and operating expenses (opex) associated with environmentally sustainable activities within the meaning of Articles 3 and 9 of the Regulation.

The NFSs available by the end of August 2021 were analysed: the objective is not to assess compliance with Legislative Decree 254/2016 but to evaluate the sustainability information relevant to the CG Code. Consequently, the analysis is limited to selected topics:

[64] There are three main fields of application of the new European 'green' discipline: a) harmonisation of the concept of environmentally sustainable investment for the purposes of measures adopted by the European Union and/or Member States regarding financial products identified as eco-friendly; b) transparency on the eco-sustainability of the investments underlying the financial products; c) disclosure obligations on the eco-sustainability of the economic activities carried out by companies required to publish the NFS.

a) Form and structure of the NFS
b) Materiality analysis
c) Existence of a sustainability plan and its characteristics
d) Information required under the Taxonomy Regulation
e) Information on individual sustainability points
f) ESG rating information.

7.1 Form and structure of the NFS

156 NFSs were found (74% of the companies in the sample). Consistent with legal constraints, the NFS is available in the vast majority of cases (96%) for large companies and less frequently (66%) for small ones[65]. In 139 cases (89% of the total), these are NFSs published on a mandatory basis, whose minimum contents are regulated by law; in the remaining 17 cases, they are documents published on a voluntary basis, even if they sometimes comply with Legislative Decree 254.
The NFSs largely (71%) take the form of a stand-alone document. Their inclusion in the Management Report, of which they constitute a section (14%) in rarer and, even more so (7%), the preparation of an 'integrated' Report, where information on sustainability is distributed throughout the Management Report. 12 companies that are not required to prepare a NFS have limited themselves to publishing a so-called sustainability report, with a more open content.
NFSs are lengthy documents (131 pages on average). The 'size' depends on the form chosen: it is 78 pages for Management Report sections, but it goes up to 146 pages (+87%) for stand-alone documents and 191 pages (+145%) for integrated reports. The average figures conceal a very strong variability across issuers: the Management Report sections vary in length between 7 and 161 pages; the stand-alone NFSs between 43 and 499 pages.
The NFSs are often unfocused: more synthesis and/or the preparation of an executive summary recapitulating the most important information would be appropriate.

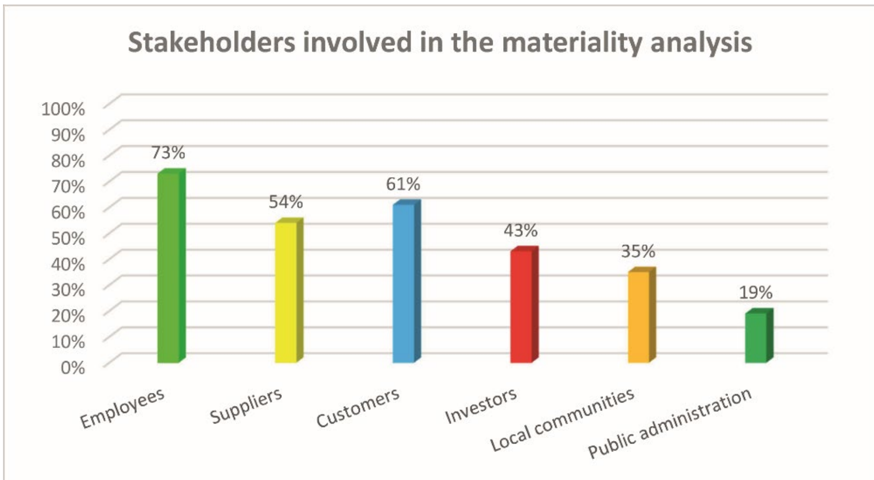
7.2 Materiality matrix

The materiality analysis identifies the issues deemed most or least relevant by the issuer and its stakeholders and summarises them in a matrix form. The disclosure of the materiality matrix, as well as information regarding the methodology of its construction, is crucial to understanding the perspective in which the NFS was developed. Information on the issues considered 'material' is basically always provided. The actual matrix is reported in the NFS with high frequency (87%).

[65] Legislative Decree 254 provides for only two exceptions to the obligation to publish the NFS, for companies that:
a) do not exceed specific size limits (number of employees not exceeding 500 and, alternatively, total assets and/or net revenues not exceeding 20 (40) million euros; and/or b) belong to a group in which the parent company already prepares a consolidated NFS.

Issuers often report information on how stakeholders were involved in the materiality analysis, which can be traced back to two types, which are not mutually exclusive: a) conducting a survey (on paper or online) with selected representatives of the main categories of stakeholders, and/or b) carrying out actual workshops with these subjects. The first mode is clearly more frequent (74% of cases, against 37% for the second): both figures have increased slightly (they were 57% and 28% last year).
Some companies have set up a formalised process carried out on a regular basis. However, 'unsophisticated' processes are also observed, in which the opinions of stakeholders are not collected directly but are identified by external 'experts' (consulting firms, universities, etc.) or even by management itself, with obvious risks of self-referral.
The main categories of stakeholders involved in the process are, in decreasing order: employees (73% of cases), customers (61%), suppliers (54%), financiers (46%), local communities (35%) and public administration (19%). Among large, non-concentrated companies, the involvement of financiers (58%), local communities (58%) and public administration (37%) is more widespread.

Figure 36



Significant differences are linked – above all – to ownership structure: as expected, widely held (where employee involvement rises to 80%, customer involvement to 87%, local community and PA involvement to 47%) and state-owned companies (involving employees in 81%, local communities in 50% and PA in 31% of cases) pay greater attention to their stakeholders.
The relatively low frequency with which lenders are involved (moreover, defined here in a broad way, i.e., including not only institutional investors but also banks) shows that issuers still clearly favour a CSR approach, rather than an all-round ESG approach6[66]. Additionally, the type of stakeholders involved (the first three categories

