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# Report on Corporate Governance in Italy: the implementation of the Italian Corporate Governance Code (2020)



*December 2020*

*This Report provides a summary of the main findings of the annual Assonime-Emittenti Titoli study on corporate governance, which will be fully published in the Assonime Note e Studi series in early 2021.*

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## 1. An overview

Since the first year of application of the Italian Corporate Governance Code (hereinafter the "Code"), Assonime analyses corporate governance and compliance with the Code, for all Italian companies listed on the Italian main market managed by Borsa Italiana SpA (hereinafter "MTA"). For this purpose, the analysis is based on publicly available information disclosed in companies' Corporate Governance and Remuneration Reports.

The 2020 analysis[1] covers 220 Italian companies, listed on the MTA on December 31st, 2019, whose Reports were available as of July 15th, 2020[2]: our sample represents, substantially, all Italian companies listed on the MTA[3].

The analysis covers main governance practices with respect to the implementation of the Code in force at the end of 2020[4], on the basis of the *comply-or-explain* principle. In particular, an in-depth analysis regards such Code recommendations where compliance (and non-compliance) may be assessed on an objective basis; in case of total or partial non-compliance, the analysis covers also the quality of the explanations provided.

As in the past, the study includes also an overall assessment of directors and statutory auditors' remunerations focusing on: a) the remuneration policies adopted by individual firms and the governance process followed for their adoption; b) the remuneration paid out to individual directors, general managers and statutory auditors in 2019.

Companies' compliance with main Code recommendations is investigated with a particular attention to the most critical governance areas highlighted by the Italian Corporate Governance Committee (hereinafter the "Italian CG Committee") in its last 2019 Monitoring Report[5] and addressed with specific best practice recommendations in the annual Letter of the Italian CG Committee's Chair (hereinafter also the "Letter"), which is sent to all listed companies[6].

* * *

As a rule, companies do provide sufficiently detailed information on their corporate governance model



[1] The complete analysis and its previous editions are available, at www.assonime.it, in the Corporate Governance Area.

[2] In this Report, by "2020 data" we refer to information published in 2020 CG and Remuneration Reports (on year 2019).

[3] The few missing Reports are due to delisting, mergers and bankruptcy procedures. We do not cover companies subject to foreign law and companies listed on the AIM Italia/MAC market, which are not required to disclose their compliance with the CG Code.

[4] Namely, the 2018 Corporate Governance Code, available here. A thoroughly revised edition of the Code has been approved by the Italian CG Committee in January 2020; the new edition of the Code is available here. Compliance with the new Code lies beyond the scope of this Report, since listed companies are expected to apply its recommendations in 2021, and to disclose their compliance (or to explain the reasons for non-compliance) only in 2022.

[5] The last Italian Corporate Governance Committee Report is available on the Committee's website: see here.

[6] 2019 Letter of the ICGC Chair is available on the Committee's website: see here.

and practices, both where they comply and where they do not comply (or where they comply only in part) with individual recommendations. Quantity and quality of information provided is often good, showing a progressive improvement of disclosure over time. Non-compliance cases are often explained properly and clearly shown to investors, who are then able to assess their effects and take their own decisions, both for trading and for engagement purposes.

In general, information provided in Corporate Governance Reports reveals a thoughtful approach to corporate governance and to Code's best practices. The decision to adopt the Code and to comply (or not) with its recommendations is based on a cost-benefit analysis in each individual case. Therefore, full compliance can hardly be expected, since Code's recommendations represent best practices, not minimum requirements. This explains why some Code's recommendations do not find full application among listed companies and why full compliance is not – generally speaking – a reasonable target.

Nevertheless, compliance with the Code is high and increasing, even in some of the critical areas highlighted by the Italian CG Committee in its Monitoring Report and addressed by Chair's Letter.

In the 2019, the Italian CG Committee identified four critical governance areas (sustainable corporate governance; prior information to board directors; the assessment of individual directors' independence; adequacy of the non-executive directors and statutory auditors' remunerations), recommending each board of directors to assess their own compliance with the Code and to identify, if any, possible enhancement of board practices.

Most of these areas show some improvement: a growing number of companies integrated the sustainability of their business activity into the definition of strategies and remuneration policies; the implementation of independence criteria has become more effective; the remuneration of independent directors started to increase (see chapter 2 and 3).

At the same time, significant weaknesses still remain with respect to: the adequacy and the timeliness of the board pre-meeting information; disclosure of criteria adopted to assess the significance of possible business or commercial relationship of independent directors with the company; the structure of executive remuneration packages (e.g. quality of information regarding the relative weight variable components, both short- and long-term) and clear rules on severance payments (see chapter 2 and 3).

Compliance with the Code is influenced by company's size and ownership structure, where smaller companies and companies with concentrated ownership structure still face more difficulties to comply with recommendations and to clearly explain alternative practices. To take into account this structural gap, the Italian CG Committee acknowledged the need for a stronger best practices' proportionality, which was one of the key drivers of the new Corporate Governance Code 2020 edition. Although the new Code will find application only in 2021, our analysis takes into consideration its new proportionality approach to provide a better understanding of the future evolution of governance practices.

Our analysis covers also the remuneration actually paid to directors and statutory auditors in 2019 (see chapter 3.2.). Focusing our attention to CEOs and independent directors' average remuneration and comparing them to 2019 data (i.e. paid in 2018), we found that CEOs' remuneration decreased by 7%, while independent directors' pay increased by 14%.

The slight decrease of CEOs' total remuneration is entirely due to a reduction of equity based variable remuneration (-30%), which therefore represents the main tool for ensuring appropriate flexibility in the definition of remuneration packages. Both the amount and the structure of CEOs' remuneration are affected by company's size, sector and ownership structure.

We found no evidence of a gender gap in remuneration, neither for CEOs nor for independent directors. In both cases, the lower level of remuneration for female directors at aggregate level is due to their presence in companies characterized by lower remunerations (small companies, strongly controlled companies), rather than to gender gap within each companies' category.

Finally, we developed, for the first time, a synthetic index to measure both the level and the quality of the implementation of the Code (see chapter 4). This index is based on twenty indicators covering the main recommendations of the Code, grouped according to the four areas of governance on which the Code is focused: board composition and structure, board effectiveness, independent directors, and remuneration policy. Each indicator provides an assessment of the implementation of specific recommendations against some *criteria* defined *ex-ante*, aimed to verify the substantial compliance with the Code. In some cases, such *criteria* are based on higher and more ambitious standards than those currently recommended by the Code, to take into account the evolution of market expectations on core governance practices[7] (see chapter 4 for a description of the methodology and of the specific criteria adopted).

We found that, in 2020, the degree of compliance with the *criteria* of "robust" implementation of main Code's recommendations was about 65%, with an average 2% increase with respect to 2019. As already emerged in our traditional monitoring, the level of robust implementation is higher for large companies and for banks and insurance companies.

Considering the compliance rate in specific governance areas, we observe that corporate practices are usually higher with regard to board composition and structure (80%), followed by remuneration policies (67%), while the average compliance rate is usually lower in the assessment of individual directors' independence (45%) and the board effectiveness (47%). All of these areas show, however, a slight increase if compared to 2019 data: in particular, areas of major concern, such as directors' independence and board effectiveness, improved more than others.



[7] This is the case, for example, of the recommendation regarding succession planning, where the current Code requires only to "consider whether establishing a succession plan for executives", our analysis is aimed to verify the actual adoption of a succession plan for executive directors.

## 2. Compliance with the CG Code and quality of governance disclosure

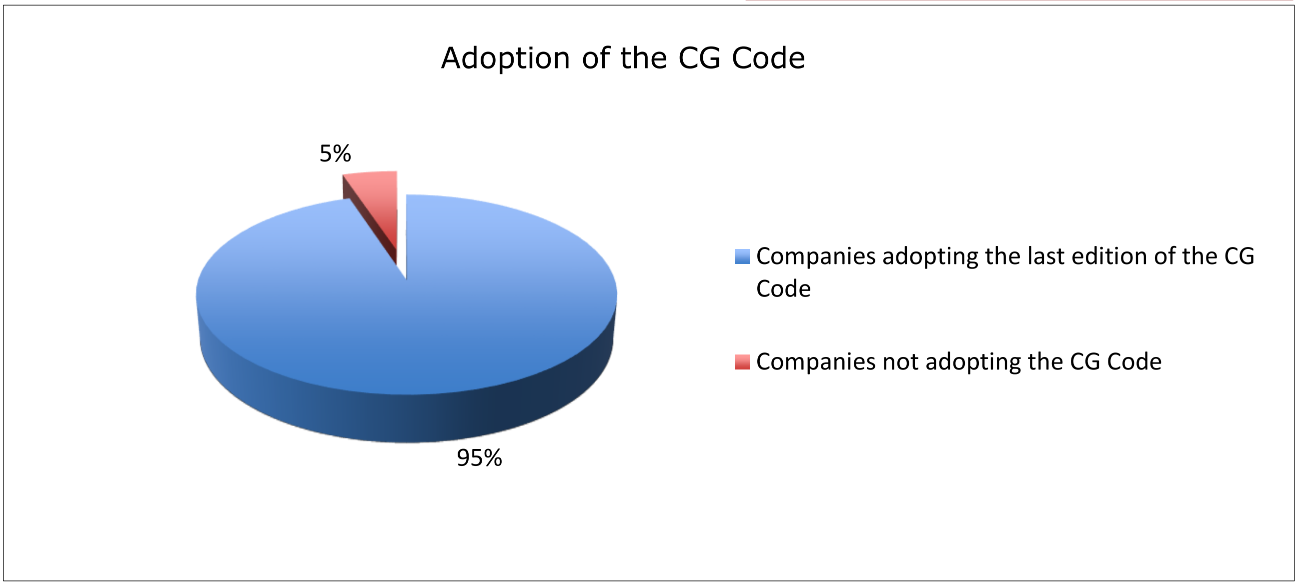
### *Adoption of the CG Code*

The 2018 edition of the Code has been adopted by 95% of all companies listed on MTA[8]. A significant number of companies that have not adopted the Code (9 out of 11) provided an explanation for their decision, although this is required neither by the law nor by the Code itself. The decision not to adopt the Code is usually linked to specific firm characteristics (in particular, small size and concentrated ownership).

In this light, the renewed proportional approach developed in the new 2020 Corporate Governance Code, with some recommendation fitted to those features, could further encourage its adoption: at least one company already decided to adopt it as of 2021.

*95% of companies adopt the Italian Corporate Governance Code.*

*The new proportional approach of the 2020 CG Code could further encourage its adoption.*




### *Board meetings*

The average frequency of board meetings is stable at 11 times per year. Meeting frequency is higher among large companies (12.9 in FTSE MIB) and in the financial sector (17.5).



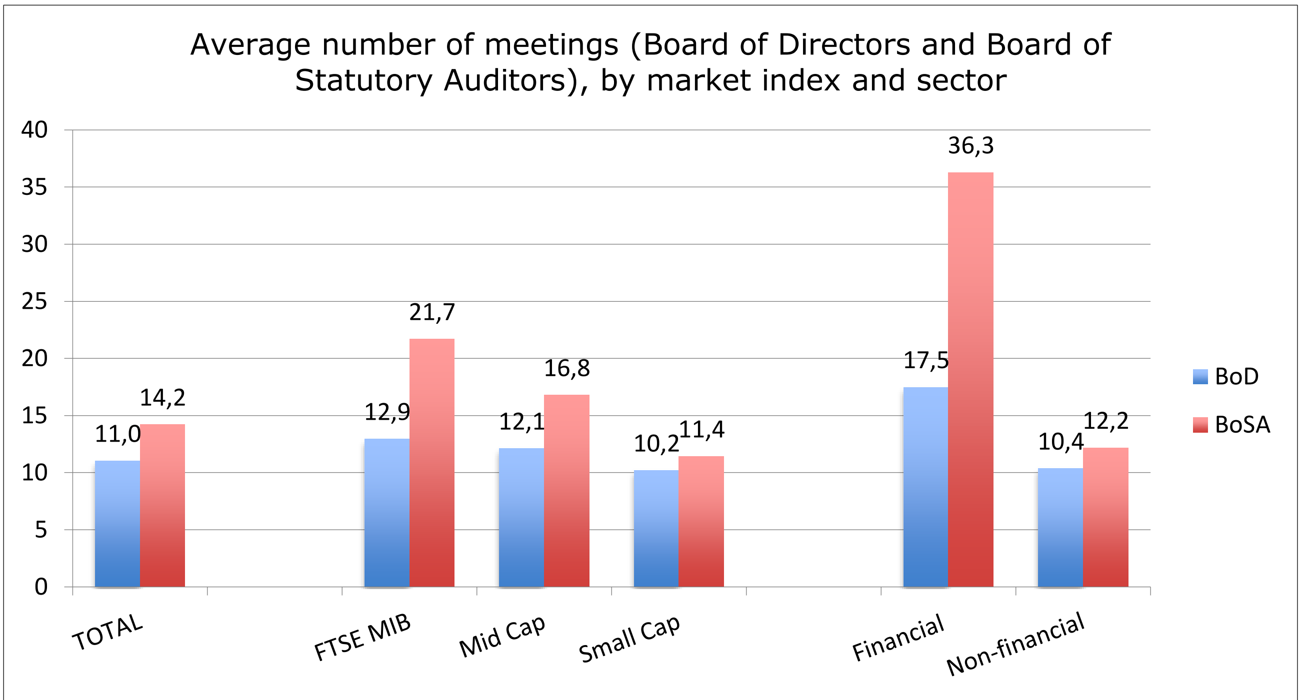
[8] We considered as adopting "the last edition" of the Code also six companies making reference to the 2015 edition. The 2018 edition was, actually, identical to the 2015 Code, but for one respect: recommendations about gender diversity (i.e. the 1/3 gender quota for corporate bodies), which were – however – almost not applicable in 2019, as they were meant to find application only after the expiration of the sunset provision set in Law. 120/2011. At the same time, the Code's recommendations have been *de facto* superseded by new legislation, which entered into force in 2020. The new law requires corporate bodies to be made up of at least the 40% components of the less represented gender.

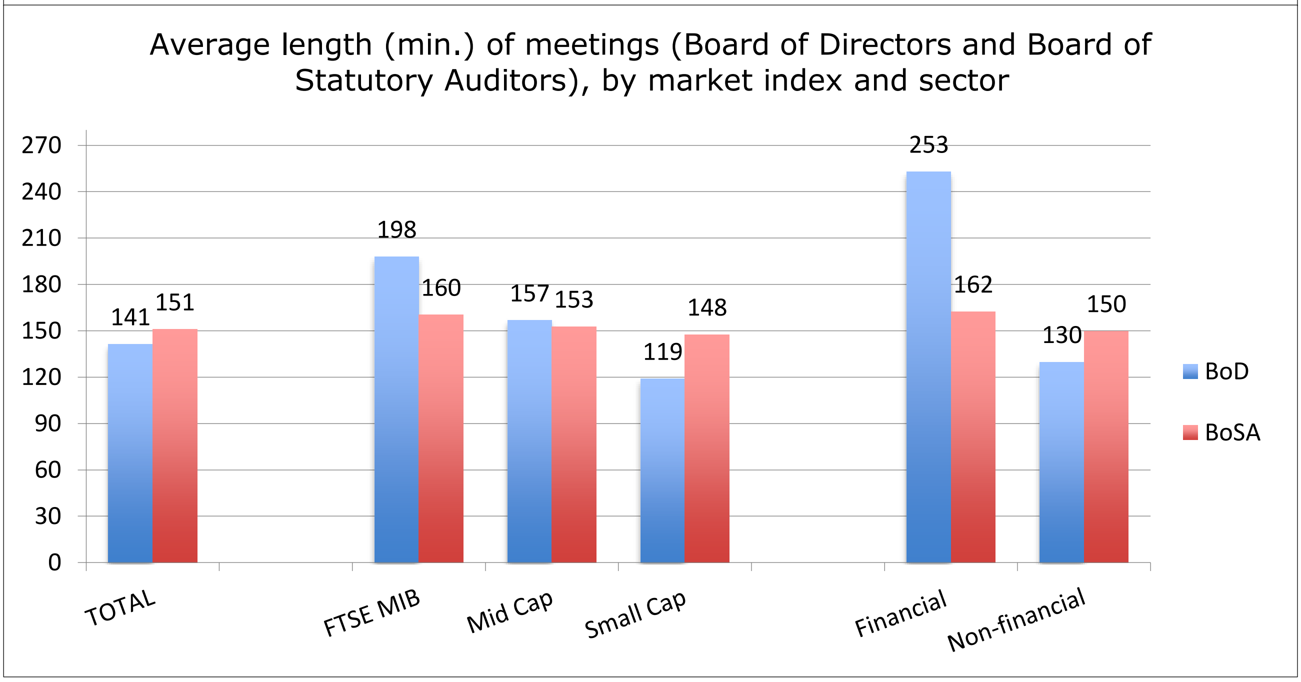
*Board of directors meets 11 times a year: the average time commitment is significantly higher in financial firms (17,5).*

*Considering blue-chips, the average time commitment of Italian boards is higher than in other EU countries.*

Boards of statutory auditors meet more frequently than boards of directors (14.2 meetings per year; frequency is much higher – 36.3 meetings per year – in the financial sector).

Average time commitment of Italian board members is high, especially in an international comparison: *blue-chips'* average number of board meetings per year is substantially higher In Italy (12.9) than in France (9), in UK (8) in Germany (7) and in the Netherlands (7)[9].




[9] See Spencer Stuart Board Index 2019 (data from individual country reports).

The average length of board of directors' meetings is about two hours and twenty minutes and increases remarkably in larger companies and in the financial sector. The average length exceeded 4 hours in about 6% of companies and was lower than one hour for about 3% of companies.

Average attendance is about 93% for board members and is growing over time (91% in 2016, 89% in 2011). Average attendance is higher (97%) for statutory auditors.

*A director attends 93% of the meetings, on average.*

*However, about 9% of individual directors did not attend at ¾ of board meetings.*

Cases of significant absenteeism are however relevant for 195 directors: 31 directors (1.4% of the aggregate vs. 2.0% in 2019) attended less than half of the meetings, while other 164 (7.5% of the aggregate vs. 8% in 2019) attended less than three quarters of the meetings. Such phenomenon is substantially absent (only one case) for statutory auditors.

Extreme situations in terms of frequency and/or length of meetings (highly below or above average) as well as of cases of strong or significant absenteeism deserve a careful analysis by the board, also during the board self-evaluation process.

***Board meeting information***

The Code recommends the board Chair to ensure adequate information to all board members and the issuers to provide – in the CG Reports – information on the promptness and completeness of information sent to directors prior to board meetings, by disclosing: *ex ante*, the prior notice deemed adequate for the distribution of the documentation; *ex post*, the compliance with such a prior notice[10].

*Most companies provide at least some information about the timing of the board pre-meeting documentation.*

*About 75% of companies set the prior notice deadline for sending documentation to the board.*

In general, most companies provide some *ex ante* information about the prior notice for the distribution of the documentation; almost one third of them disclosed that this process is managed through a board communication portal, ensuring quick and confidential information flows.

However, in almost 25% of cases (data stable over time) companies do not disclose the prior notice deadline deemed appropriate by the board for sending the documentation to all directors.

In other 75% of cases companies identify such a prior notice deadline, which is about 3 days (average minimum and maximum terms are respectively 2.9 and 3.9) and appears quite stable regardless of company's size and sector. In some cases (17% of the aggregate) companies choose to differentiate the prior notice deadline according to the nature of the item on the board agenda; this practice develops a proportionate approach and ensures high quality information to the market.

[10] 2018 Italian Corporate Governance Code, *criterion* 1.C.5..