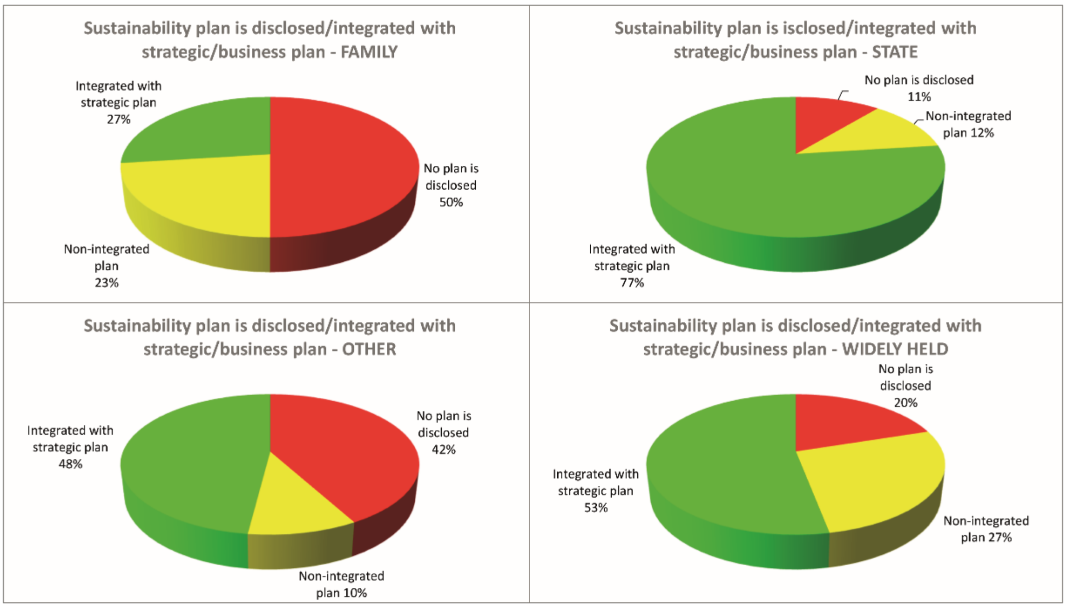
[66] According to the Corporate Social Responsibility approach, it is the company, after consulting the stakeholders, that defines its own sustainability goals. On the contrary, according to the ESG approach, the company chooses to prioritise the objectives that 'socially responsible' investors consider most relevant. The focus on sustainability issues then becomes the tool for attracting investment from such investors. See Belcredi - Bozzi (2021), pp.49-51.

are employees, customers and suppliers) seems indicative of an interest focused mainly on social (rather than environmental or governance) issues.

7.3 Sustainability plan

The company may have a different commitment to achieving sustainability goals. At the lowest level, objectives are expressed at the level of principles ('the company pays attention to...'). At an intermediate level one observes the development of a sustainability plan, which links significant variable remuneration components to the achievement of goals. The last step is the integration of the sustainability plan with the business plan: sustainability goals become business goals in their own right and, in general, the weight of sustainability goals in the remuneration package increases.
The majority of issuers (61%, up sharply from 48% last year) provide indications of the existence of a sustainability plan. As expected, the frequency increases among larger and/or structured companies. A sustainability plan was adopted by 85% of FTSE Mib companies, 71% of Mid Cap companies and only 42% of other companies (a sharp increase from 25% last year). The frequency among public (88%) and widely held (80%) companies is much higher than among family firms (50%).

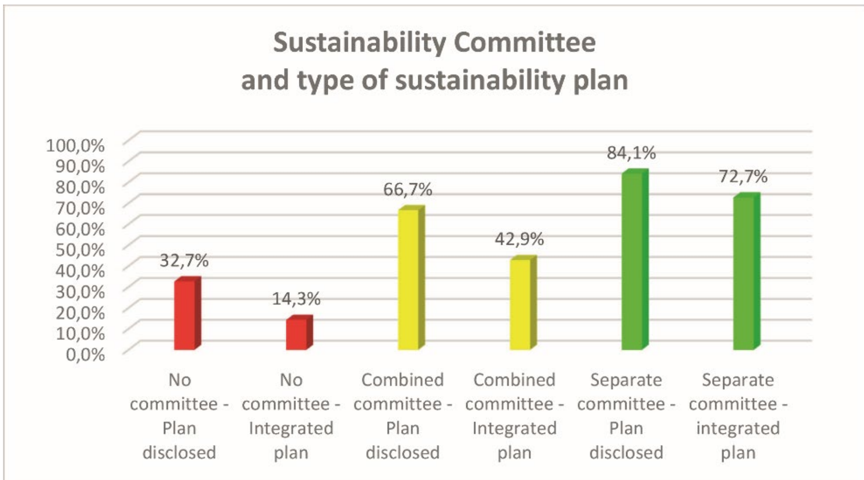
Figure 37



The sustainability plan is frequently (69%) integrated into the business plan. Here there are strong variations in relation to shareholder structure: an integrated plan is detectable in 87% of state companies (compared to 75% of widely held and 55% of family-owned companies). In relation to the total number of issuers publishing the NFS, the presence of an integrated plan can be found in 77% of state, 53% of widely held, and only 27% of family companies.
The establishment of a committee creates a strong incentive for better structuring the entire sustainability framework. For example, the probability of a sustainability plan being drawn up increases from 33% (where there is no committee) to 67% where it is

merged with other committees (and to 84% where there is an autonomous committee); similarly, the probability of an integrated plan being drawn up increases from 14% to 43% where there is a merged committee (and to 73% where there is an autonomous committee). The numbers are all up on the previous year.

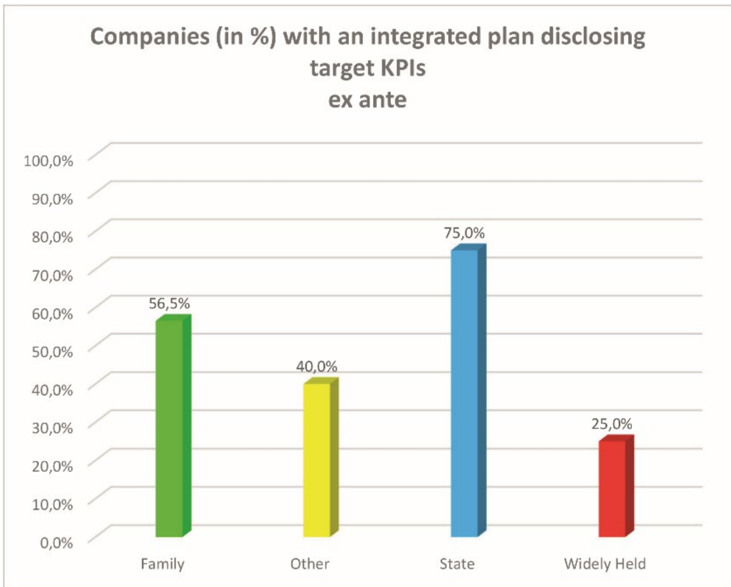
Figure 38



The taking on of commitments towards stakeholders in the majority of cases translates into the formal definition of indicators (Key Performance Indicators or KPIs) that make it possible to measure *ex post* the achievement of objectives. Article 3(1)(b) of Legislative Decree No. 254 requires, in fact, the final disclosure of the values assumed by the KPIs (‘*key performance indicators of a non-financial nature*’), also in comparison with the values of ‘*previous financial years, according to the methodologies and principles provided by the reporting standard used as a reference*’. Disclosure in this regard is good: the majority of companies (65%) provided comparative data covering at least one three-year period.