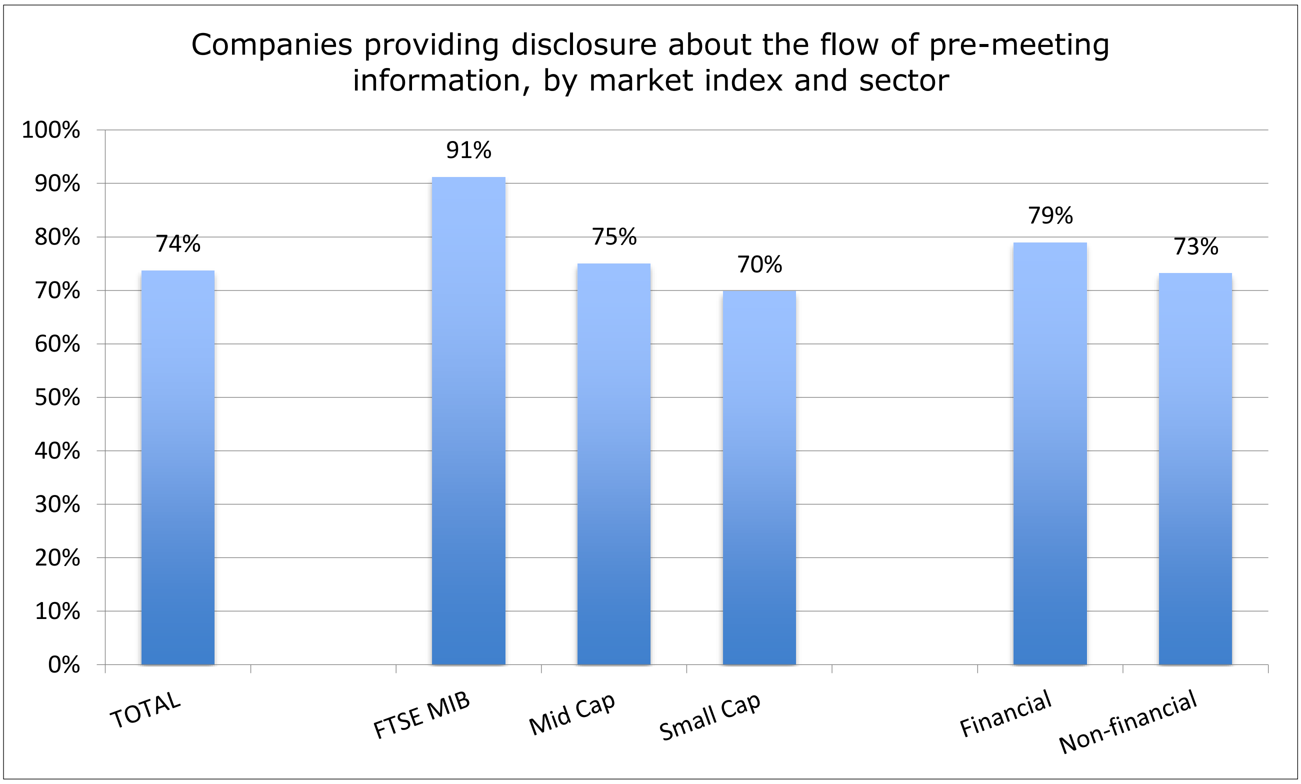
*About 15% of all listed companies fail to provide information about the effective compliance with the prior notice.*

*About 1/3 of all listed companies envisage "confidentiality" as a possible explanation for non-complying with the prior notice deadline.*

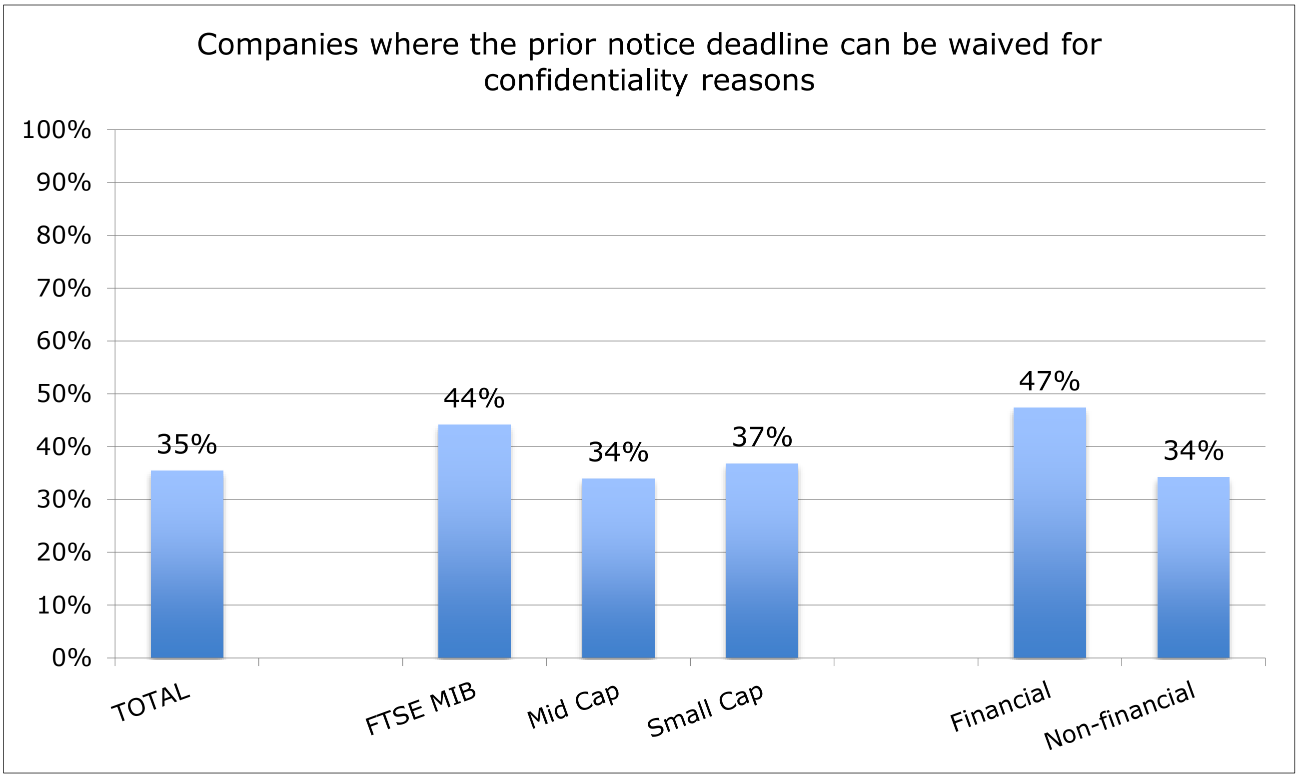
As to the *ex post* information about the actual compliance with such a term, about 20% of companies providing for a prior notice deadline fail to disclose its effective application (15% of the aggregate). Even if in some cases companies disclose that the documentation has been usually provided in due time, the lack of a clear information about the compliance with the prior notice deadline makes it impossible to assess its effective implementation.

About one third of listed companies (74) still exempt "confidential" information from the prior notice deadline: this solution does not seem to be in line with Code and – as pointed out by the Italian Corporate Governance Committee – shall not represent "per se" a good explanation for the non-compliance with the Code. Considering this practice, the new CG Code 2020 requires companies' internal procedures (regarding the information flow to directors prior to the board meeting) to ensure *"that confidentiality issues are properly managed without affecting the timeliness and completeness of the flow of information"*[11].

In exceptional cases, where information cannot be provided with adequate prior notice, the Code recalls the role of the Chair, who should at least ensure adequate information to all board members during the board meeting. This Chair's task is explicitly set by 86 companies (39% of the aggregate). The lack of this information does not necessarily mean that the Chair would not be expected to play such a role in those exceptional circumstances; however, an explicit provision of this task ensures better compliance with the Code and better disclosure to the market.




[11] 2020 Italian Corporate Governance Code, *recommendation* 11.




***Board evaluation***

Most listed companies (83% of the cases, and especially larger and financial firms) carried out a board evaluation. The remaining 17% of companies, mostly small ones, did not perform (or did not provide information about) board evaluation: an explanation for such a non-compliance with the Code is provided only in one third of these cases and it usually refers to transitional reasons (most of them are linked to firm's recent IPO) or to firm characteristics, such as size and board structure.

Board evaluation usually covers composition and functioning of both the board and board committees. In most firms (79% of the cases) the assessment explicitly also covers the analysis of the Italian CG Committee's recommendations[12]. In one third of cases, companies also provide some concise information about the outcome of the board evaluation process[13].

Board evaluation relies almost always on questionnaires (in 87% of the cases), sometimes alongside interviews (29% of the cases); the latter are frequently adopted (73% of the cases) where the board review is facilitated by an external advisor.

*Board evaluation is largely applied by listed companies.*

*In half of cases, the process might be improved through an effective oversight by the board.*

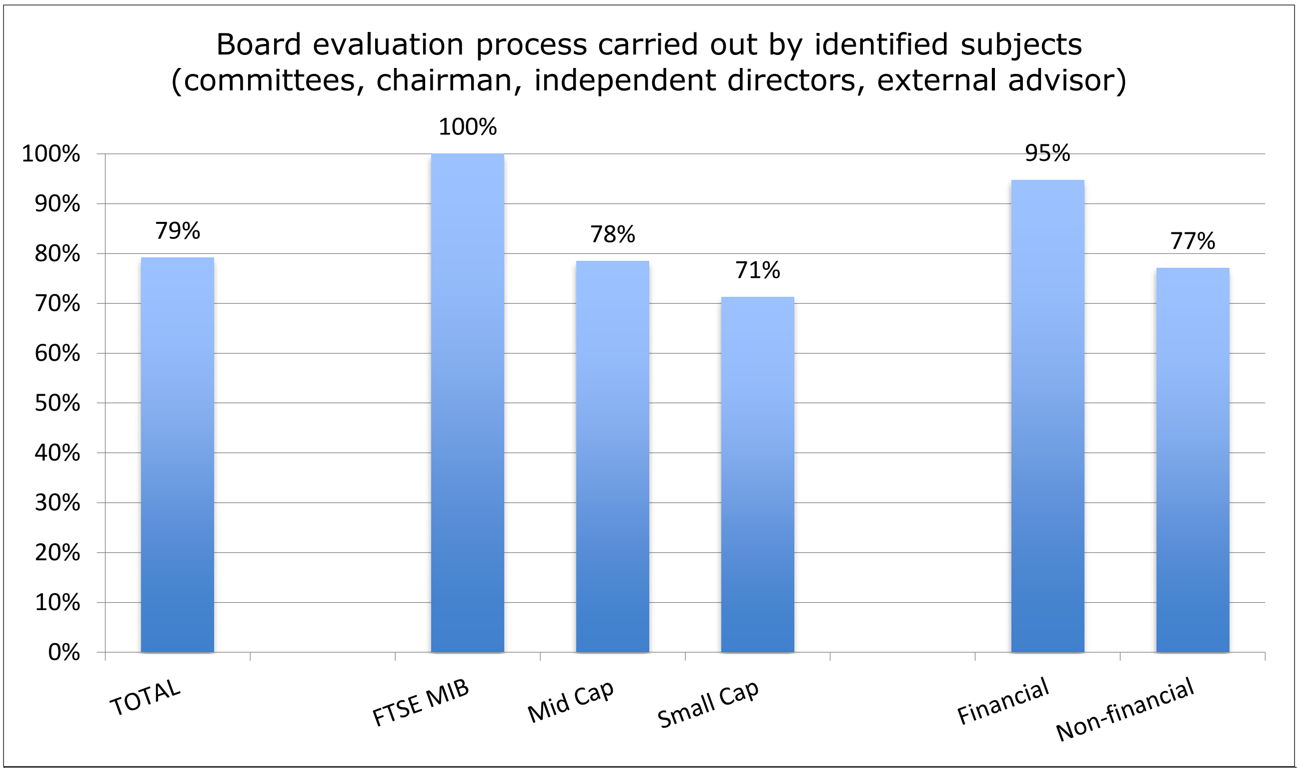
A clear identification of the entity who is in charge of the board evaluation process is found in 129 companies (79%

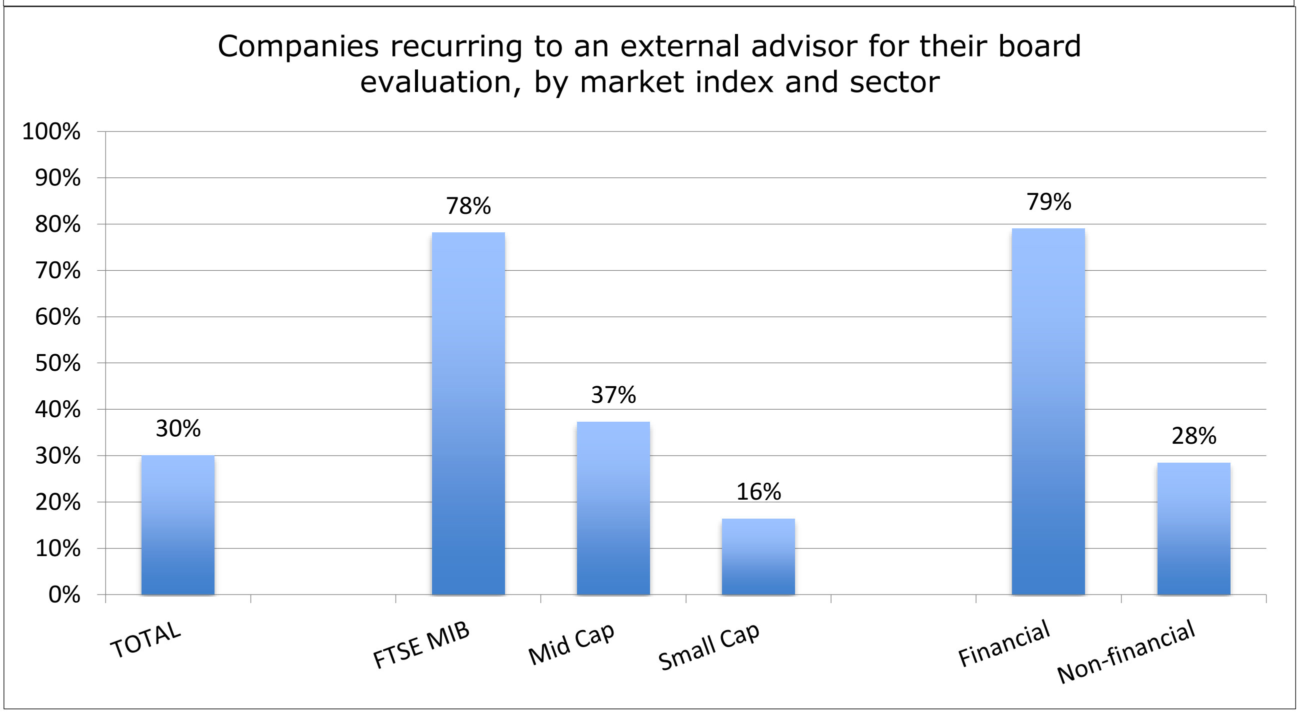
[12] As required by the ICGC, Chairman's letter 2019.

[13] Even if it is not explicitly recommended by the Code.

of those providing information about board evaluation).

A board component is directly involved in the evaluation process of 92 companies (56% of those performing the board evaluation); in the remaining 37 cases the board evaluation is conducted by company's internal functions or external advisors only: in these companies, regardless of the Italian Corporate Governance Committee's recommendations[14], no board member is directly in charge of the supervision of the board evaluation.






[14] ICGC, Chairman's letter 2019.

An external advisor is appointed more frequently in the financial sector (79% of the cases) and among larger firms (78% of cases). Companies do often disclose the identity of the advisor (in 52 cases, 93% of the aggregate), while the information about other services performed by the advisor is provided in about half of them (54% of the aggregate): the disclosure of both is recommended by the Code[15].

While board evaluation is carried out by most companies and compliance with Code's recommendations is increasing, the process could still be improved through an effective involvement of a board component (directors or board committees).

In this light, it shall be noticed that under the new 2020 CG Code the Chair of the board in explicitly recommended to ensure the adequacy and the transparency of the board review; the nomination committee shall provide valuable support both to the Chair and to the board in the fulfillment of their tasks.

***Board interlocking***

To ensure adequate directors' commitment and an effective performance of directors' duties, the Code recommends the board to state *ex ante* guidelines on the maximum number of other offices that might be held in listed, financial or large companies[16].

On one side, this provision is disclosed in less than half of the companies (100, i.e. 45% of the aggregate).

On the other side, almost all companies disclose *ex post* information on interlocking (i.e. director or statutory auditor positions held in other firms): this information is available for 95% of the directors.

*82 directors (4% of total) can be considered "busy" (holding 3 or more positions in listed companies).*

*More than half of "busy" directors are female.*

Despite the low number of *ex ante* guidance on interlocking, our analysis shows that the average number of offices held is stable (2.03 in 2020, exactly as in 2019) after being decreasing for a long time (3.26 in 2012). The number of offices held in listed companies only is also stable (at 1.19); only 82 persons may be defined as "busy" (i.e. holding offices in 3 or more listed companies).

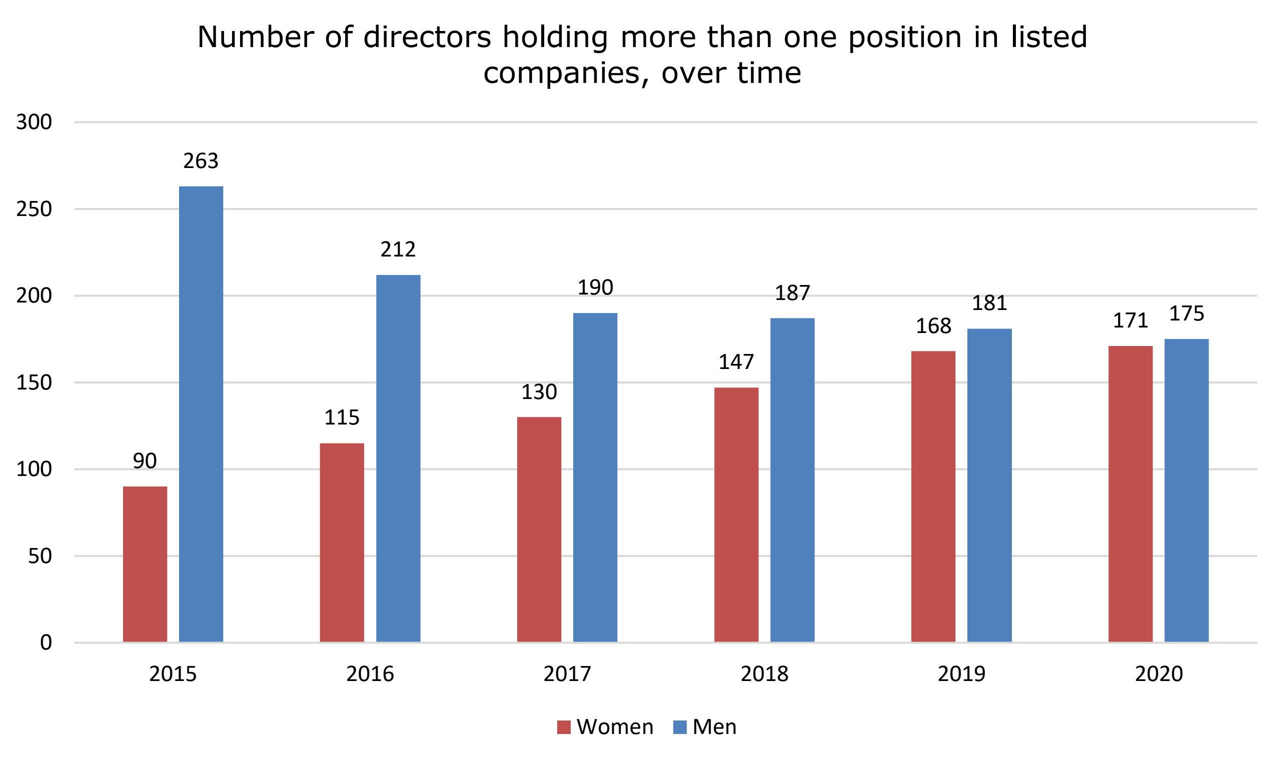
More than half of such "busy" directors (or statutory auditors) are female (55 women account for 67% of all "busy directors"): similar trends are observable in other jurisdictions with mandatory gender quotas[17]. Even if the number of "busy female directors" is basically the same as in 2019, their percentage weight is growing rapidly (up from 51% in 2017 and 32% in 2015).



[15] 2018 Italian Corporate Governance Code, *criterion* 1.C.1., lett. g).

[16] 2018 Italian Corporate Governance Code, *criterion* 1.C.3..

[17] Similar results are observable in France. Data on French SBF 120 listed companies are found in Spencer Stuart, 2020 France Board Index.







### *Succession planning*

The Code recommends all issuers to "evaluate whether to adopt" a plan for the succession of executive directors and disclose their conclusions on this point[18].

In its last monitoring reports, the Italian CG Committee underlined the importance of establishing such plans for executives, to ensure the continuity and stability of the management, and in 2020

[18] 2018 Italian Corporate Governance Code, *criterion* 5.C.2..

decided to step up its considerations by recommending large companies to adopt a succession plan for the CEO and other executive board members. This new 2020 CG Code recommendation is going to find application in 2021.