Ex-ante disclosure of sustainability targets relating to a specific future horizon is not required by law. Information was however provided, on a voluntary basis, by 28% of the companies (up slightly from 24% last year). The decisive factor is the presence of a sustainability plan integrated with the business plan: target KPIs were disclosed in more than half (55%) of the cases where an integrated plan exists; where a sustainability plan does not exist (or is not integrated), they are rarely (22%) disclosed *ex ante*. Among issuers with an integrated plan, public companies stand out, having communicated KPIs *ex ante* in 75% of cases.

Figure 39



ESG-oriented investors normally request not only that companies communicate the results achieved but their sustainability objectives as well. It seems advisable that issuers interested in attracting such investors pay attention to the communication – on a voluntary basis – of sustainability objectives and the drafting of a systematic plan on the subject; well-structured companies may usefully integrate the sustainability plan with their business plan.

7.4 The EU Taxonomy Regulation

Article 8 of the Taxonomy Regulation requests companies required to publish the NFS to include '*information on how and to what extent the company's activities are associated with economic activities considered environmentally sustainable*'. An activity is environmentally sustainable - within the meaning of Article 3 of the Regulation – if it:

a) contributes substantially to one or more of the environmental objectives set out in Article 9[67];
b) does not significantly harm any of these objectives;
c) is carried out in compliance with minimum safeguards on human rights and working conditions (ex Art. 18);
d) complies with the 'technical screening criteria' set by the EU Commission[68].

[67] These objectives are: a) climate change mitigation; b) adaptation to climate change; c) sustainable use and protection of water and marine resources; d) transition to a circular economy; e) prevention and reduction of pollution; f) protection and restoration of biodiversity and ecosystems. The Taxonomy Regulation also considers as potentially sustainable, under certain conditions, the so called 'transitional' activities, for which there are no low-emission alternatives and the so-called 'enabling' activities, directly enabling other activities to make a substantial contribution to one or more objectives.

[68] These criteria indicate the conditions that must be met by each economic activity in order for it to be said to 'contribute substantially' to one or more of the environmental objectives and at the same time 'not cause significant damage' to any of them.

The Taxonomy Regulation defines an official 'green' classification system for economic activities. It is a transparency instrument complementary to the Sustainable Finance Disclosure Directive, which creates similar and complementary disclosure obligations for financial institutions and products. The ultimate goal is to create an information standard that makes greenwashing difficult, as well as to improve the functioning of financial markets by making it easier to identify (and finance) truly environmentally sustainable activities.

The European taxonomy is part of a regulatory system that will be progressively implemented in the coming years. To date, only the criteria for the first two objectives (mitigation and adaptation to climate change) have been published, and moreover they relate to a limited number of sectors[69]. Activities excluded from the lists cannot be considered environmentally sustainable; this does not mean, however, that they are necessarily harmful to the environment[70]. The Commission first developed technical screening criteria for activities with the greatest potential to achieve environmental objectives. The numbers published this year are therefore very partial and particular caution is needed in their interpretation in order to avoid hasty and potentially distorting conclusions.

As of this year, non-financial companies required to publish the NFS are obliged to report three separate KPIs: the share of turnover, capital expenditures (capex) and operating expenses (opex) associated with activities that qualify as environmentally sustainable, in the modalities set out in EU Delegated Regulation 2021/2178.

The following aspects must be taken into account when assessing the compliance of issuers:

a) firstly, the disclosure obligations in force today only concern the possible contribution to the first two environmental targets; for the remaining four, the transparency obligation will start next year;
b) to date, companies are required to report only the percentage of turnover, capex and opex relating to activities considered 'eligible'; they are therefore not required to assess the actual contribution to the achievement of the objectives, the absence of negative effects on other objectives, nor the existence of safeguard guarantees (which will be necessary to assess full 'alignment' with the requirements of the Regulation).

It is therefore possible and, indeed, to some extent already expected that the values reported this year will change - even drastically - in the near future, when, on the one hand, the technical screening criteria are also launched for further activities (which may, under certain conditions, be considered sustainable) and the contribution made

[69] See Annexes I and II to the Climate Delegated Act (EU Delegated Regulation No. 2021/2139). The classification of activities for the purpose of assessing eco-sustainability follows, where possible, the official European NACE classification. The sectors considered (energy, manufacturing, transport and construction) cover, according to the Commission, about 40% of the listed companies at European level, responsible for about 80% of CO_2 emissions.

[70] In order to attain the eco-sustainability label, it is not enough to avoid harming the various targets. Instead, a 'positive' requirement is set, i.e., the economic activity must make a relevant contribution (potential contribution, when it comes to considering 'eligibility'; actual contribution when, in the future, considering 'alignment') to the achievement of one or more of the environmental objectives

to all six environmental objectives can be considered, but, on the other hand, activities 'aligned' with EU criteria will have to be reported (a much more stringent criterion than the current one).

The Report focuses on the NFSs published by issuers (115) belonging to the non-financial sector[71] and subject to the obligation to publish a NFS[72]. The aim of the analysis, given the partial state of implementation of the regulation, is to describe the current situation and identify implementation problems, which, as will be seen, are not lacking. It should be noted that the reported numbers are not subject to mandatory audit review.

Information on the Taxonomy KPIs is almost always provided (93% of cases); 5 medium-sized companies report that the evaluation process - considered complex - is still ongoing; two merely state that their activity is not among those covered by the EU classification; one published the NFS in October 2021, when the reporting obligation was not yet in force.

Almost half of the issuers (50, or 43% of the total) report an eligible turnover of 0[73]; among them are all companies belonging to certain sectors (e.g., publishing or textiles and clothing). This may seem surprising, especially when one considers that companies in sectors with a high environmental impact (e.g., energy production or automotive), on the other hand, not infrequently register significantly higher eligible turnover shares.

In addition, divergent numbers are often observed between companies with comparable business (e.g., among companies in the construction sector, admissible turnover values ranging from 0% and 99% are observed).

It is not easy to find a single explanation for such trends. Some possible interpretations are attempted hereafter. First of all, the structure of the regulation may have led some companies to consider - in the presence of limited and, likely, non-material turnover, capex and opex values - the activity performed as entirely non-eligible. These evaluations may also have been affected by the consideration that - in a year's time - the disclosure will not concern the turnover share 'eligible' to be labelled es eco-friendly but that - probably much lower – actually aligned with European standards.