*One third of listed companies provides for a succession plan for executive directors.*

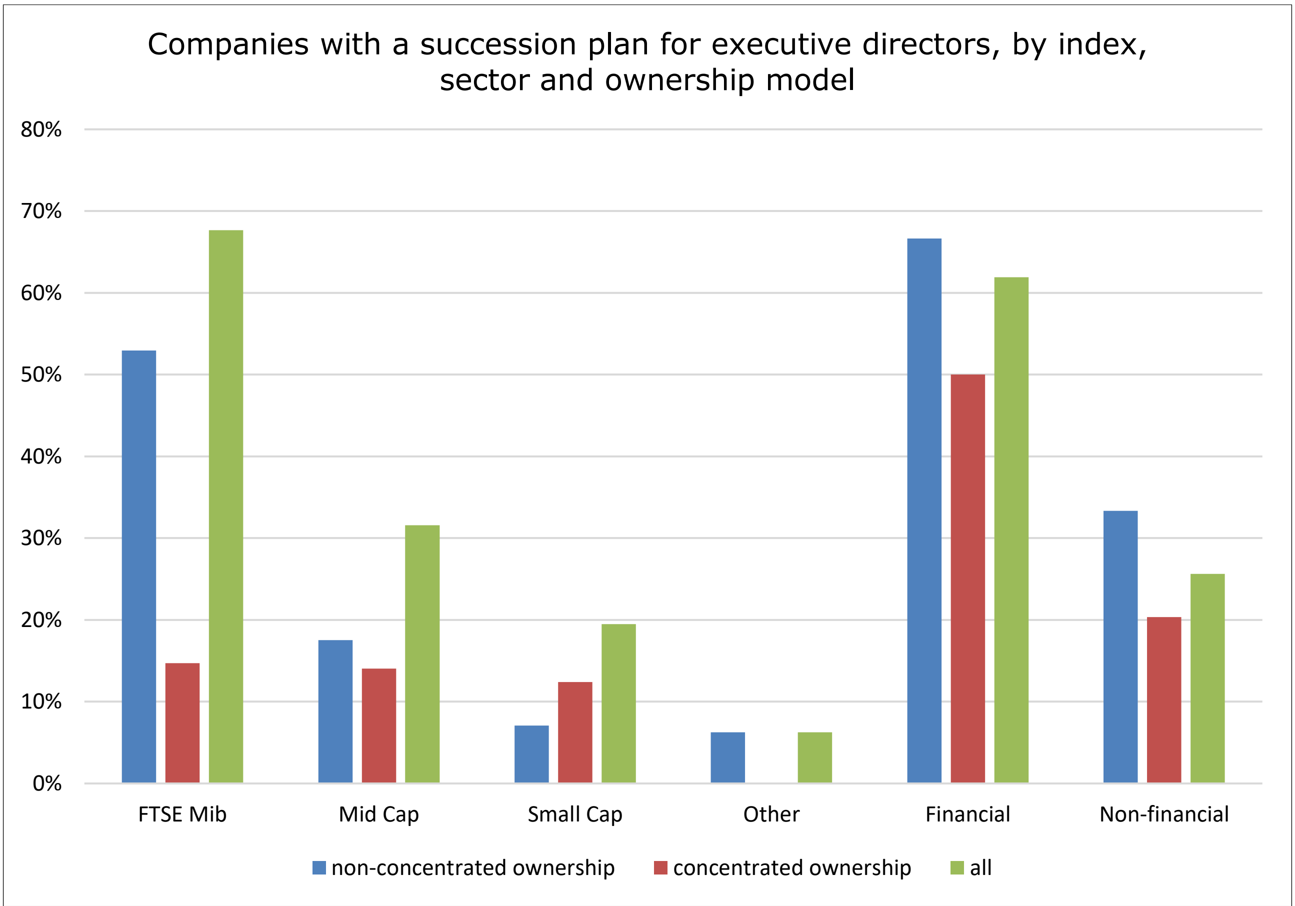
*Succession plans are more frequent among large and financial firms.*

Although almost all companies (90%) evaluated their possible adoption, formal succession plans are still rare: only 64 companies (up from 54 in 2019 and 29 in 2016) disclosed that a succession plan is actually in place.

Data show an increasing attention of large companies, where the adoption of a plan is now disclosed in 68% of the cases; thus, according to the new 2020 CG Code, the remaining 32% of large companies are going to disclose whether to adopt a succession plan or explain their (future) non-compliance in 2021.

The ownership model matters but almost only in FTSE Mib companies. Companies with a less concentrated ownership structure provide more frequently for succession plans than concentrated ones (39% vs. 22% respectively). Nevertheless, this gap is mainly driven by size: among FTSE Mib the difference (38%) is considerable (53% vs. 15% respectively in non-concentrated and concentrated FTSE Mib), while it is almost negligible in medium and small size companies.

Overall, information provided on the structure and functioning of such plans remains scant.



***Board composition***

The average board size is about 10 directors. The number of board members varies significantly with company size (from 8.7 in Small Caps to 12.2 in FTSE MIB companies) and industry (from 9.5 in non-financial to 13.8 in financial firms).

*93% of board have a composition compliant with the Code.*

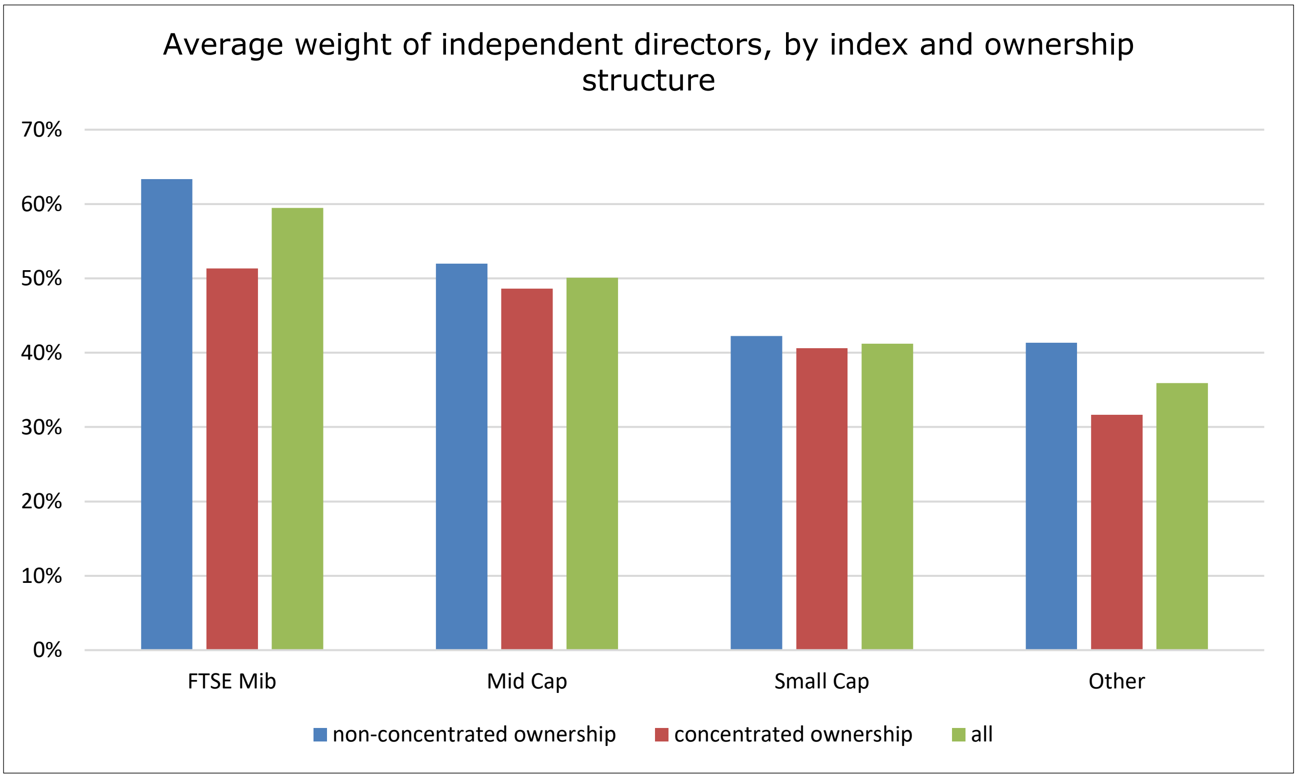
*The weight of independent directors is constantly increasing, beyond Code's recommendations (46% in 2020, on average).*

*In FTSE Mib and Mid Cap companies, independent directors account for 54% of the board (on average).*

The average board size of financial firms is slowly but constantly decreasing over time, while it appears stable in the non-financial sector.

Considering information published in 2020 CG reports, 205 companies (i.e. 93% of the aggregate) were in line with Code recommendations on board composition (presence of both executive and non-executive directors, 1/3 of independent directors in FTSE MIB companies, at least 2 independent directors in other companies).

The main reason of non-compliance is an insufficient number of independent directors.




The average board is made up of 2.5 executives, 2.9 (non-independent) non-executives and 4.6 independent directors.

The average weight of independent board members is higher in FTSE MIB companies and in financial firms. Over the last few years, the weight of independent directors showed a slight but constant increase at the expense of non-executive non-independent directors; this is particularly evident in the financial sector.

*The average quota of independent directors varies according to company's ownership model: it is lower (-7%) in companies with a strong controlling shareholder.*

The average quota of independent directors is 7% lower in companies with a concentrated ownership structure (50% vs. 43% respectively in non-concentrated and concentrated companies). This trend is mainly driven by FTSE Mib companies, where companies with a strong controlling shareholder (>50% of voting rights in the AGM) have an average of 51% of independent directors on their board, while others – non concentrated FTSE Mib companies – have an average of 63% of independent directors on their boards.

Amongst the 536 executive directors, 197 (37% of the aggregate) are explicitly identified as Chief Executive Officers (CEOs). Moreover, 66 executive directors hold also the charge of General Manager (GM). Executive directors holding delegated powers and the GM office represent around 10% of all executive directors and are more frequent among larger companies (out of 59, 19 are found in FTSE Mib and 16 in Mid Cap companies). The appointment of a GM who is not a board member is becoming less frequent (it occurs in 30% of the 93 companies with at least one GM, down from 33% in 2019 and 57% in 2013).

***Average age and tenure of directors and statutory auditors***

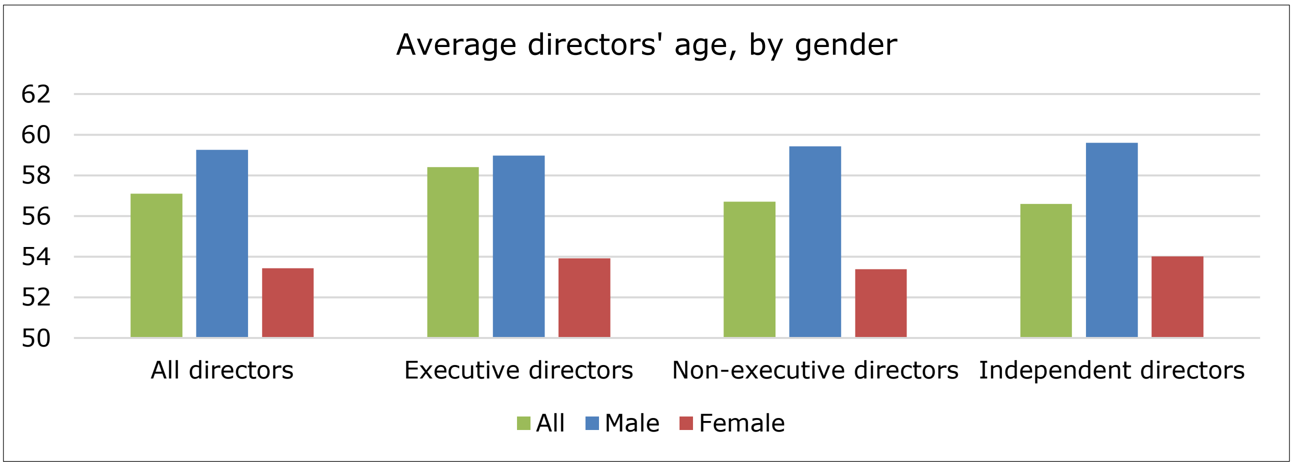
*A director is 57 years old and serves for 6,4 years, on average.*

*The average tenure for executives (10,7 years) is more than twice as long as that for non-executive (5 years) and independent directors (3,7 years).*

*Female directors are 6 years younger than male directors. The average tenure of male directors is longer than that of women (7,7 vs. 4 years respectively).*

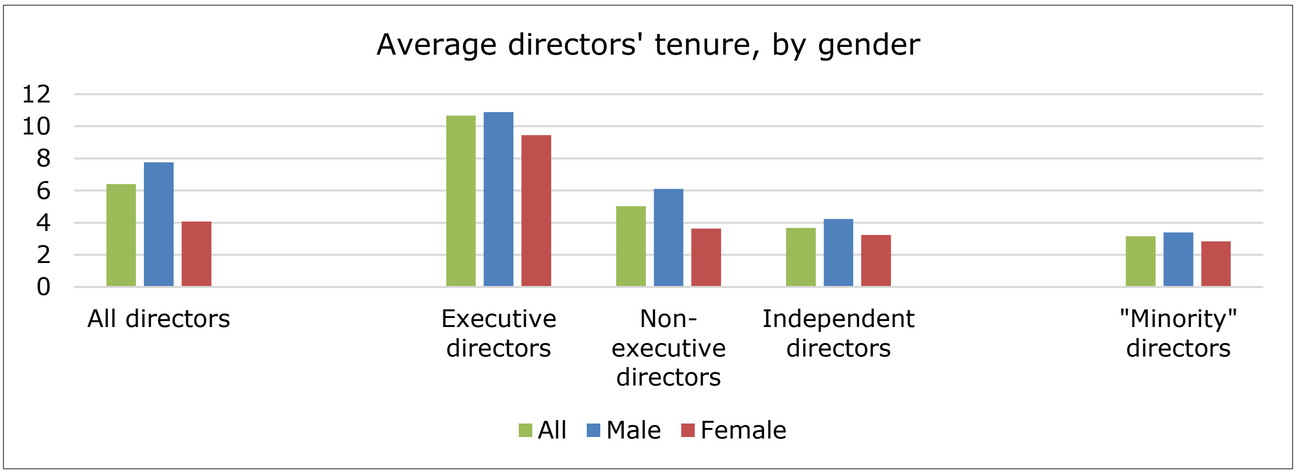
The average directors' age is about 57 years. Executives are slightly older. Directors are older, on average, in the financial sector (where their average age is around 60 years). Female directors are 6 years younger than male directors, on average: this gap is slightly higher for non-executive and independent directors.

Statutory auditors are slightly younger (about 56 years). The average age of both directors and statutory auditors is stable over time.




The average directors' tenure is 6.4 years: it is longer for male than for female directors (7,7 vs. 4

years respectively). The difference is higher among non-executive (non-independent) directors, where the average tenure of male directors is about 40% longer than that of female directors.




Time on board is lower in the financial sector (around 5 years) and among FTSE MIB companies (4.7 years), and higher in Mid cap and Small Cap firms (6.6 and 7.3 years, respectively). The average tenure for executives (10.7 years) is more than twice as long as that for non-executives (5 years) and for independent directors (3.7 years). The average tenure for non-executive Chairmen of the board is 7 years. Listed firms often disclose also information about the tenure for statutory auditors: this is around 5 years, i.e. in line with that for non-executive directors.

### *Lead Independent Director*

The Code recommends appointing a *Lead Independent Director* where the Chair of the board is also the CEO of the company or its controlling shareholder[19]. In FTSE Mib companies its appointment is also recommended upon request of the majority of independent directors[20].

A *Lead Independent Director* has been appointed in 99 firms (i.e. 45% of the aggregate). The appointment of a LID is more frequent in the circumstances where it is recommended by Code: this happens in 68 companies (out of 82, i.e. 83% of the aggregate). In the residual 31 cases, a LID has been appointed on a voluntary basis. The LID is, on average, older (59.7 vs. 56.6 years) and has a longer tenure (5.2 vs. 3.7 years) than the average independent director.

Comparing to 2019 data, companies being in a circumstance where the Code recommends the appointment of a *LID* have increased from 74 to 82 (i.e. from 34% to 37% of the aggregate); all of them are non-financial companies. The frequency of such circumstances is inversely proportional to company size (9% in FTSE MIB firms vs. 48% in Small Caps; the increase is entirely due to the latter). The *Chair-CEO* case is more frequent than the *Chair-controlling shareholder* one (64 vs. 47 cases); in 29 cases both situations are present at the same time (*Chair-CEO-controlling shareholder*).

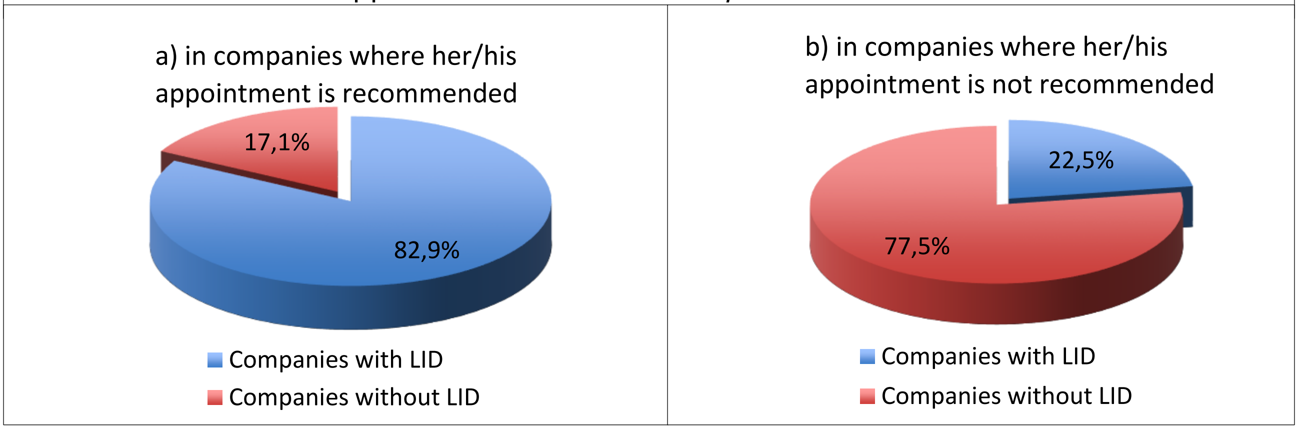
Most (83%) of the companies falling under the CG Code recommendations complied with the Code

[19] 2018 Italian Corporate Governance Code, *criterion* 2.C.4..

[20] 2018 Italian Corporate Governance Code, *criterion* 2.C.4..

and appointed a LID; in the remaining cases (17%) where no LID has been appointed (almost only in Small Caps), explanations usually refer to firm size and/or the small number of non-executive/independent directors sitting on the board.

Appointment of a *Lead Independent Director*

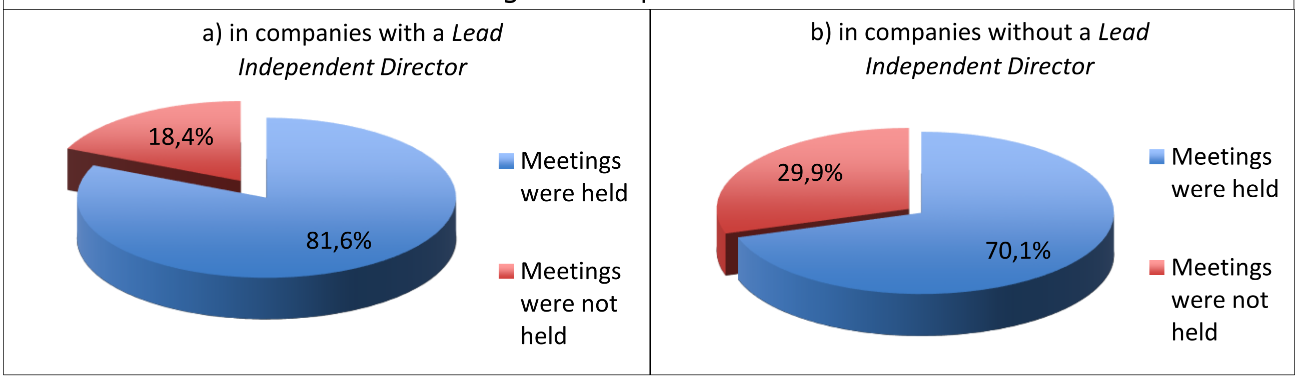



***Meetings of independent directors***

The Code recommends independent directors to meet, at least once a year, in absence of other board members[21]. According to the Code, such meetings should be dedicated to issues deemed of importance for the effective functioning of the board or for the governance of the company.