Secondly, some smaller and less structured issuers reported having difficulties in identifying KPI values related to their business. It is likely that these companies represent only the tip of the iceberg and that such difficulties are actually widespread, especially among issuers belonging to sectors not yet included in the European

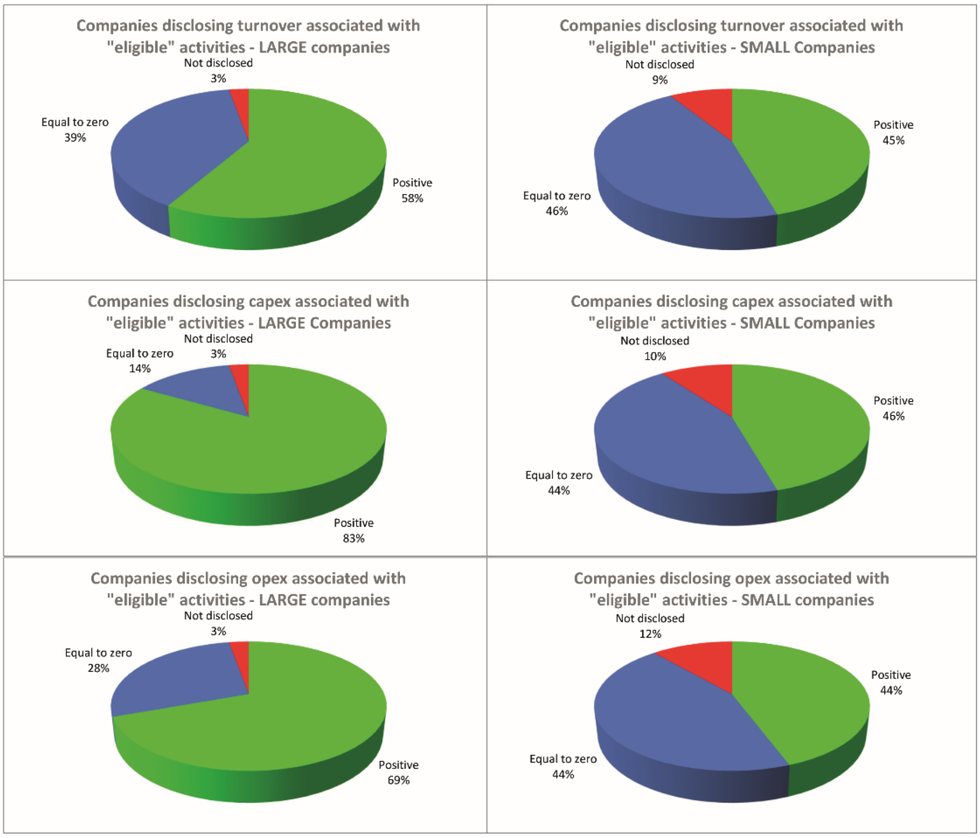
[71] According to the Regulation, financial companies include: a) financial asset managers; b) banks; c) investment companies; d) insurance and reinsurance companies. This definition is slightly different from the one adopted here. Five non-financial issuers as defined by the Regulation but classified in the Report as financial have published KPIs, while one has indicated that the assessment process is still ongoing. For the sake of uniformity of classification, we excluded these 6 companies from the survey reported in this paragraph.

[72] The sample is obtained by subtracting from the total number of companies that published the NFS (156) the 17 that published it voluntarily and the 24 subject to the obligation but belonging to the financial sector (157-16-24=115).

[73] The numbers are similar for capex and opex.

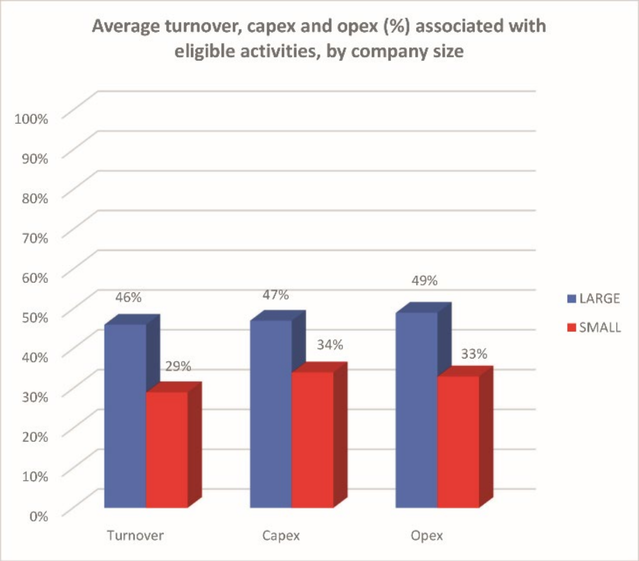
classification, which may have perceived less urgency to provide data. Actually 35 issuers (accounting for 70% of those reporting a permissible turnover of 0) also indicate the eligible share of capex and opex to be 0.
Such a widespread 'triple zero' result raises doubts as to the correct application of the regulation, especially in light of the Commission's clarification (2021) that '*businesses operating in sectors excluded from the taxonomy may report as aligned with the taxonomy expenditure on the purchase of the products of other activities aligned with the taxonomy*': a company whose activities are not covered by the technical screening criteria could, for example, indicate as aligned with the taxonomy expenditures incurred on solar panels, heating systems or energy-efficient windows manufactured by 'aligned' manufacturers.
A further indication in this sense comes from the fact that the triple zero is found most often in small and less structured companies. A reading of the NFSs shows that large companies (within the meaning of the Code) reported a much higher eligible turnover (27.4%) than small ones (14.7%). This is due both to the lower frequency of 0 values (39% among large companies, 46% among small companies) and a higher share of eligible turnover in cases where the value is not 0 (46% on average among large companies, compared to 29% among small companies).

Figure 40



Furthermore, while large companies reported positive opex and especially capex, more than half of the small companies reported 'triple zero' or no data at all. Therefore, it seems likely that some smaller, less structured companies might have to reconsider the point. It is also noted that, in cases where the eligible capex share is not 0, the average value is significantly higher among large companies (47%) than among small ones (34%). The gradual entry into force of European legislation has, on the one hand, made compliance easier for issuers but, on the other hand, resulted in disclosures that the external reader may find difficult to interpret.

Figure 41



The general impression is that the work is still in progress, doubts about implementation are widespread and likely to grow in the coming years. Given the complexity and pervasiveness of the implications of the new regulation for the functioning of the financial markets, it seems appropriate for companies to equip themselves in good time.

NFSs are part of the mandatory disclosures provided to the market: directors and statutory auditors have an important role in approving the numbers, as well as in preparing and controlling the process that leads to their disclosure. It seems appropriate to emphasise that the market relies on their supervisory role (with which important responsibilities are associated).

7.5 Information on individual KPIs

The NFSs often provide information on certain matters deemed of particular importance. This Report investigated the disclosure provided by issuers on the following points:

a) Gender equality
b) Other personnel information
c) Energy consumption, greenhouse gas (GHG) emissions and waste production

It should first be emphasised that information is not always comparable across issuers. We therefore decided to focus on some very simple statistics and to comment only on a few indicators provided with particular frequency.

7.5.1 Information on gender equality

7.5.1.1 The female presence

Almost all NFSs report data on the employee distribution by gender (male vs female), both at a general level (99%) and at management level only (85%). Female employees make up about 40% of the total, without great variations between one group and another; the financial sector - where women make up 46% of the total - and State companies - where they make up 31% of the total - stand out. In 47 companies, the majority of employees are women.

The figure seems to be decisively influenced by industry: more than half of the companies with a majority of female staff (26 out of 47) belong to the financial (11), textile/clothing (11) and health-care sector (4 out of a total of 8). Female presence is lowest - 6% - in a company of the construction sector; the highest level - 72% - can be observed in a company in the health-care sector. A slight size effect can also be observed: female employees are more present in small companies (42% versus 35% among large companies).

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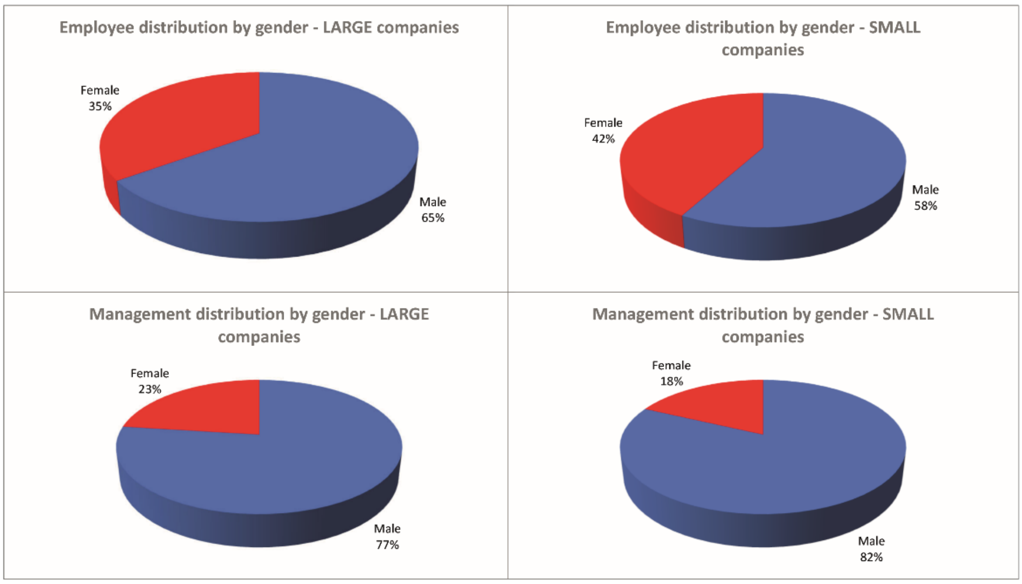
Figure 42



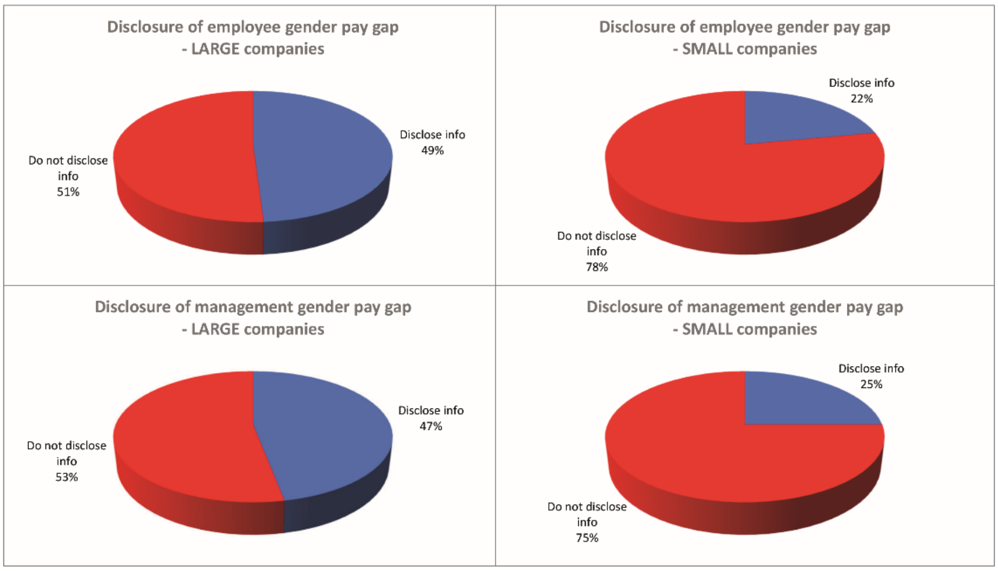
The presence of women is halved (19%), however, at management level. Seven companies have no female managers; one (still in the health care sector) has only female managers. Six companies have a majority of female managers: two financial companies (one bank and one insurance company), two in the health care sector and two in the clothing/fashion sector. Here, too, size is relevant, but the sign of the effect is unexpected: female managers are more frequent among large, FTSE Mib companies (23%, compared to 18% elsewhere). The percentage of female managers is positively correlated (ρ=0.52) with the percentage of female employees.

7.5.1.2 The gender pay gap

About one third of the issuers (about 50 in total) provide sufficient information to derive the difference in remuneration between men and women (gender pay gap)[74]. Here the size effect is quite strong: information is provided by 49% of large companies and only 22% of small ones (25% for managers). Transparency is higher among State companies (42% give general disclosure, 46% on managers), and lower among family firms (23% give general disclosure, 26% on managers).

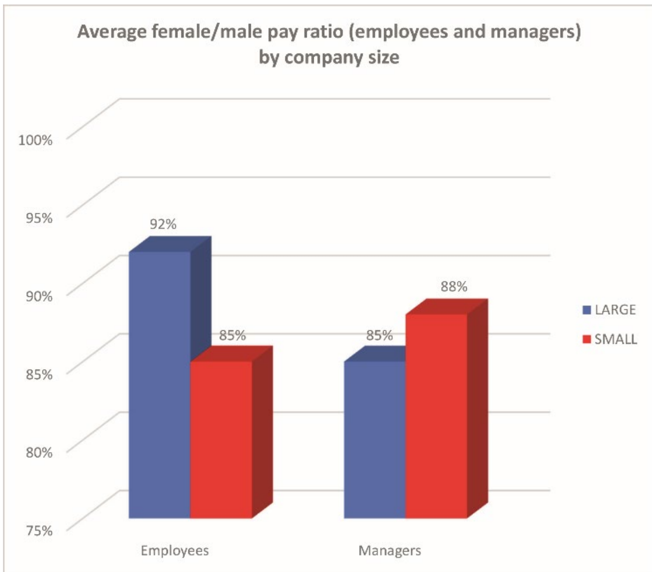
[74] Measured as the ratio of average female/male remuneration among employees (managers). The number of companies providing information on this subject is actually higher, but does not always allow to calculate the ratio as defined above. Some companies report different indicators, others provide detailed data referring to individual groups of personnel (e.g., by classes of employees or by geographic areas) but do not report aggregated data.