Compliance with this recommendation is slowly increasing: 155 companies (i.e. 76% of the aggregate, with respect to 58% in 2016) disclosed that such meetings have taken place. This happens more frequently among larger firms (91% in FTSE MIB) and where a *LID* has been appointed (82% vs. 70% in companies with no *LID*). Companies not complying with this recommendation provide an explanation only in 54% of the cases (always among FTSE MIB firms): this is usually based on independent directors stating that meeting was not necessary.

Meetings of independent directors




***Board assessment of directors' independence***

Board assessment of directors' independence is a key governance point, with far-reaching implications that go beyond mere compliance with the Code.

Independent directors are called to play a crucial role in the governance safeguards envisaged by

[21] 2018 Italian Corporate Governance Code, *criterion* 3.C.6..

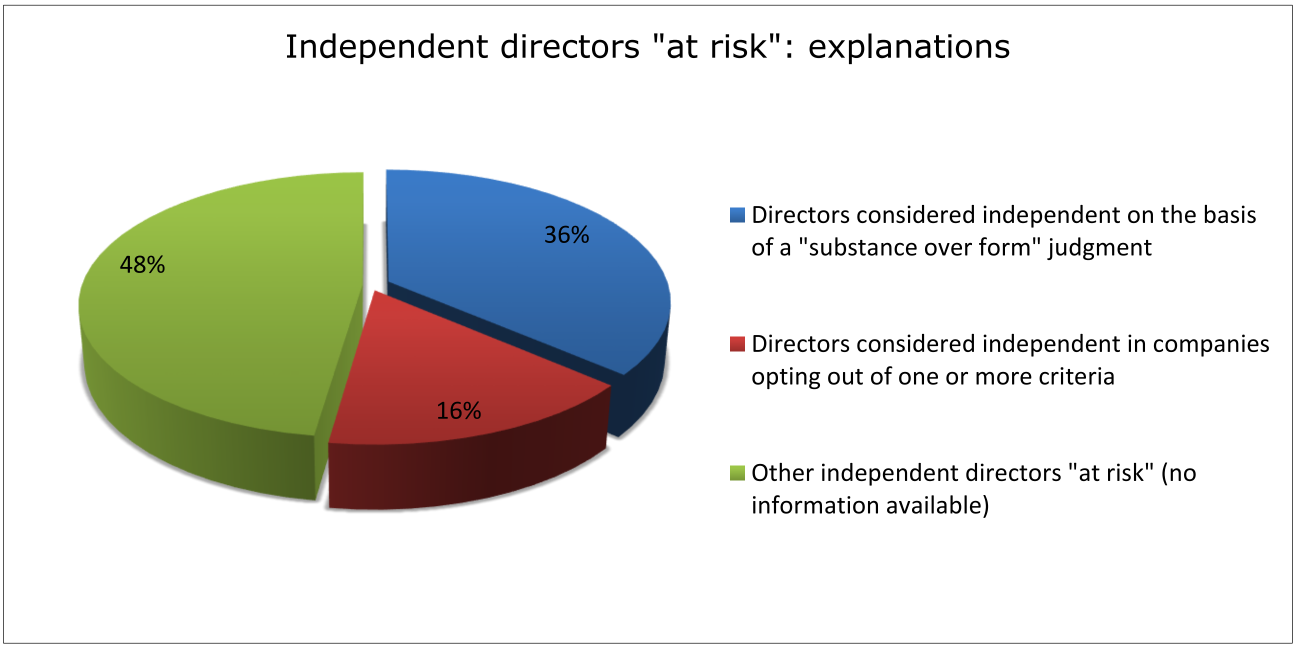
law (monitoring role with strong implications e.g. in related party transactions, remuneration policies and takeover bids) and the CG Code (e.g. board committees, LID, meeting of independent directors, remuneration policies).

The Italian CG Committee repeatedly invited boards to enhance their assessment of directors' independence and boards of statutory auditors to monitor the proper application of the CG Code *criteria*: as recommended by the new 2020 CG Code, companies should not generally depart from the independence *criteria* stated in the Code and the evaluation of each *criterion* should find application on an individual basis only – i.e. having regard to the specific conditions of each director – and adequately explained in the CG Report.

We therefore conducted an in-depth analysis of the independence assessments and found that in some cases – which are decreasing over time – companies do not apply some independence criteria set by the Code for all (14 companies) or individual board members (27 companies).

*One third of companies does not apply at least one independence criterion identified by the CG Code.*

Beyond companies' disclosure, we back-tested individual independent director to assess whether they are in some of the objective situation(s) of non-independence envisaged by the Code. This situation is found in 59 companies, half of them being the same companies that provide some information (of general non-compliance or of individual non-compliance), while in the remaining 24 cases no information is provided.




To explain our analysis more in detail, the first case of general non-compliance regards 14 companies (6% of the aggregate, down from 8% in 2019) that stated explicitly that they chose not to apply one or more *criteria* set by the Code for the evaluation of directors' independence: this *criterion* is usually the 9-years rule. These companies provide almost always for an explanation for their non-compliance, often calling for the (general) opportunity to enhance the competences gained by individual directors over time.

In the second case, 27 companies (i.e. about 13% of the aggregate, down from 16% in 2019) opted for an individual (i.e. due to individual directors) non-compliance with the CG Code's independence *criteria*, stating that one or more directors were considered independent *"having regard more to the substance than to the form"* (a general principle of the CG Code), although they did not meet one or more points set up in *criterion* 3.C.1. The quality of disclosure may often be improved in these cases: even if the assessment appears to be conducted on individual basis, some explanations are still too generic rather than focused on the individual director's characteristics and his/her independent attitude.

Also these 'individual non-compliance cases' usually regard the 9-year tenure rule (3.C.1. let. e) and find similar explanations, as they are based on the opportunity to safeguard the professional skills of individual directors and their capacity to express an autonomous judgment. Some companies provide additional reasons, mentioning the lack of any commercial, professional and personal relationship and/or the low weight of the individual director's remuneration as a percentage of her/his total income, which can hardly be considered an adequate explanation.

*About 10% of all independent directors incur in one or more non-independence circumstance envisaged by the CG Code.*

*¾ of independent directors 'at risk' are men: male independent directors are more frequently 'at risk' (14% of all male independent directors vs. 4% of all women independent directors).*

*Half of these cases is explained in the CG report.*

In the third case, using the available information in the CG Reports we back-tested individual independent director to assess whether they are in some of the objective situation(s) of non-independence envisaged by the Code. As a result, we found that most circumstances considered by the Code as potentially impairing directors' independence are no longer found in Italian companies. Only two such circumstances, found in 59 companies, are still rather frequent but mutually exclusive[22]:

- 55 directors[23] are qualified as independent although they apparently do not meet the 9-years tenure rule;
- 31 independent directors[24] received a 'high' additional remuneration (usually associated with a chairman, or deputy-chairman role, or with additional directorships in subsidiaries). In almost half of these cases, companies do not provide any explanation; in these cases, situations 'at risk' are associated more frequently with high remuneration (24 directors, down from 29 in 2019), than with long tenure (16 cases, down from 20 in 2019).

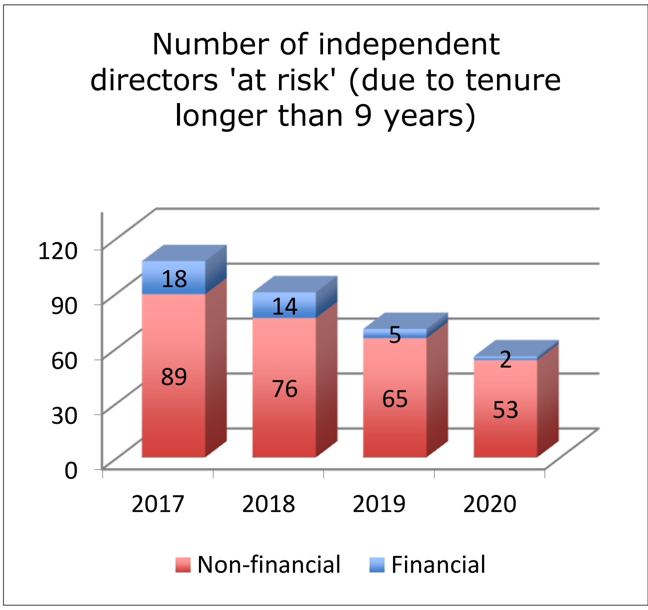
The global number of circumstances potentially impairing directors' independence is decreasing over time; they currently involve less than 10% of all independent directors (i.e. their frequency has more than halved since 2012 – when they were 22% of the aggregate).

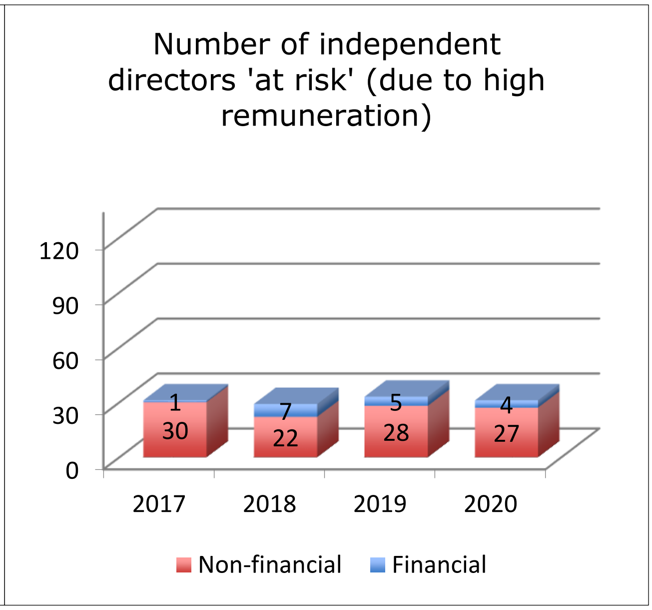


[22] I.e. no single "seasoned" independent director received a "high" additional remuneration in 2019.

[23] They account for the 5% of the aggregate number of independent directors; down 70 in 2019, and 109 in 2017.

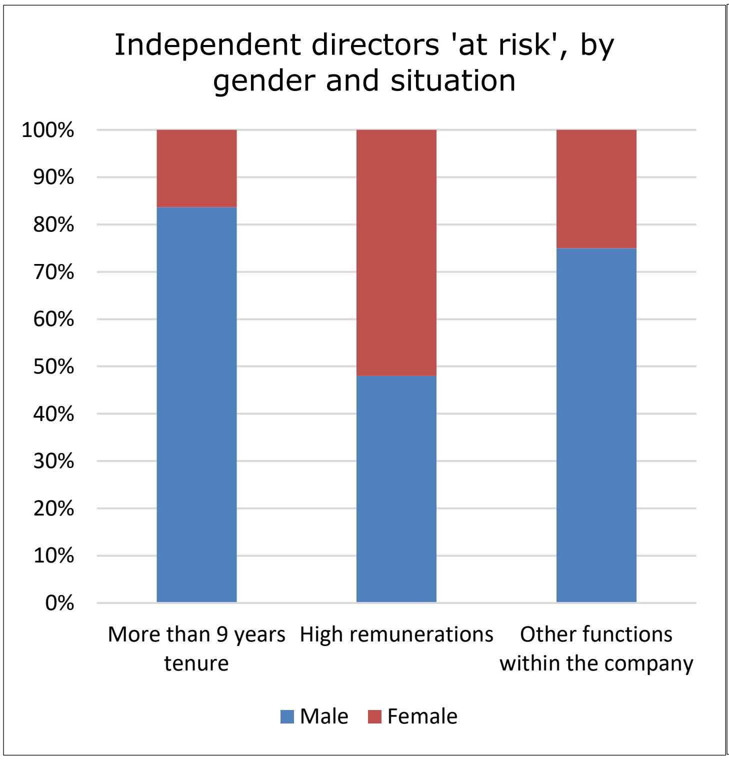
[24] They account for the 3% of the same aggregate number of independent directors.

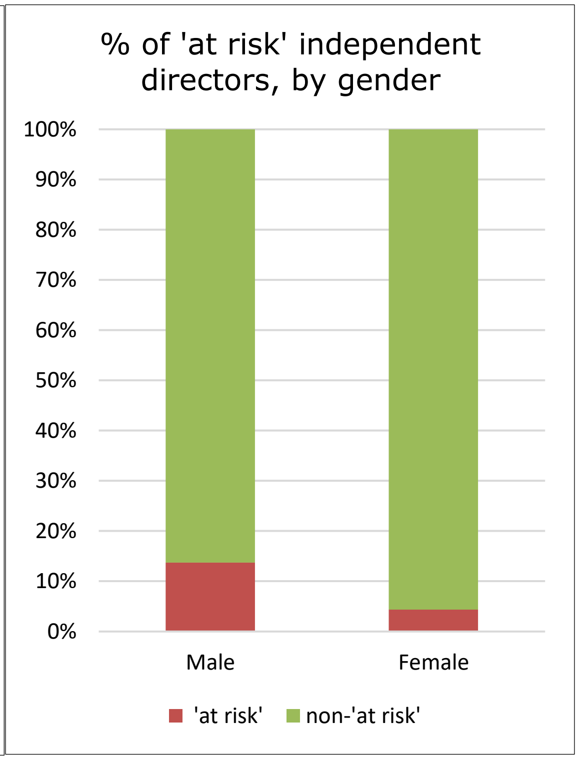



About 74% of independent directors ‘at risk’ are men. Male independent directors ‘at risk’ have more frequently a tenure longer than 9 years, while the independence of female directors is most likely threatened due to ‘higher’ remunerations.

Overall, male directors are more frequently in a situation that might jeopardize their independence than female directors: this situation appears in 14% of male independent directors vs. the 4% of female independent directors.

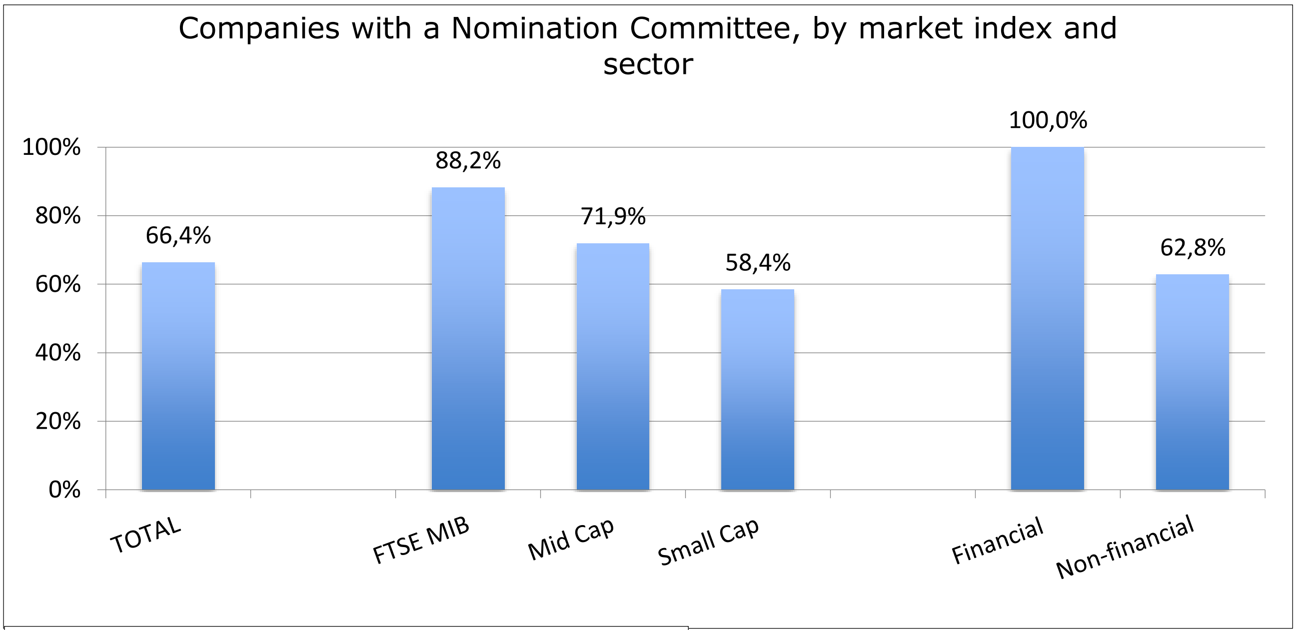


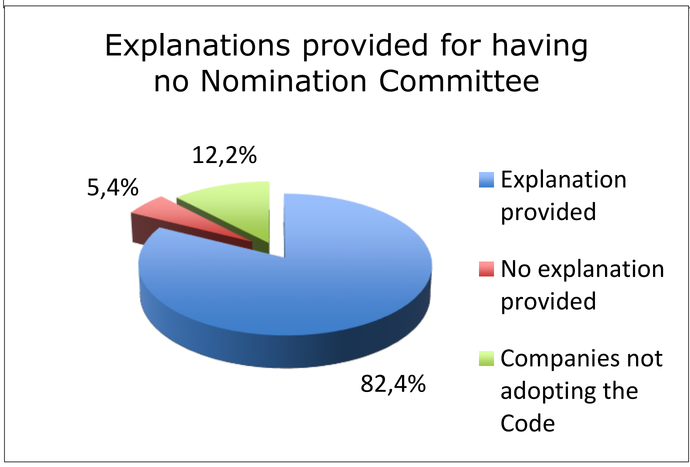




### *Nomination committee*

The Italian CG Committee recommended to establish a nomination committee and, in case it is unified with another board committee, to clearly distinguish its functions and report separately on its activity.

Compliance with the Code in this regard clearly lags. A nomination committee has been established by 146 firms, i.e. 66% of the whole sample; the existence of such a committee is increasing very slowly over time (up from 63% in 2019, 50% in 2015).




Companies choosing not to establish a nomination committee provide quite often (in 82% of the cases) a perfunctory explanation, usually referring to the Italian regulatory "slate voting" system, where candidates are put forward by shareholders.

*Two-third of Italian companies established a nomination committee.*

*It is often (80%) unified with the remuneration committee; in these cases, companies do not always disclose the performing of nomination functions.*

The Italian CG Committee acknowledged companies' different views and burdens to comply with this Code's provisions and developed, in its new 2020 edition, a more proportional approach in relation to the company's ownership structure: starting in 2021, companies with a strongly concentrated ownership[25] are going to apply a simplified regime, where the board may be entrusted with the nomination committee functions under lightened conditions[26].

This simplified approach is likely to have an impact also on the qualitative disclosure of the tasks of

[25] 2020 Italian Corporate Governance Code, definition of "concentrated company".

[26] 2020 Italian Corporate Governance Code, recommendation 16.

the nomination committee, especially in cases where its functions have been entrusted to the board or to another board committee (usually the remuneration committee).

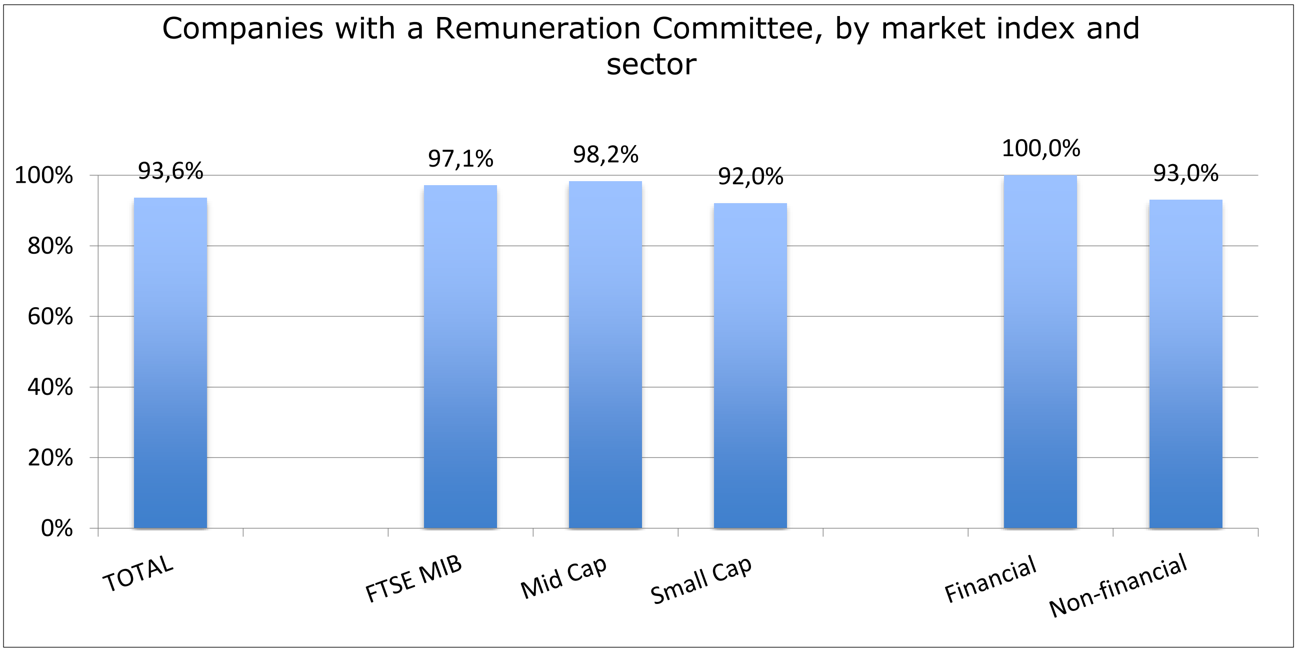
As in the previous years, only a minority of the 146 firms that entrusted a board committee with the task of supporting the board on nomination issues (46, i.e. 21% of all listed companies) established a separate nomination committee, almost always made up of a majority of independent directors, as recommended by the Code.

In the remaining 100 issuers this task is often entrusted to a joint ‘nomination and remuneration committee’. This solution is explicitly envisaged by the Code and might be considered especially by smaller companies. The decision to establish a ‘joint committee’ requires detailed disclosure; however, information about the tasks entrusted to, and the activity performed by, such a committee is not always aligned with Code recommendations (information is available only in 61% of the cases), making it difficult for investors to understand its actual role. In most cases, such a committee operates prevalently as a remuneration committee, and only occasionally performs the functions of a nomination committee.

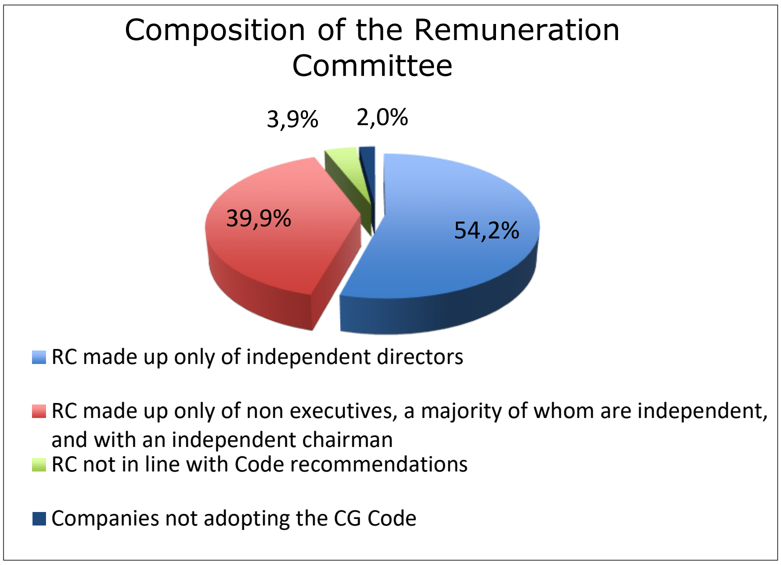
Where established, the nomination committee (whether ‘stand-alone’ or ‘joint’) meets more frequently than in the past (5.9 times per year, up from 3.9 in 2019 and 2.5 in 2015); its meetings last – on average – about an hour.

***Remuneration committee***

A remuneration committee is established almost always (in 94% of the cases). Where no committee was established, an explanation was provided almost always.



The Code recommends that the remuneration committee is made up only of independent directors or, as an alternative, of non-executives, the majority of whom are independent, and with an independent chair.




The first option (all independent directors) has been followed by 54% of the companies; the second option (majority of independent directors, and independent chair) was chosen by 40% of the companies. Considering the CG Code definition, the composition of the remuneration committee is therefore compliant in about 94% of the cases.

The composition of the remuneration committee does not meet the criteria set out by the Code only in a few cases (12); however, the reason for non-compliance is rarely explained.

Remuneration committees meet – on average – 5.2 times per year; meeting frequency is higher in larger firms (8.9 times in the FTSE Mib) and in the financial sector (9.5 times); meetings last – on average – about an hour.

***Control and risk committee***

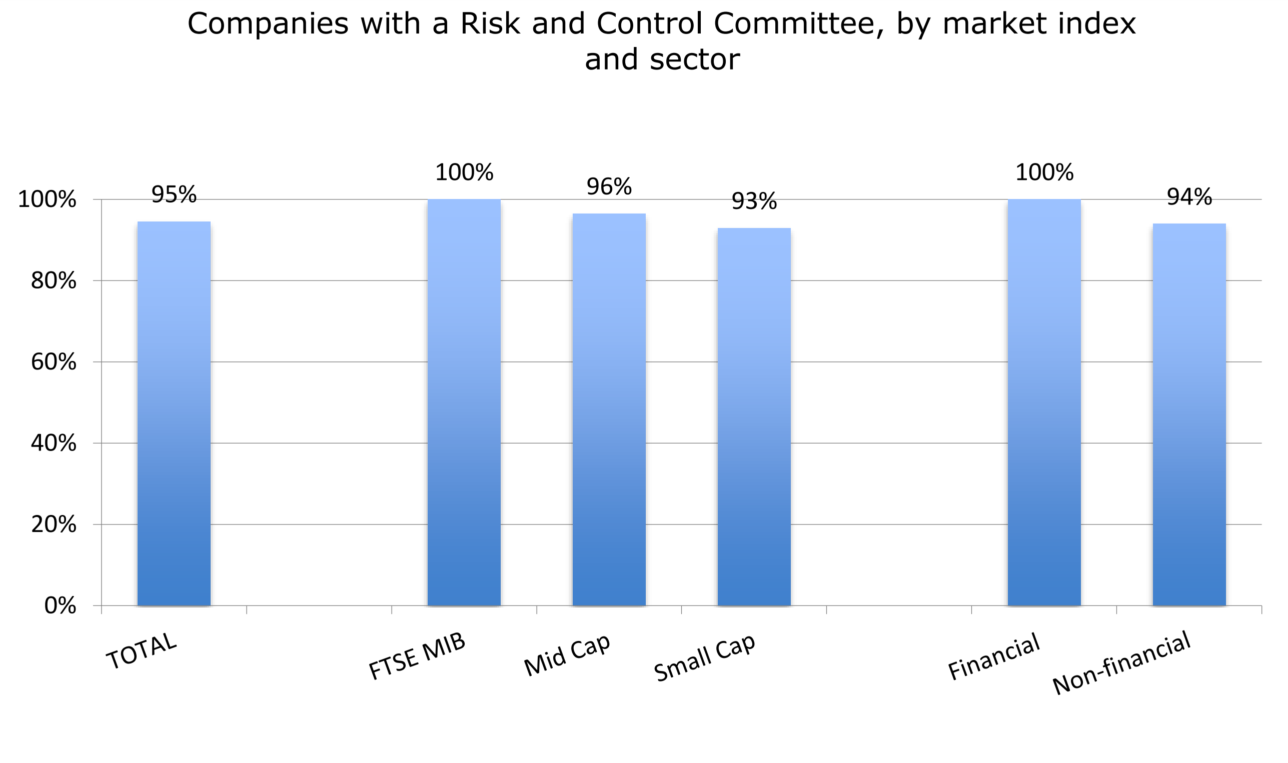
A control and risk committee is established almost always (in 95% of the cases). Where no committee was established, the explanation usually refers to small firm size and the need for a lean governance structure. Some companies attribute the role of the control and risk committee to the board as a whole, meeting the conditions set out by the Code for such a choice (majority of independent members in the board).

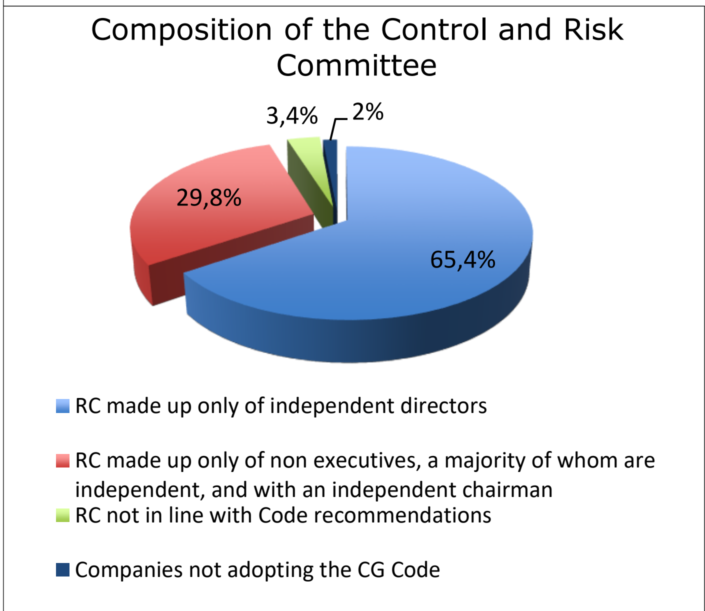
*Almost all listed companies established a remuneration and a control and risk committee.*

*Their composition is almost always in line with the Code's recommendation (all independent or a majority of independent directors, with an independent chair).*



The Italian CG Committee acknowledged smaller companies' different needs and burdens to comply with this Code provisions and developed, in its new CG Code 2020, a more proportional approach in relation to the company's size: as from 2021, smaller companies (i.e. other than 'large companies' defined in the CG Code 2020) will be allowed to entrust to the board as a whole the control and risk committee functions (see *recommendation* 16 of the new CG Code).




The Code recommends that the control and risk committee is made up only of independent directors or, as an alternative, of non-executives, the majority of whom are independent, and with an independent chair.

The first option (all independent directors) has been followed by 65% of the companies.

The second option (majority of independent directors, and independent chair) was chosen by 30% of the firms.

Therefore, the composition of the control and risk committee is compliant with Code provisions in about 95% of the cases.

The composition of the control and risk committee does not meet the Code's criteria only in a few cases (10); however, the reason for non-compliance is rarely explained (this happens only in one case).

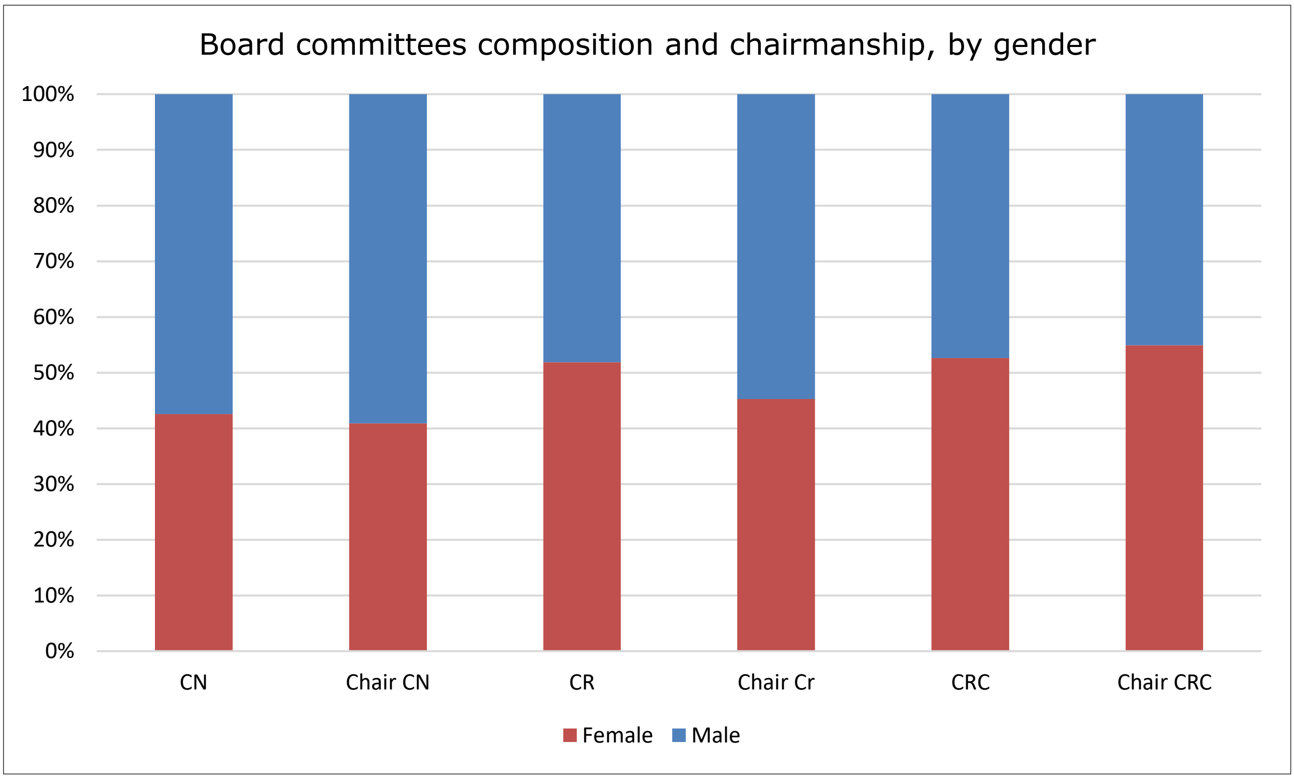
Control and risk committees meet – on average – 8.6 times per year, i.e. 65% more frequently than remuneration committees; meeting frequency is higher in larger firms (12.8 times in the FTSE Mib) and in the financial sector (17.6 times); meetings last – on average – about two hours (i.e. about twice as long as both nomination and remuneration committees).

***Female directors in board committees***

Gender is almost equally represented in all board committees.

In the remuneration and control and risk committees, that both require all non-executive directors and the majority or all of them being also independent, the gender representation is almost perfectly balanced, with female independent directors holding the chairmanship of CRC in the 55% of cases. In the nomination committees, male directors are slightly more than women: they account respectively for 57% vs 43% of nomination committee's members.

The gender balance in board committees' composition – especially on CRC, which is most frequently composed by all independent directors[27] – seems to be influenced also by the higher number of female independent committees' members: among all independent committees' members, women account for 54% vs. 46% of male directors.






***Director in charge of the internal control system***

The Code recommends the board to entrust one or more directors with the task of establishing and maintaining an efficient internal control and risk management system.

The director 'in charge' of the internal control system is identified in 194 companies (89% of the aggregate). Six firms chose to entrust two (or, occasionally, more) directors 'in charge' with complementary tasks, as allowed by the Code. In 140 cases (68% of the aggregate), the director 'in

[27] See p. 24.

charge' is the CEO (or one of the CEOs). In 54 companies, the director 'in charge' is another executive director (20 executive board chairs, 9 executive board deputy-chair and 25 other executive directors). In the other 12 companies, the role is covered by non-executive directors (in 7 cases by an independent director), notwithstanding the Code clarifies that directors in charge of the internal control system shall be qualified in any case as executive, due to the nature of such a role[28].

Companies' practices appear mostly in line with the new CG Code 2020 *recommendation* 32 let. b), which entrusts more explicitly this task to the CEO and, in case of non-compliance, clarifies that the directors 'in charge' must be however qualified as executive.



[28] See *comment* to art. 7 of the Italian CG Code (2018).

## 3. Directors and statutory auditors' remuneration: policy and practice

### *3.1. The remuneration policy*

The first section of the Remuneration Reports provides information about the remuneration policy and the process governing its definition. The quality of information disclosed in this regard still varies with firm size and sector, where larger (FTSE MIB) and financial companies usually apply CG Code's principles better.

In the 2019 Letter, the Italian CG Committee's Chair recommended board of directors to enhance the long-term component of variable remunerations and, more in general, to ensure the consistency of the remuneration policy with company's strategic sustainability targets. This recommendation has been further developed in the new 2020 CG Code, which states – as a main principle – the need to ensure proper alignment of the remuneration policy with the pursuit of the company's sustainable success and recommends – more in details – the variable component to be predominantly long-term oriented and, where relevant, to be linked also to non-financial parameters.

Compliance with the Code and disclosure have improved significantly over time. Nonetheless, some best practices shall find better consideration or better disclosure in the remuneration policies. Areas of improvement regard, in particular, *ex ante* detailed and predefined information about the structure of variable components and severance payments.

These weaknesses in the implementation of the Code's principles reflect, on one hand, possible resistance by some companies to adopt the standards of full transparency set by the Code, on the other hand, the need for a greater flexibility with regard to the pressure for standardization of remuneration policies by investors and policy makers. In particular, the recent introduction of a binding vote of shareholders on remuneration policy and the related limited room for deviating from an 'approved' policy can have the unintended consequence to further incentivize such a need for a wider flexibility[29].

In the 2019 Letter, the Italian CG Committee's Chair recommended board of directors also to ensure that compensation paid to non-executive directors and members of the controlling bodies suits the competence, professionalism and commitment required for their position. Even this recommendation has been included in the new 2020 CG Code, which now identifies clearer guidelines for ensuring adequate remuneration for non-executive directors and statutory auditors, including the appropriate consideration of national and international benchmarks.

***Fixed and variable components of remuneration***



[29] This situation is arguably bound to change after the *Sh.Rights II (SHRD II*) EU Directive is fully implemented in Italy. After the transposition of the SHRD II (legislative decree n. 49/2019), some elements of the remuneration policy and, in particular, the content of the remuneration report are still to be complemented by Consob's regulatory measures. The update of the Consob Issuers Regulation n. 11971 of 14 May 1999, is still underway. See Consob, *Consultation document*, 31 October 2019 (Italian version only).

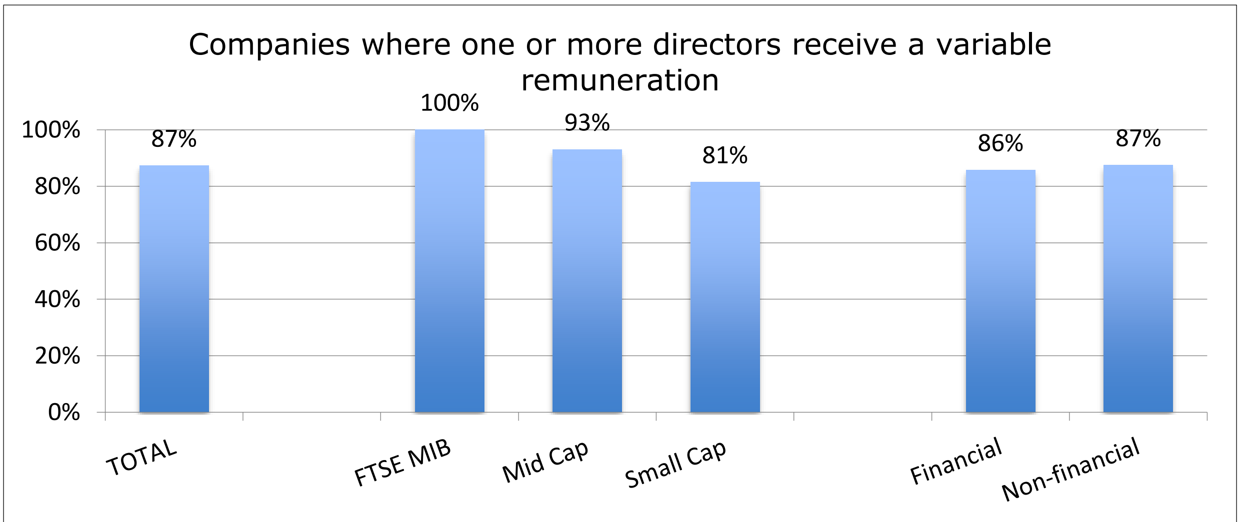
The Code recommends that directors' pay includes both a fixed and a variable component and that a significant part of executive remuneration is linked to specific performance goals, which should be defined in advance and be consistent with the firm remuneration policy[30].