Figure 43



The gender pay gap, probably related to role differences in the corporate organisational chart, is appreciable: women receive on average 89% of the remuneration of their male colleagues, at a general level, and 86% among managers. The variability across groups is small: in general, the difference is greater among small companies (85% versus 92% in large companies) and in the non-financial sector (88% versus 92% in financial companies). Among executives, however, the pay gap is smaller among small companies and in the non-financial sector.

Figure 44



At the employee level, the highest pay gap is found in an automotive company (average female remuneration = 60% of male remuneration); in three companies (one clothing and two energy companies) the ratio is reversed, i.e., female remuneration is higher (up to 5%) than male remuneration. At management level, the ratio is reversed in eight non-financial companies (belonging to a wide variety of sectors). As might be expected (given the smaller sample size of managers compared to employees), the variability of the pay gap at the managerial level is more than double than the one found for employees (σ = 0.208 versus 0.099); consequently, extreme values (very high or very low) are also more frequent[75].

7.5.2 Other personnel information

Almost all NFSs (94% of the total) provide information on employee training. The average number of training hours provided in the year is 24. It is clearly influenced by company size (35 hours/year among FTSE Mib versus 19 among Small Caps) and sector (40 hours among financial companies versus 20 in other sectors). The identity of the first shareholder also seems to have an impact (19 hours among family, 34 among state, 32 among widely held companies).
The publication of data on the number of accidents is also extremely frequent (94% of the total). This number is obviously linked to the number of employees. Therefore, the distribution of values is strongly asymmetrical; consequently, it is preferable to refer to the median number of accidents, which is 16[76].

7.5.3 Information on consumption, GHG emissions and waste production

Almost all NFSs (94%) report information on energy consumption: this happens more often in the non-financial sector (96% vs. 82% in the financial sector). The majority of issuers (58%) also report the percentage share of consumption powered by renewable sources, which is 18% on average. The use of renewables rises among large companies (26% vs. 13% among small ones) and in the financial sector (28% vs. 17% in other sectors)[77].

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[75] The highest pay gap between male and female managers can be found in the aforementioned company in the automotive sector (women receive 31.5% of their male colleagues). The highest difference in favour of female managers (144% of the remuneration of male colleagues) is found in the construction and maintenance company already mentioned as having a lower female presence.

[76] The average number of accidents/year is 151 (varying between 0 and almost 900). Given the variability of the accident severity indices used by individual issuers, it was not possible to calculate aggregate statistics on this aspect.

[77] The percentage of use of renewables ranges from 0 (in 18 companies, almost all non-financial) to 100% in one financial company.

Figure 45a

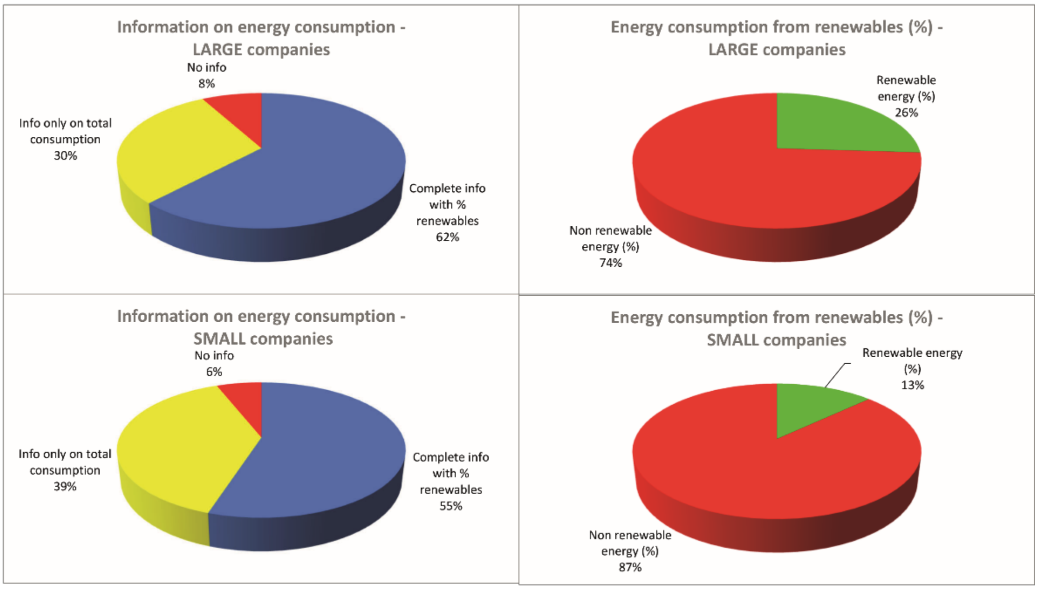
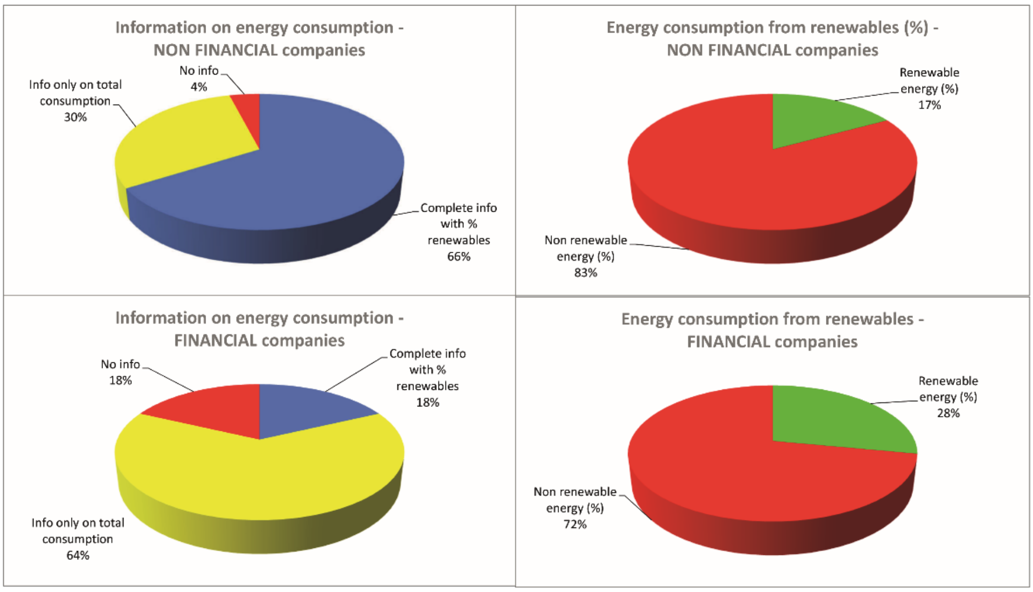
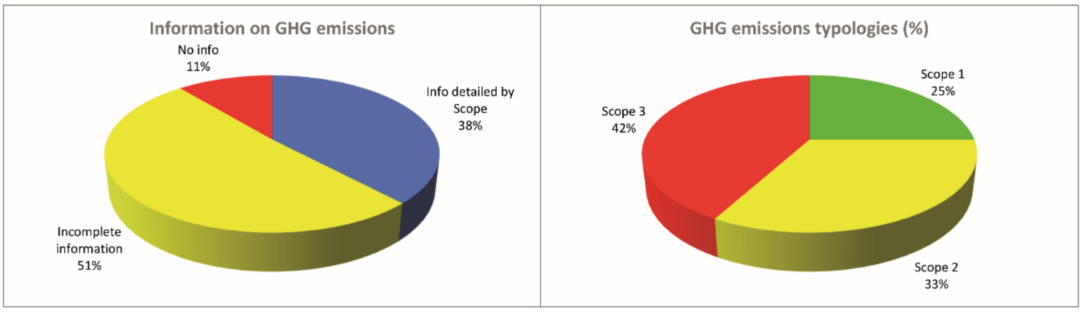


Figure 45b



Almost all issuers publish information on greenhouse gas emissions; less common (60 companies, or 38% of those that have published an NFS) is the complete provision of disaggregated information according to the GHG Protocol Corporate Accounting and Reporting Standard (World Business Council for Sustainable Development and World Resources Institute 2004), which distinguishes between direct emissions generated by the company (Scope 1), indirect emissions generated by energy purchased and consumed (Scope 2) and other indirect emissions generated by the entire value chain (Scope 3). This information is communicated much more frequently by large companies (64% versus 25% of small ones). The percentage of emissions attributable to the three areas is, on average, 25% for Scope 1, 33% for Scope 2 (local based) and 42% for Scope 3. The variability across issuers is very high.

Figure 46



The vast majority of issuers (83%) publish information on waste production and 79% also report details on the composition of waste (divided into hazardous - on average 15% of the total - and non-hazardous waste).

7.6 ESG ratings

It is not easy for issuers to navigate the world of ESG ratings. The ESG rating market is fragmented and providers adopt differentiated methodologies, leading to ratings that are not perfectly aligned[78]. Moreover, some providers provide services that are similar to ratings but which are not ratings, contributing to confusion[79].

Legislative Decree no. 254 does not oblige issuers to report rating information. Information is, however, provided quite often, on a voluntary basis. Not all issuers, however, clearly distinguish between ratings and other services.

All providers tend to be placed on an equal level in company disclosures, although some (the so-called Big 5) are beginning to emerge in terms of market share and degree of issuer coverage[80].

ESG rating information is reported by 71 issuers (46% of the total, up by 30% compared to last year). The increase in disclosure is generalised; a symptom of management's growing focus on sustainability. The frequency of disclosure on ESG ratings received depends on the size of the company (73% among FTSE Mib, 60% among Mid Cap, only 23% among others) and the identity of the reference shareholder (73% among widely held, 54% among public, 38% among family-owned companies).

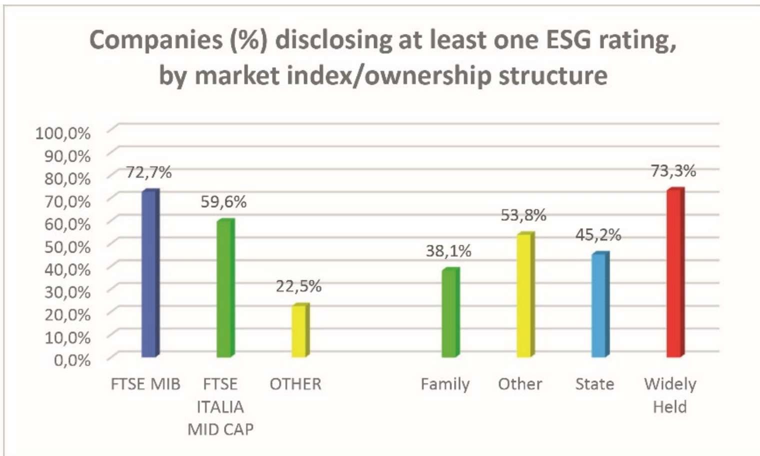
[78] ESG ratings attributed to issuers may differ significantly between providers. Berg et al. (2019) estimate the correlation between the ratings assigned by the major providers to be 0.61 (varying between 0.43 and 0.71), while the one between credit ratings is 0.99.

[79] As a first approximation, three different types of services can be identified: a) true ESG ratings; we found also ratings linked to only one of the three profiles (E, S or G) or to individual attributes (e.g., environment or gender equality); b) construction of 'indexes' containing 'good' companies, which are - consequently – considered as 'investible'; in such cases, a raw (positive) rating is, in fact, implicit in the inclusion of the company in the index; c) benchmarking services, which indicate to the requesting company its relative position with respect to a sample of peers.

[80] Del Giudice (2019) identifies five significant players: Sustainalytics (coverage: 11,000 listed companies worldwide), MSCI and Thomson-Refinitiv (7000), Vigeo-Eiris and ISS-Oekom (around 4,500). However, the picture is constantly evolving as there is a trend towards sector consolidation driven by M&A transactions. The big 5 identified in the text are Morningstar-Sustainalytics, MSCI, Thomson- Refinitiv-FTSE, Moody's-Vigeo-Eiris and ISS.

In general, the presence of a structured sustainability plan is accompanied by disclosure of ESG ratings (plan and ratings are simultaneously reported - or not reported - in 38% and 31% of cases, respectively); in the other companies, the likelihood of finding a plan but no rating information is about three times as high (23% of cases versus 8%) as in the opposite case (ratings in the absence of a plan).

Figure 47



The 71 companies with ESG ratings often report ratings from more than one agency (the average is 2.4). Their number varies mainly in relation to the size of the issuer: FTSE Mib companies followed by more providers report an average of 4.5 ESG ratings (compared to 2.2 in Mid Cap and 0.6 in other companies). At the level of the individual issuer, the number of ratings cited ranges from 1 to 9. 6 companies (up from 2 last year) report ratings from all the Big 5.

Companies rarely report that they have been included in one or more indexes of 'investable' companies (26% of cases). Disclosure of ESG index membership is influenced by company size (85% among FTSE Mib, 21% among Mid Cap, 1% among other companies) and by the identity of the reference shareholder (53% in widely held, 50% in public, only 10% in family firms).

The 40 companies offering disclosure on this point often report inclusion in more than one index (the average is 3.2). FTSE Mib companies followed by multiple providers report on average being included in 3.9 ESG indexes (it is 1.5 in Mid Cap). At the individual issuer level, the number of indexes cited varies between 1 and 11.