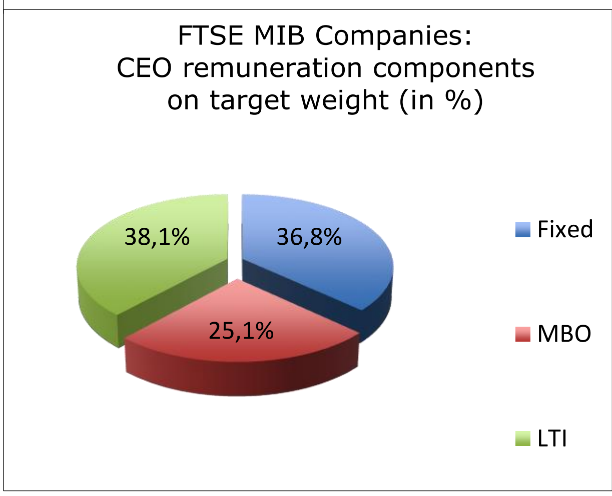
*87% of all listed companies provide for a mixed (fixed and variable) remuneration for their executive directors.*
*Almost all of them provide for a cap to the variable remuneration and disclose the relative weight of fixed and variable components.*

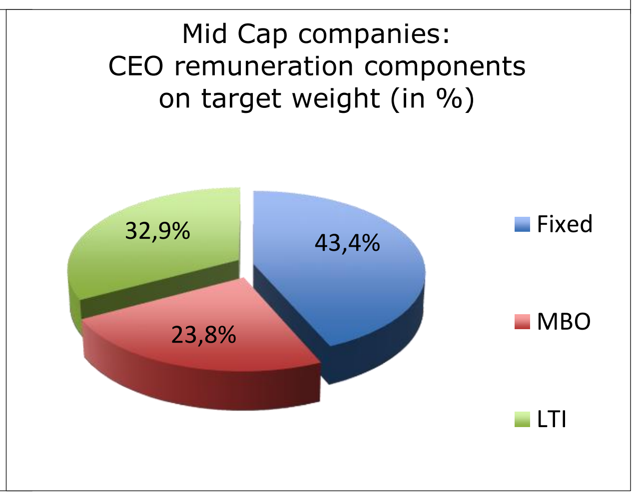
*About ¼ of listed companies provide also more detailed information about the relative weight of MBO e LTI components.*

The existence of a variable component is disclosed by 87% of the companies and appears to be closely related to firm size (it is disclosed by all FTSE MIB companies and by 81% of Small Cap firms).

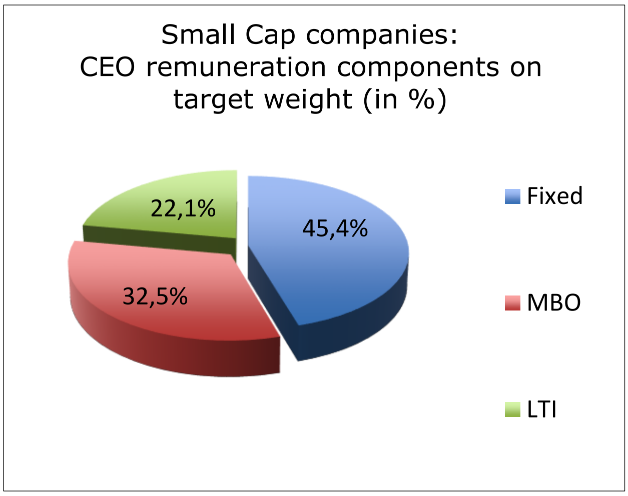
Among the 28 companies which did not grant any variable remuneration, only 10 provide an explanation for their non-compliance with the Code. The explanation is often based, alternatively, on the opportunity to avoid managerial myopia or the circumstance that executives, being the main shareholders, do not need a specific incentive plan. Some companies state the lack of variable pay is due to temporary reasons (e.g. the firm is in a difficult financial situation).




30 2018 Italian CG Code, criterion 6.C.1..




Companies granting variable remuneration to directors do often disclose information about the relative weight of the fixed and the variable component; however, information provided are not standardized and often lack of adequate details. In these cases, it can be difficult to evaluate whether, as recommended by the Code, variable remuneration represents a significant part of total executive remuneration.

Such an evaluation can be easily realized only for 60 companies (27% of the aggregate) who provides detailed information about the relative weight of fixed and variable pay (both short-term – MBO – and long-term – LTI) in case targets of incentive plans are met.

Where such information is provided, fixed pay accounts for 43% of total remuneration, while MBO and LTI are 27% and 30%, respectively. The weight of the LTI component is higher in FTSE Mib firms (38% on average) than in Small Caps (22%).

Better disclosure about the composition of remuneration policy between fixed and variable components is therefore expected.

Companies are increasingly complying with Code's recommendations regarding the provision of a cap to variable remuneration. This happens in 94% of the firms where variable pay is present. However, in the remaining 6% of the cases, no explanation is provided.

***Variable remuneration performance targets***

Performance targets for variable remuneration are almost always linked to accounting-based parameters (96% of the cases); "business" (such as strategic and individual objectives and non-financial parameters, including ESG ones) are considered in around 2/3 of the cases.

Stock-based remuneration plans are adopted by about half of listed companies (56%), more often by larger companies (82% of the FTSE MIB firms) and in the financial sector (78%).

In the 2019 Letter, the Italian CG Committee's Chair recommended boards to ensure the integration of sustainability goals into the definition of firm strategies and remuneration policies.

This approach has been further developed in the new 2020 CG Code, which now states that performance targets should be coherent with company's aim to promote its sustainable success and therefore linked also to non-financial parameters (including ESG), where relevant to this aim.

*About 1/3 of listed companies link variable remunerations to ESG targets.*

*Their provision is more common in larger firms (79%) and in the financial sector (63%).*

An explicit reference to ESG targets in the definition of variable remuneration is growing over time.

In 2020, about one third of listed companies adopted at least one ESG target for the variable remuneration of their directors. These ESG targets are adopted in more than half of medium and larger companies (79% of FTSE Mib and 43% if of Mid Cap companies vs. 18% of Small Cap ones) and in the financial sector (63% vs. 29.5% for non-financial companies).

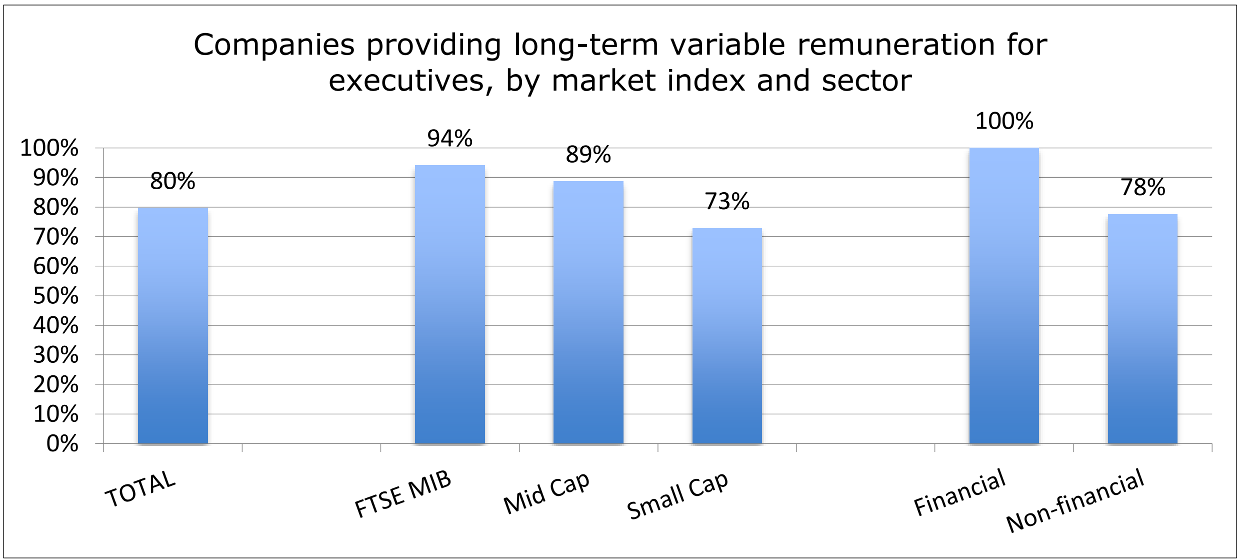
***Long-term oriented variable remuneration***

*Most of listed companies provide almost always an LTI for their executive directors: 80% LTI vs. 20% only MBO).*

*40% of all listed companies provide also for ad hoc bonuses, i.e. awards that can be paid on occasional basis. Nevertheless, these ad hoc bonuses are paid very rarely (to 9 individual directors in 2019).*

The Code recommends that a significant part of executive directors' remuneration is linked to clear performance goals, which should be defined in advance and be linked to the creation of value for the shareholders in the medium-long term.

A large number of companies' remuneration policies providing for a variable remuneration envisages long-term goals (80% of the sample), often combined with short-term goals (72% of the sample). Remaining 20% of such companies provide for only short-term goals. The decision to provide no long-term incentive to executives (or not to defer a substantial part of variable remuneration, as recommended by the Code) is rarely explained.




Remuneration policies often allow companies to award bonuses to executive directors on an occasional, *ex post* basis: this chance – which appears not in line with the need to ensure an adequate *ex-ante* transparency to the remuneration policy, as recommended by the Code – is explicitly envisaged by 40% of the companies (as in 2019; up from 30% in 2017 and 24% in 2015).

This non-compliance has gained, so far, effective relevance only in few companies. Considering effectively paid remuneration, our study shows that *'ad hoc'* bonuses were actually paid out only in a handful of cases (to 9 beneficiaries, down from 14 in previous years).

The amounts disbursed, though, were often substantial (averaging 589,000 €, up from 463,000 € in 2019, and 265,000 € in 2018). *'Ad hoc'* bonuses are usually related to M&A activity; sometimes, they may cover also ordinary activity.

***Malus and/or claw-back clauses***

The Code recommends that contractual arrangements allow the company to reclaim, in whole or in part, variable remuneration previously awarded (claw-back) and/or to hold any deferred payments ('*malus*'), defined on the basis of data which subsequently prove to be manifestly misstated.

*61% of listed companies provide for a claw-back clause*

*Claw-backs are far more frequent in large (91%) and financial firms (96%).*

Compliance with this recommendation, though slowly growing, is still partial. Claw-back clauses have been identified only in 61% of the companies; in about two thirds of such cases, claw-back are complemented by additional *malus* clauses.

Compliance varies considerably with firm size and sector: such clauses are present almost always in large companies (91% in FTSE MIB vs. 46% in Small Caps) and in the banking sector (94% vs. 59% in the non-financial sector).

The lack of a malus/claw-back provision is rarely explained (this happens only in 6% of the non-compliance cases).

***Severance pay***

In the 2019 Letter, the Chair of the Italian CG Committee called issuers to improve their policy regarding severance pay, through an appropriate limitation – *ex ante* – of boards' discretionary powers.

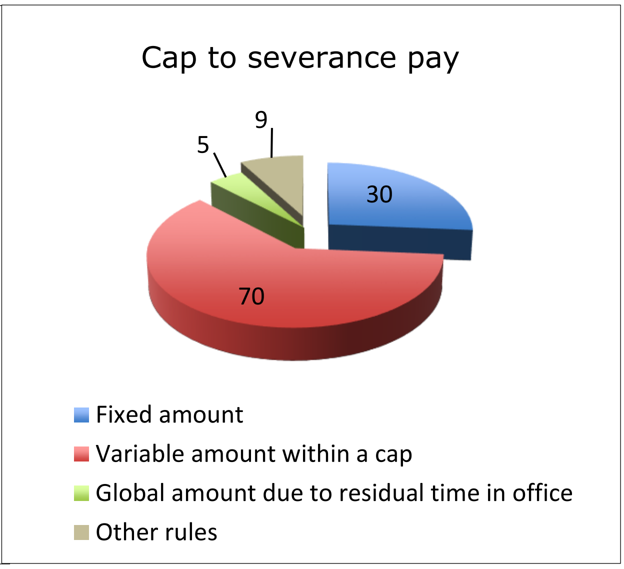
This approach has been further developed in the new 2020 CG Code, which recommend companies to identify *"clear and predetermined rules for possible termination payments, establishing a cap to the total amount that might be paid out"*, stating that such a cap shall be "*linked to a certain amount or a certain number of years of remuneration"*.

As to the last companies' reports, disclosure about severance pay is still unclear in a number of cases. Payments are apparently excluded in about 14% of the cases (i.e. in companies stating that payments *"are not provided"*), while in the residual 86% remuneration policies seem to allow future indemnities. A word of caution is, however, necessary about the numbers reported, since remuneration reports are not always crystal-clear on this matter. A number of companies should still improve disclosure on this point.

The remuneration policy specifies the rules governing termination payments, as recommended by the Code, only in 114 cases (i.e. 52% of the aggregate, up from 44% in 2019). Explicit rules are disclosed more frequently in large firms (in 82% of the FTSE Mib companies, up from 65% in 2019; this compares to 39% among Small Caps) and in the financial sector (90%).

*About 52% of listed companies provide clear rules on severance payments.*

*In the other cases: 14% of listed companies do not set adequate rules for such a payment, while 34% seem to exclude* ex ante *any severance pay.*

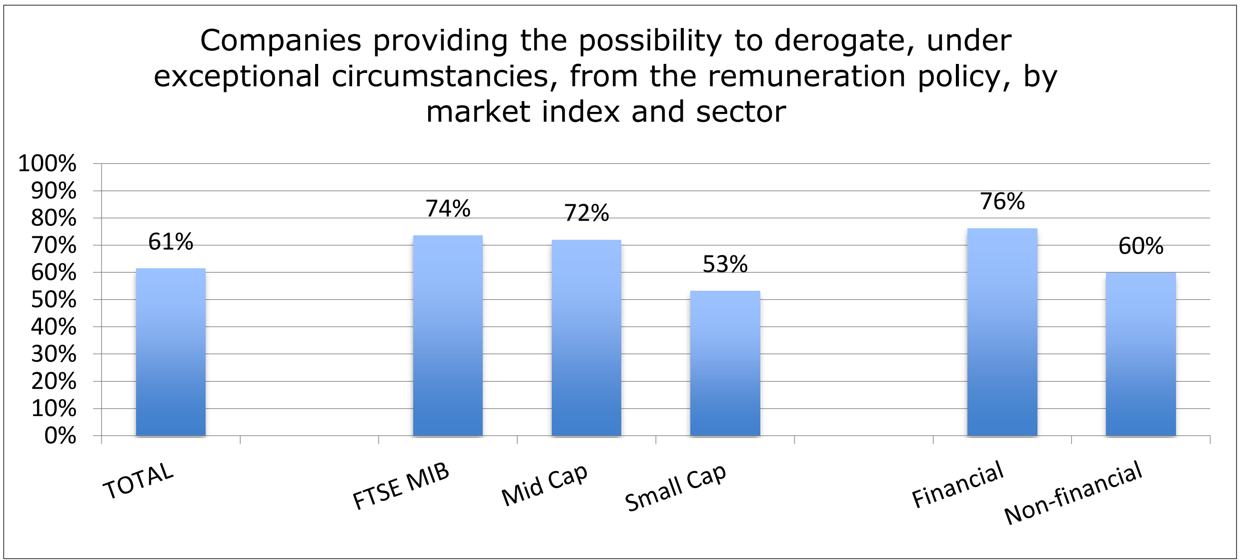

Such rules – where established – either set a fixed amount as severance pay (30 cases, i.e. 26% of the aggregate, down from 39% in 2019) or envisage a cap to amounts payable (70 cases, i.e. 61% of the aggregate, up from 54% in 2019), as recommended by the Code. The cap refers almost always to a number of years (usually two) of executives' remuneration; the cap is often defined (in 73% of the cases) in terms of global remuneration, i.e. including variable pay (in this case, various mechanisms are used to take into account incentive plans whose terms are not expired); in 19 cases (27% of the aggregate) the cap is linked to fixed remuneration only. In some cases, severance payments are linked to directors' tenure or to their residual time in office before the natural end of the mandate.

The explanation provided in non-compliance cases is usually limited to a broad statement that *"no agreement"* concerning severance pay *"is actually in place"*. This explanation, however, is hardly in line with the Code standard, requiring that disclosure of the reasons for non-compliance avoids *"vague and formalistic expressions"*, describes *"the measure taken as an alternative"* and explains how it *"achieves the underlying objective of the recommendation"*. Actually, the purpose of a cap to severance pay is precisely to constrain board freedom where no specific agreement is in place.

***The possibility to depart from the policy approved by the shareholders' meeting***

According to Italian legislation (implementing the EU Directive 2017/828, so-called Shareholders' Rights Directive II) remuneration may be paid to directors only in accordance with a remuneration policy approved by the general meeting (with a binding vote). Companies may, in exceptional circumstances, temporarily derogate from such policy, provided that it includes the procedural conditions under which the derogation can be applied and specifies the elements of the policy from which a derogation is possible.

Boards can derogate, under exceptional circumstances, from the policy approved by the general meeting in 135 companies (61% of the aggregate). This happens more frequently in larger firms (74% in the FTSE Mib vs. 53% among Small Caps) and in the financial sector (76% vs. 60% elsewhere).




Remuneration policies were submitted, for the first time, to a binding shareholders' vote in a season of great uncertainty (mainly due to the Covid-19 emergency). Moreover, the AGM season faced also some legal uncertainty: the new remuneration framework was still incomplete, as the definition of some elements of the remuneration policy and, in particular, the content of the remuneration report are still to be complemented by Consob's regulatory measures[31].Considering the number of issues pointed in the consultation document preceding such an update[32], companies arguably drafted their new policies and reports bearing in mind that possible adjustments could be required within a limited time period.

*More than half of listed companies entrusted the board with the power to depart from one or more policy provisions: most of them refer to "circumstances which may impact financial results" or to "the need to attract or retain managers".*

In such a situation of uncertainty, many firms chose to introduce a clause entrusting the board with the power to depart from the policy, and also to define details of such policy using a sufficiently broad wording, in order to keep enough flexibility under what were undoubtably *"exceptional circumstances"*.

Consequently, several companies provide the board with the power to depart from the policy: a)

[31] In particular, the update of the "Issuers Regulation n. 11971, 14 May 1999". See Consob, [Consultation document](), 31 October 2019 (Italian version only).

[32] Link to the consultation document in the ft. below.

to attract or retain key managers (e.g. through entry bonuses; this happens in 36% of the cases); b) to revise performance targets to account for the impact of exceptional external circumstances (29% of the aggregate); c) to reward exceptional managerial efforts/performances (26% of the cases); d) other relevant circumstances which may impact financial results (61 % of the cases, regarding e.g. changes in the applicable accounting principles, M&A operations not included in the strategic plan, relevant changes in the organization of the company/group or other "extraordinary events").

Quite often, such clauses follow exactly the EU Directive wording *("situations in which the derogation from the remuneration policy is necessary to serve the long-term interests and sustainability of the company as a whole or to assure its viability"*), thereby deferring the decision entirely to a subsequent assessment of the specific situation by the board of directors. The board is usually entrusted with powers covering both fixed and variable, and also severance pay.

### *3.2. The remuneration actually paid*

The analysis of the remuneration actually paid is based on the second section of Remuneration Reports, where information about the amount and structure of the remuneration paid to individual directors (and statutory auditors) are disclosed.

Our analysis focuses on key directors' figures, namely CEOs (including Chair-CEO) and the non-executive directors (including independent directors); non-executive Chairs are excluded from this second cluster, unless otherwise specified.

#### *Total remuneration of CEOs*

In 2020, average total compensation (cash + equity-based) of CEOs in all listed companies, is about 1,300,000, €. It varies significantly according to firm size (2,813,000 € in FTSE MIB, 1,769,000 € in Mid Cap and 559,000 in Small Cap companies). With respect to 2019, average total remuneration for all companies decreased of 7%. The decrease was stronger in small companies (-12%) than in medium and large companies (respectively +3% and -7%).

Considering all companies, about half of CEOs total compensation is represented by fixed base remuneration, 30% by bonuses and profit sharing, 20% by fair value of equity-based remuneration, with 3% due to benefits and other cash components.

*Total CEOs compensations are slightly decreasing in 2020 (-7%): this trend is stronger in smaller companies (-12%).*

*This year marks a significant decrease of equity-based variable pay (-30%).*

The decrease with respect to 2019 is mostly due to the equity-based remuneration (-30%), while the other components were almost stable.

Both the level and the composition of CEOs' remuneration is strongly affected by company size, sector and ownership structure.