It is not always easy to compare ratings on the basis of the information in the NFSs: as already mentioned, the tendency prevails to present all acquired ratings as 'good', even though they are not all equally good. The disclosure of individual scores has however become much more frequent.

It is interesting to compare the scores assigned by the two providers by far most cited in the NFSs: MSCI (32 citations) and Sustainalytics (31), using methodologies that are only partially overlapping. The ratings issued by MSCI are expressed in letters according to a system similar to that of credit ratings (from AAA to CCC; but in practice no ratings below BB have been disclosed)[81]. 26 issuers have a score equal to or higher than A[82], corresponding to 'grades' from sufficient to excellent (three issuers are rated AAA), while 6 (or 19% of the total) have ratings (BBB or BB) corresponding to poor scores[83].

Sustainalytics assigns ratings according to 'residual ESG risk', ranked on a scale from 0 to 100. Companies with 'negligible' risk are included in the 0-10 range, those with 'severe' risk in the >40 range. Two companies are in the negligible risk band, only one (3% of the total) in the high-risk band and none in the severe risk band.

The lack of comparability between the ratings is evident when examining the 20 issuers that received ratings from both providers. Firstly, translating the rating classes into numerical scores (from 1 for the best or negligible risk class up to 5 for the worst or severe risk class), the correlation between the scores of the two providers is close to zero (ρ=-0.09). Secondly, companies often receive a high score by one provider and a completely different score by the other. For example, a company with negligible risk according to Sustainalytics is in the mid-range (A) according to MSCI, while the 10 medium-risk companies for Sustainalytics are scattered across the entire range of scores (AAA to BB) for MSCI.

This situation, consistent with what has been pointed out in the literature, does not seem satisfactory. It is known, in fact, that some major institutional investors make little use of the 'final' scores given by the data providers for their investment decisions, and prefer to combine individual KPI (i.e. not the final ratings) disclosed by one or more providers in an algorithm of their own.

The conclusion for listed companies is that increased transparency regarding ESG ratings is positive in itself, but of limited importance in dealing with current and potential investors. Investors care more about what an issuer does in its business (and states in the NFS), than about the mere rating received, which in itself does not confer a label of 'good' or ESG-conscious company.

[81] The perspective is different from credit ratings, which constitute absolute ratings, correlated with the issuer's probability of default. ESG ratings constitute relative assessments (MSCI (2022) specifies that synthetic ESG ratings are industry-adjusted, i.e., 'explicitly intended to be relative to the standards and performance of a company's industry peers'. A company belonging to a polluting industry but operating according to the best industry standards may thus have a higher rating than another company that pays little attention to environmental issues but belongs to a less problematic industry.

[82] According to MSCI (2022), ratings correspond to numerical score ranges between 0 and 10. Ratings of A or higher correspond to a numerical score from 5.714 to 10, while ratings from BBB and below correspond to scores from 0 to 5.714.

[83] It is worth mentioning that the credit rating BBB, according to Standard & Poor's and Fitch, is an investment grade rating, which can therefore be considered 'sufficient'. In contrast, according to MSCI, BBB corresponds to an industry-adjusted insufficient score (between 4.286 and 5.714) in the ESG area.

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Appendix 1: Methodological Notes

Introduction: the definitions used below refer, where possible, to official sources (Borsa Italiana, CONSOB, CG Code). However, the availability of information has imposed certain simplifications in order to keep the complexity of data collection manageable. Therefore, some variables must be considered proxies of the 'real' quantities relevant for regulation or self-regulation. In particular:

a) The ownership structure data contained in the report are collected from CG reports, double-checked with the CONSOB online database, and finally adjusted for treasury shares (without voting rights). There are two main reasons for not using the CONSOB database directly:
   – It is based on supervisory reporting, carried out when the thresholds pursuant to Article 119, paragraph 1 of the Issuers' Regulation are exceeded; there may therefore be deviations from the figure at the date of the CG report (close to the shareholder meeting);
   – In some cases, where ownership structure changes over time, or where loyalty shares and/or shareholders' agreements are present, the calculation of voting rights is particularly complex; the issuer – however – already provides the correct figure in the CG report. In all these cases, the figure provided by the issuers has been double-checked against the best information available.
b) Occasionally, the classification of concentrated/non-concentrated companies may not correspond perfectly with that of the CG Code. In the report, the voting rights of the shareholders tied by a shareholders' agreement are always added up, whatever the object (voting, blocking, consultation) and the limitations of the agreement. The reason for this relates to the difficulty in identifying the situations that actually fall under the provisions of the Code, an analysis that would unavoidably leave considerable room for doubt in terms of interpretation.
c) The classification of large/small companies includes, among large companies, those that have been 'above the size threshold' for three years, without waiting for a further year, as required by the CG Code.

Definitions:

1) *Based on figures from Borsa Italiana (reference date: 31/12/2021) FTSE Mib*: companies belonging to the FTSE MIB index

   Mid Cap: companies belonging to the FTSE Mid Cap index

   Other: Companies not included in the FTSE MIB or Mid Cap index; these are the FTSE Small Cap and a few other small companies (capitalisation below €500 million), not included in any index

Financial companies: companies belonging to the Bank, Insurance or Financial services sector (according to the Borsa Italiana classification)

Non-financial companies: companies belonging to sectors other than financial ones. The transition of Borsa Italiana from the LSE group to the Euronext group induced some discontinuities in classifications at sector level; however, these did not affect the financial/non-financial classification

Large companies: companies whose capitalisation was greater than €1 billion on the last trading days of 2019, 2020 and 2021

Small companies: companies other than large ones

2) *Based on figures from CG reports (reference date: publication of CG report)*

Concentrated companies: companies in which one shareholder (or several shareholders who are parties to a shareholder agreement) holds, directly or indirectly, the majority of the votes that can be cast at an ordinary shareholders' meeting.

Non-concentrated companies: companies other than concentrated companies

4 baskets: classification into four subgroups according to size and concentration:
- large non-concentrated companies (LNCs)
- large concentrated companies (LCs)
- small non-concentrated companies (SNCs)
- small concentrated companies (SC)

This is a proxy for the subgroups subject to differentiated recommendations under the CG Code.

Ownership structure: classification into four subgroups according to the existence and identity of a reference shareholder(s) holding at least 20% of the voting rights. The voting rights of the shareholders linked by a shareholder agreement are added up, as are those of shareholders belonging to the same family.
- *Family*: company in which the reference shareholder is a natural person (or group of shareholders belonging to the same family)
- *State*: companies in which the reference shareholder (or group of shareholders) belongs to the public sector (state or local authorities)
- *Other structures*: companies in which the reference shareholder (or group of shareholders) is different from Family and State
- *Widely Held*: companies in which no reference shareholder is present

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