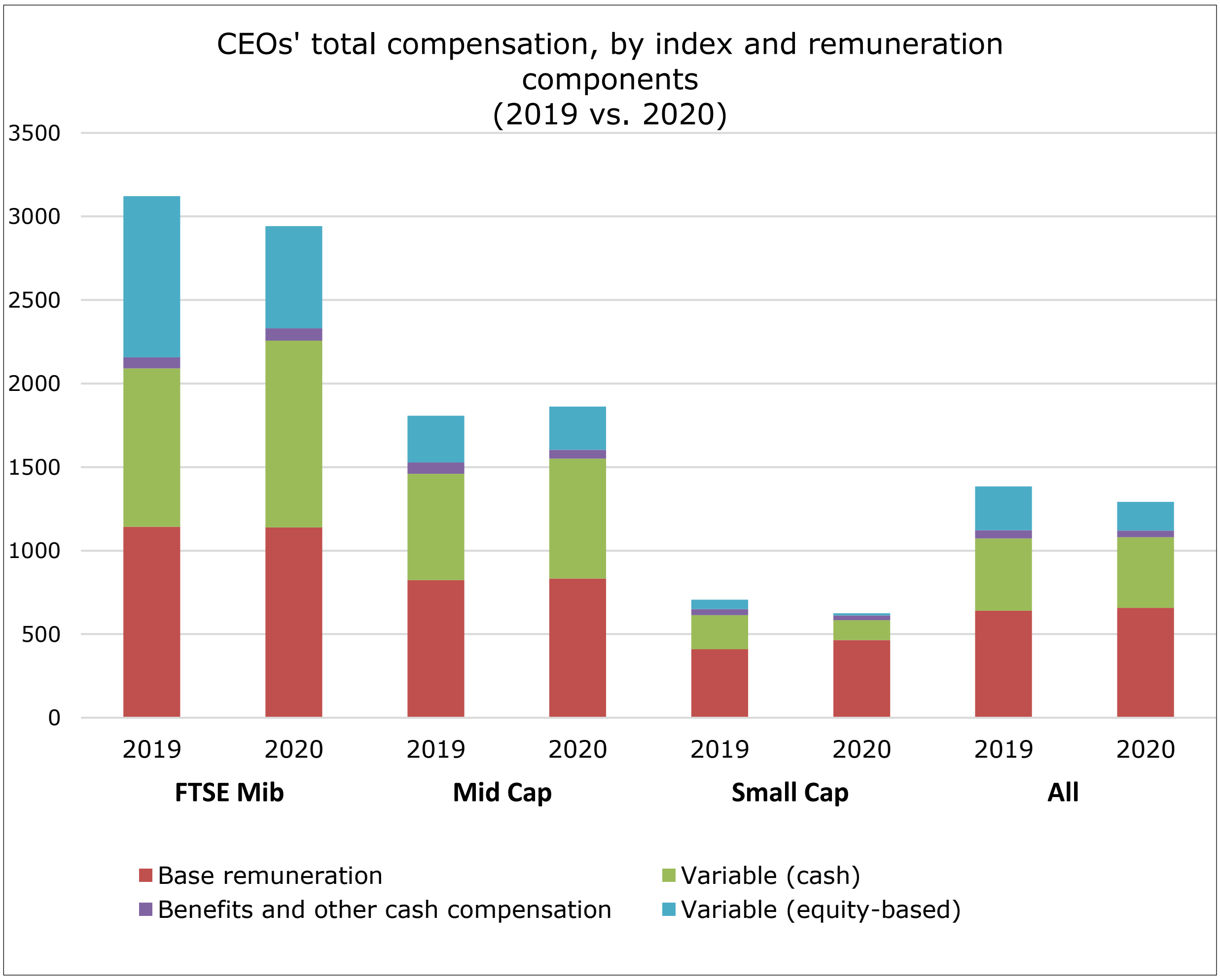
Total remuneration is about 2,8 million € in large companies (FTSE MIB), 1,8 million € in medium size companies (Mid Cap) and 0,6 million € in Small companies (small Cap).

*Total CEO's remuneration is about 2,8 million € in large companies (FTSE Mib), 1,8 million € in medium size companies (Mid Cap) and 0,6 million € in Small companies (Small Cap).*

The balance between fixed (base remuneration + benefits) and variable components (cash and equity-based variable remunerations) varies from 40% of fixed and 60% of variable in large companies to 50%-50% in medium size companies and 80%-20% in small ones.

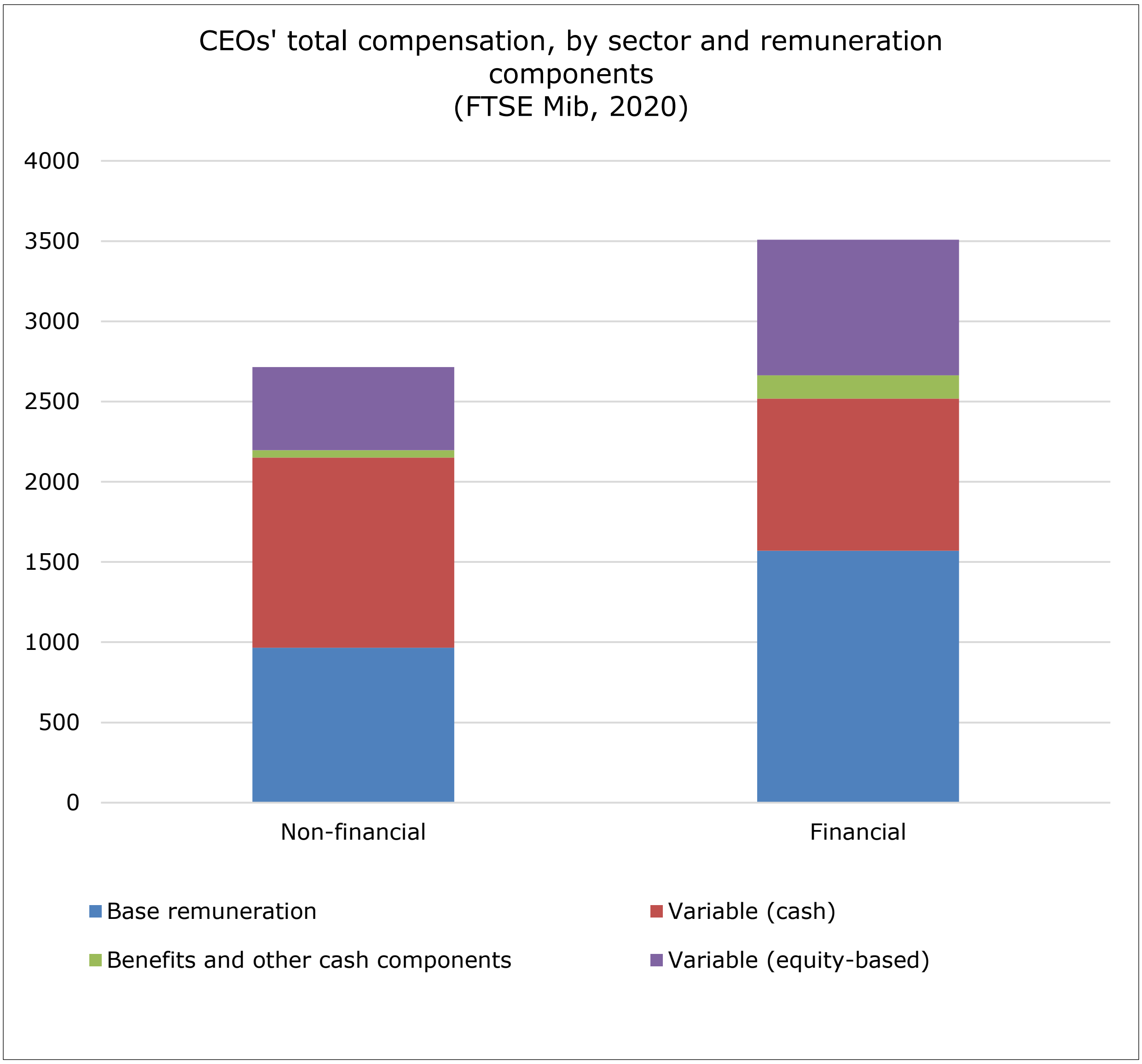
*Company's size affects the weight of CEOs' variable remunerations in total remuneration packages:*

*In particular, variable components (cash bonuses and equity-based incentives) range from 20% in Small Cap, to 50% in Mid Cap and to 60% in FTSE Mib firms.*




CEOs' remuneration is 30% higher in large banks and insurance companies than in the other large companies, the only size where they are significantly represented.

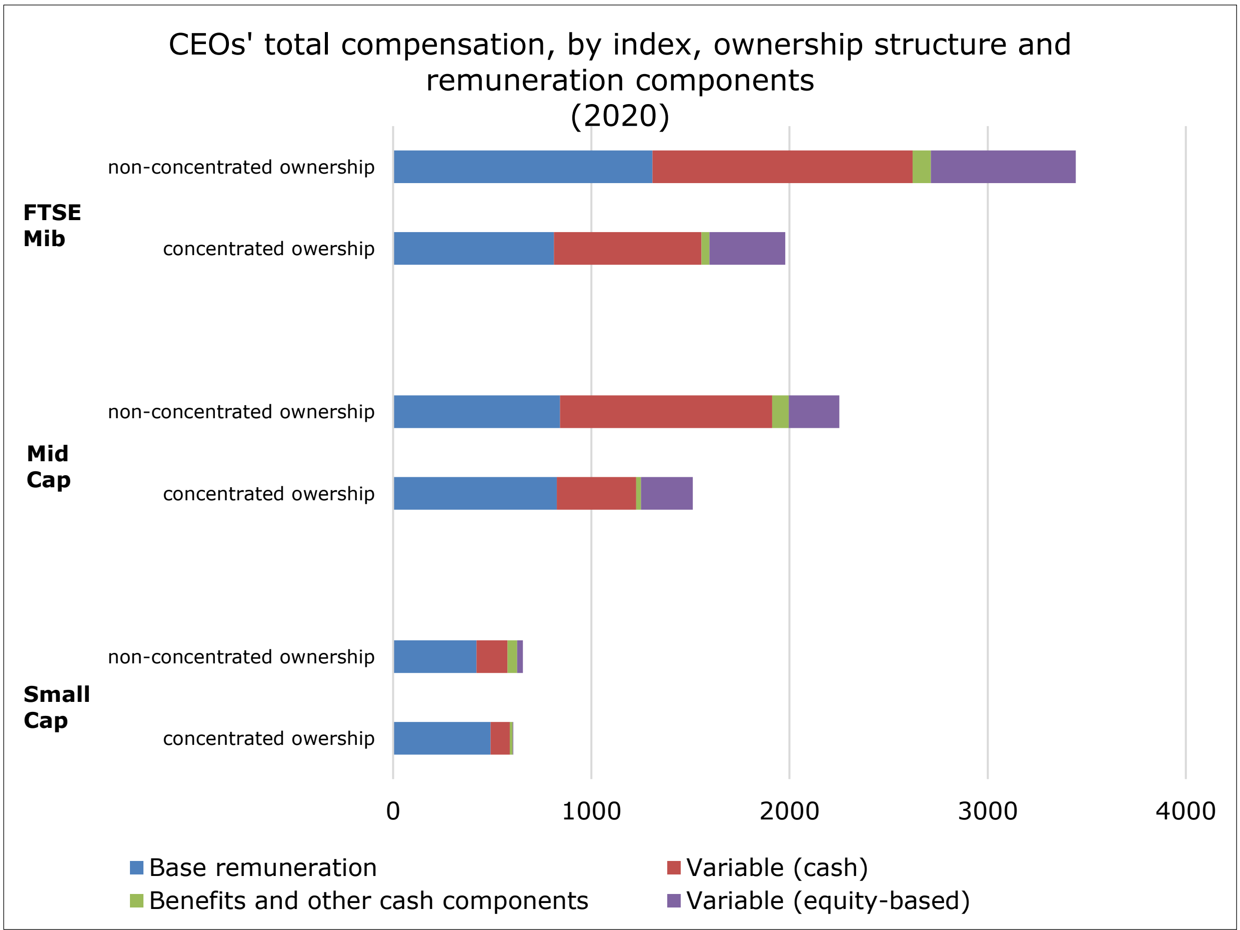
CEOs' compensations in larger financial firms demonstrate a lower weight of variable remuneration, in line with regulatory provisions (50% vs. 65% in non-financial companies).




Also the ownership structure affects both the level and the structure of CEOs' remuneration.

CEO's average total remuneration is higher in companies with no strong controlling shareholder and the difference increases with size (about +10% in small, 50% in medium and +75% il large companies), due to the lower use of variable components in strongly controlled companies, while the fixed one are quite similar.

A possible explanation, often provided by companies themselves, is that in such situations the CEOs are often also relevant shareholders and need less of specific incentives through remuneration.



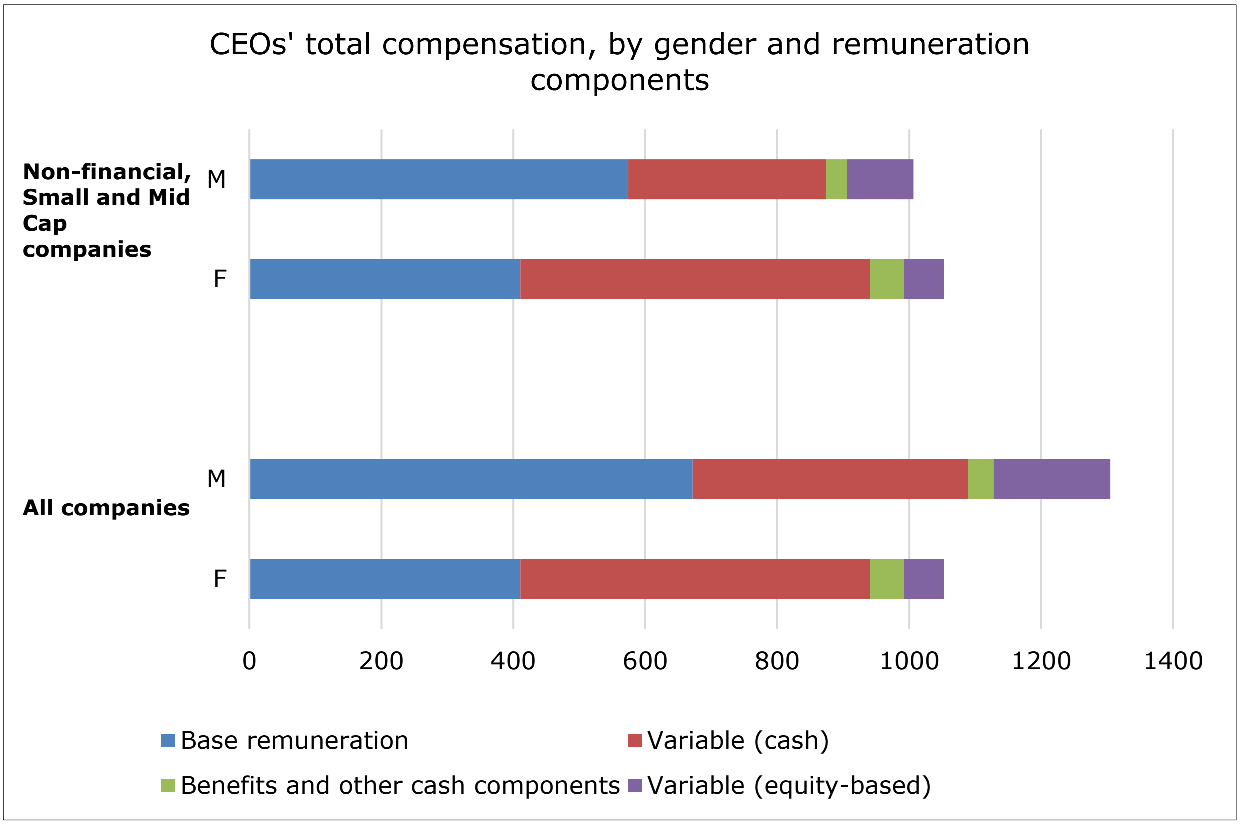

Finally we considered whether CEO remuneration can be affected by gender differences, although it is difficult to consider this issue from a statistical point of view, considering that the number of women CEO is still very low (12 out of 223).

Considering all companies, an apparent gender gap emerges, as female CEOs earn 25% less than male CEOs but this is due the fact that women CEOs are present only in small-medium size (< 5 billion of market capitalization) non-financial companies.

*Only 5% of CEOs are women: they usually hold such a position in smaller firms.*

*Comparing CEOs' remuneration an apparent gender pay gap tends to emerge. However, when remunerations are compared by relevant company's size and sector, this gap vanishes.*

Once we limit the analysis to those companies, no gender gap appears. In these companies, the total CEOs' compensation accounts for about 1 billion € both for men and women CEOs' compensation; the only difference is still observable – even considering the narrow number of individual directors involved – in the composition of remuneration, where male CEOs receive more fixed and equity-based remuneration while women receive more cash bonuses.




***Total remuneration of non-executive directors***

According to the Code, non-executive directors' remuneration should be proportionate to their individual commitment, taking into account also their possible participation to one or more committees.

*Independent directors' remuneration increased by 14%, if compared to last year.*

*This is mainly due to the increase in Mid Cap companies (+20% vs. 2019).*

In the 2019 Letter, the Chair of the Italian CG Committee recommended boards to assess the adequacy of the remunerations paid out to non-executive directors and statutory auditors.

This recommendation is further strengthened in the new 2020 CG Code, which suggest the board to consider also suitable benchmarks, even on international level.

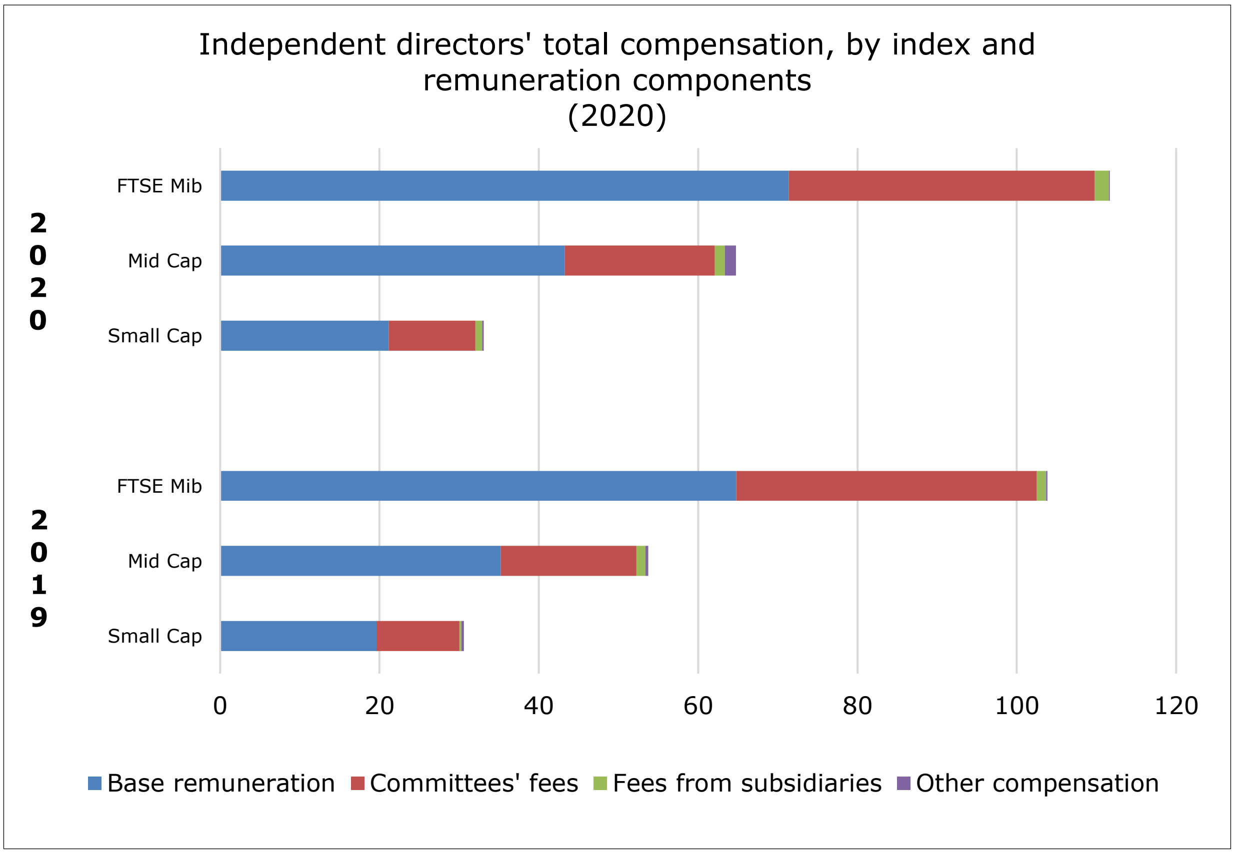
The remuneration of non-executive directors is significantly lower and more stable than that of executives and differs according to the role played: non-executive chairmen earns on average 276,000 €, independent directors 61,000 € and other non-executive directors 71,000 €.

The difference in the total remuneration of independent and other non-executive directors is mainly due to the amounts received by the second ones – namely non-executive directors – from subsidiaries or for other services provided to the company (30,000 € i.e. 40% of their total average remuneration).

*Company's size affects independent directors' remuneration: in medium and larger firms their earn respectively twice and four times as much as independent directors in smaller firms:*

- *about 33,000 € in Small Cap*
- *65,000 € in Mid Cap*
- *112,000 in FTSE Mib firms*

On the contrary, independent directors receive additional fees (20.000 € on average, i.e. 33% of their total remuneration) only for their membership of board committees.




Looking to independent directors' remuneration, its level is affected not only by company size, but also by the sector of the company and by its ownership structure.

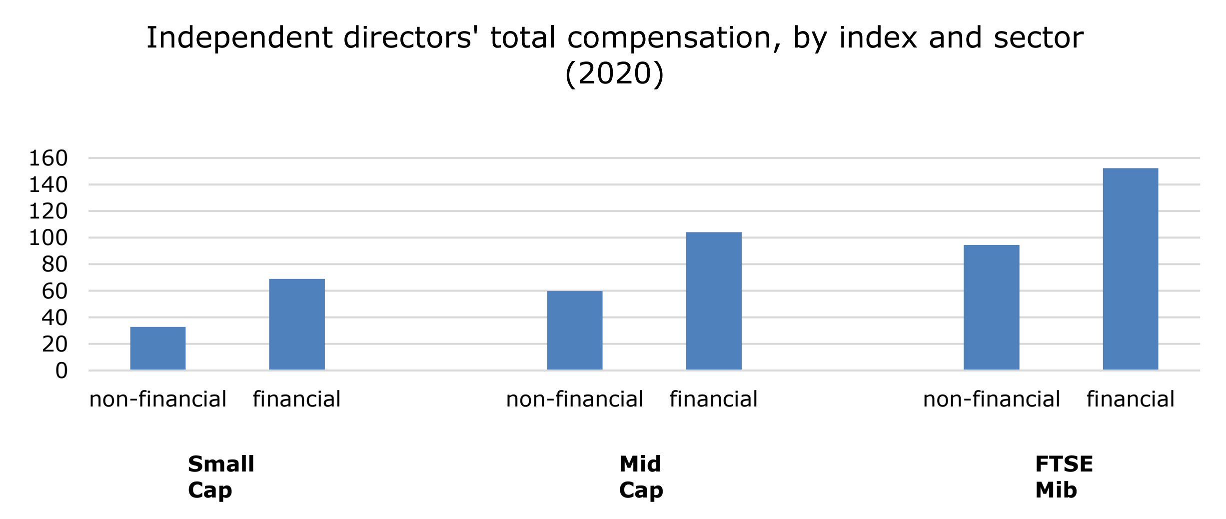
*Independent directors' remuneration is affected not only by company's size but also by its industry sector and its ownership model.*

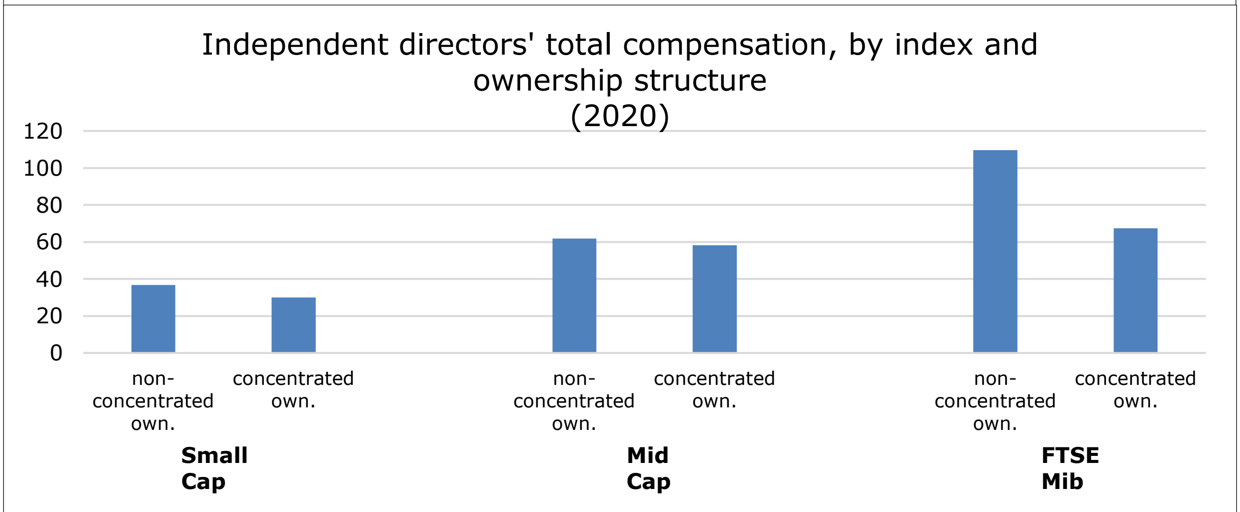
*Independent directors:*

- *in financial firms earn more than twice as much as in non-financial ones;*
- *in non-concentrated ownership firms earn 40% more than in concentrated ones, mostly due to their remunerations in large companies.*

Total remuneration of independent directors is much higher in financial sector and in non- concentrated ownership companies, for all size categories, with the difference increasing with size.

While the relationship between independent directors' remuneration, on one side, and size and sector of the company, on the other side, can be easily explained with the higher complexity and more intense commitment required in large companies and in supervised sectors (bank and insurance), less evident is the reason for independent directors' lower remuneration in concentrated ownership companies, namely in larger ones.



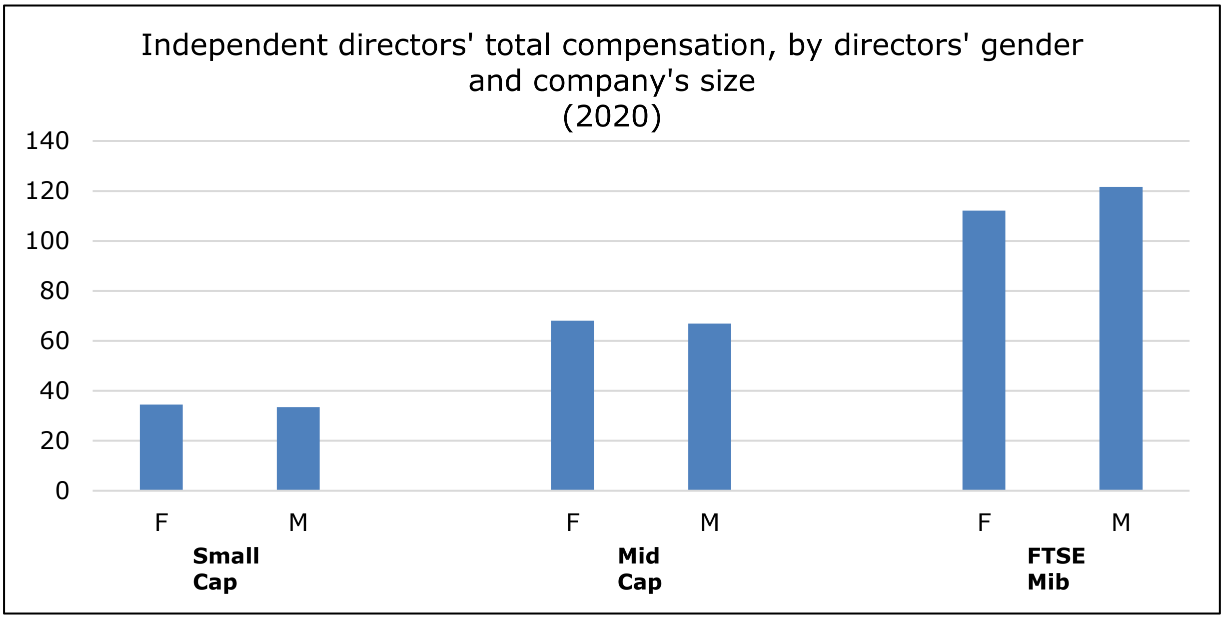

A possible explanation is the different role played by the board, and hence also by independent members, in the different ownership models: more focused on monitoring functions in presence of strong controlling owners (so-called monitoring board); more widely involved also in the strategy development where the ownership is less concentrated and weaker or absent the role of controlling shareholders (so-called advising board). The wider and more demanding tasks played by independent directors in advising board could therefore explain their higher remuneration.

*When compared by relevant company's size and sector, male and female independent directors get an almost equivalent remuneration.*

*The slight 'gender gap' tends to disappear where remunerations are compared not only by index, but also by other company's features (market cap and sector).*

Some differences in total remuneration of independent directors are apparently linked to a gender factor: considering all companies, female directors earn 10% less than males.

Actually, this is mainly due to the fact that female directors are more common in small companies (40% vs. 25% for males), where remuneration is lower. As a matter of fact, considering company's size, remuneration is not affected by gender but, slightly, for large companies. Nevertheless, also in large companies the difference in remuneration by gender seems to be due to the features (capitalization, sector) of companies where they are represented rather than to gender gap within the same companies' category.




***Actual severance payments***

Only 9 executive directors among the 34 who stepped down from their office in 2019 actually received severance payments.

*Only ¼ of executive directors ceased during the 2019 received a severance payment.*

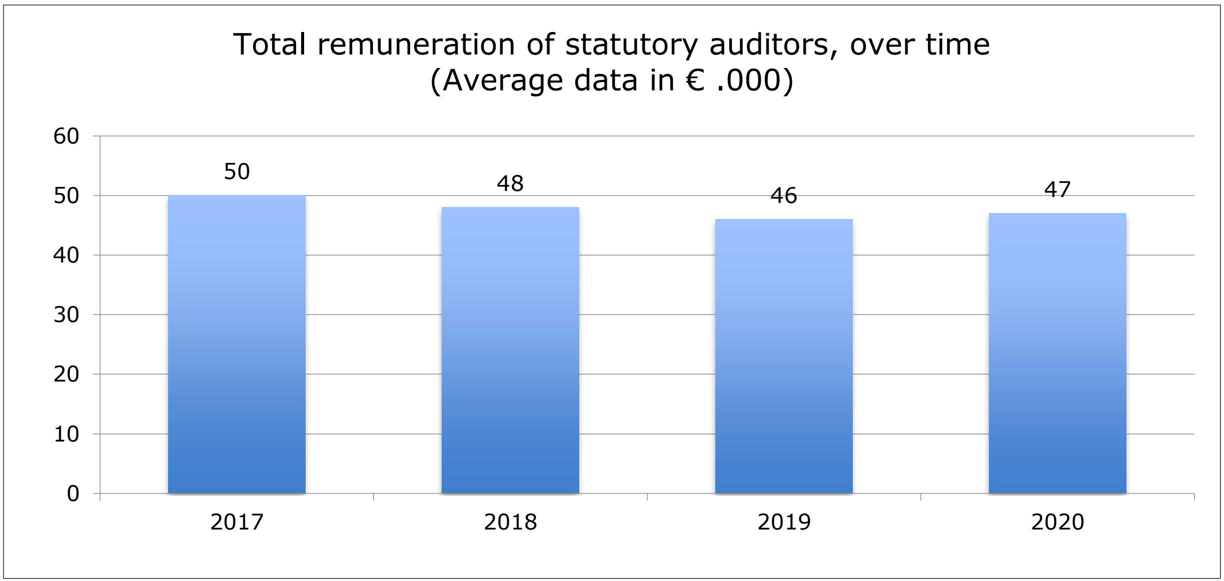
*The average severance payment accounts for 2 million €: their amount varies significantly (from min 9,000 € to max 13,1 million €).*

The amounts involved are often substantial (slightly less than 2 million €, on average), even though they vary a lot across companies (they range between 9,000 € and 13.1 million €).

14 directors who are still in office also received "termination" payments, associated with specific permanent changes of their role, or to "end-of-mandate" treatments "paid" (or - more often - deferred) during their mandate. The amounts involved in these cases are much lower (211,000 €, on average), but often still significant if compared to the global remuneration of other directors in such companies.

***The remuneration of statutory auditors***

Statutory auditors' remuneration amounts to 47,000 € on average, i.e. 23% lower than that of independent directors. The average remuneration of statutory auditors is substantially stable over time, despite the growing time commitment and responsibilities involved by their role.




As in the case of directors, the remuneration of statutory auditors varies considerably with firm size (89,000 € in FTSE MIB companies, i.e. about 2.8 times their average remuneration in Small Caps) and industry (100,000 € in financial vs. 41,000 € in non-financial firms).

The fixed component represents 84% of total pay; remuneration from subsidiaries accounts for another 12%. Other components are almost negligible. The chair of the board of statutory auditors receive about 10,000 € more than his colleagues, a difference entirely due to fixed pay.

"Seasoned" statutory auditors receive a remuneration higher than their peers in smaller firms: the difference is 11% in Mid Cap (61,000 vs. 55,000 €) and 21% in Small Cap companies (37,000 vs. 30,000 €).

> Statutory auditors' remuneration varies according to company's size and sector.
>
> On average, statutory auditors earn 20% less than independent directors.

According to the Code, statutory auditors' remuneration should be proportionate to their individual commitment. Statutory auditors' average pay is significantly (about 20%) lower than that of independent directors. This casts some doubt on its appropriateness, once both the relevant role and the increasing responsibilities of statutory auditors are taken into account.

## 4. Synthetic corporate governance index

Our synthetic corporate governance index is based on twenty indicators covering the main recommendations of the Code, grouped in the four areas of governance on which the Code is focused: board composition and structure, board effectiveness, independent directors and remuneration policy.

Each indicator provides an assessment of the implementation of specific recommendations against some criteria defined *ex-ante*, aimed to verify substantial compliance with the Code and, in some cases, even the application of higher and more ambitious standards than those recommended by the current Code, to take into account the evolution of market expectations regarding the topic covered by the recommendation.

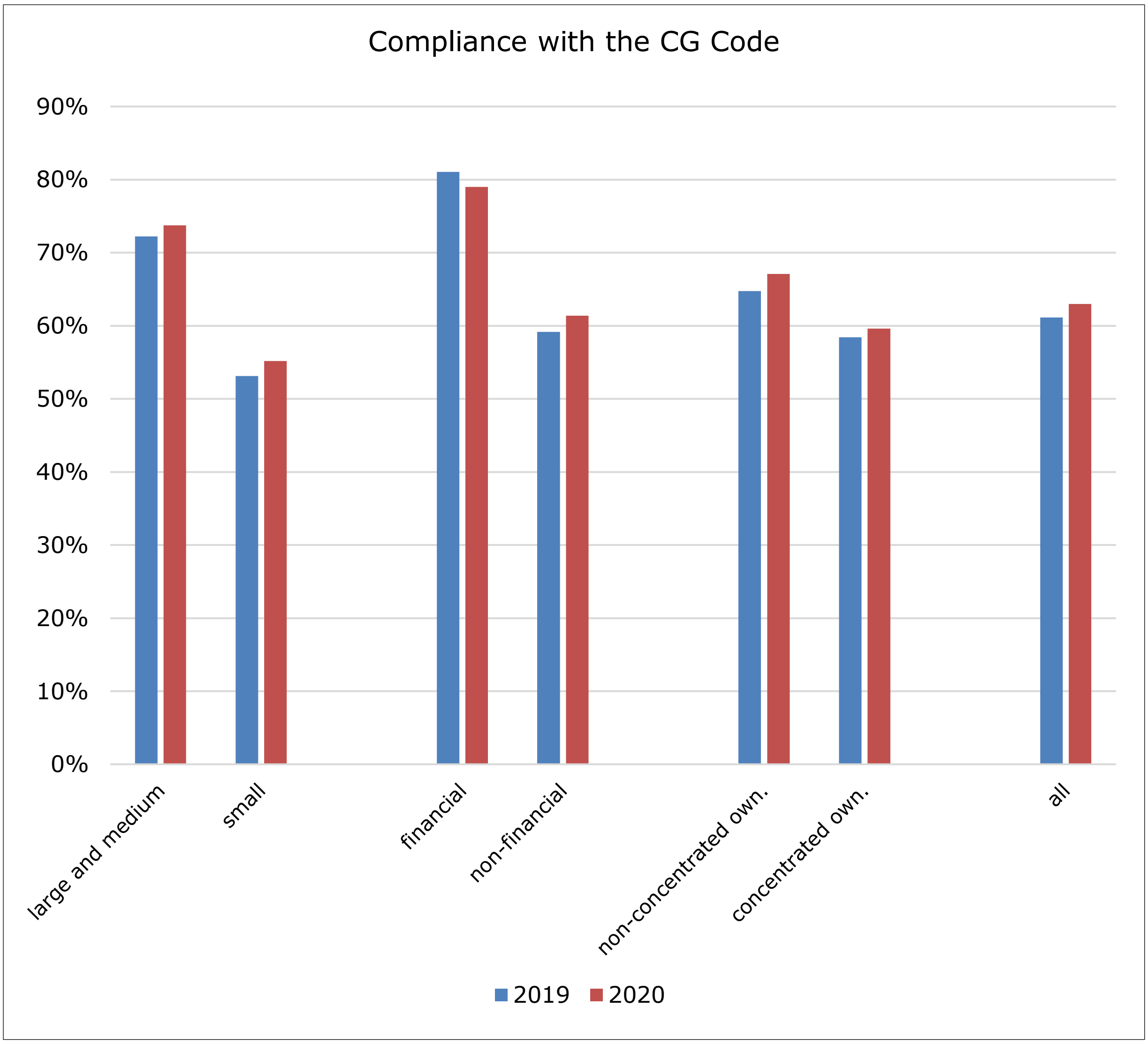
***Our methodology***

| A) BOARD COMPOSITION AND STRUCTURE | B) BOARD EFFECTIVENESS |
|---|---|
| **1. Board composition:**<br>- presence of both executive and non-executive directors<br>- weight of independent directors, according to the Code<br>**2. LID where recommended (Y/N)**<br>**3. Nomination Committee**<br>- NC established<br>- NC composition compliant with the Code<br>- stand-alone or unified committee with adequate disclosure about its activities<br>**4. Remuneration Committee**<br>- RC established<br>- RC composition compliant with the Code<br>- Number of meetings > 1<br>**5. Control and Risk Committee**<br>- CRC established<br>- CRC composition compliant with the Code<br>- number of meetings > 2 | **6. Company's managers' effective attendance to board meetings (Y/N)**<br>**7. Board pre-meeting information**<br>- prior notice deadline<br>- compliance with prior notice deadline<br>- no waiver for "confidentiality" reasons<br>**8. Board evaluation**<br>- carried out every year<br>- process disclosed<br>- board oversight of the process<br>**9. Board guidance on interlocking (Y/N)**<br>- criteria on max number of offices for each director<br>**10. Board guidance on its optimal composition (Y/N)**<br>- only in case of board renewal<br>**11. Succession plan in place (Y/N)** |
| **C) INDEPENDENT DIRECTORS** | **D) DIRECTORS' REMUNERATION** |
| **12. Application of Code's independence criteria**<br>- adoption of all Code's independence criteria<br>- no independent directors "at risk" (more than 9 years and/or high remunerations) with no individual explanation<br>**13. Disclosure of criteria for evaluating the significance of a relationship potentially hampering directors' independence (Y/N)** | **14. Variable remuneration for executive directors (Y/N)**<br>**15. Cap to variable remuneration (Y/N)**<br>**16. Long-term oriented variable remuneration (Y/N)**<br>**17. Ex ante definition of performance criteria for variable remuneration**<br>- clear disclosure<br>- no "ad hoc" bonuses<br>**18. Definition of performance criteria linked to strategic objectives (Y/N)**<br>**19. Claw-back clauses (Y/N)**<br>**20. Clear rules on severance payments (Y/N)** |

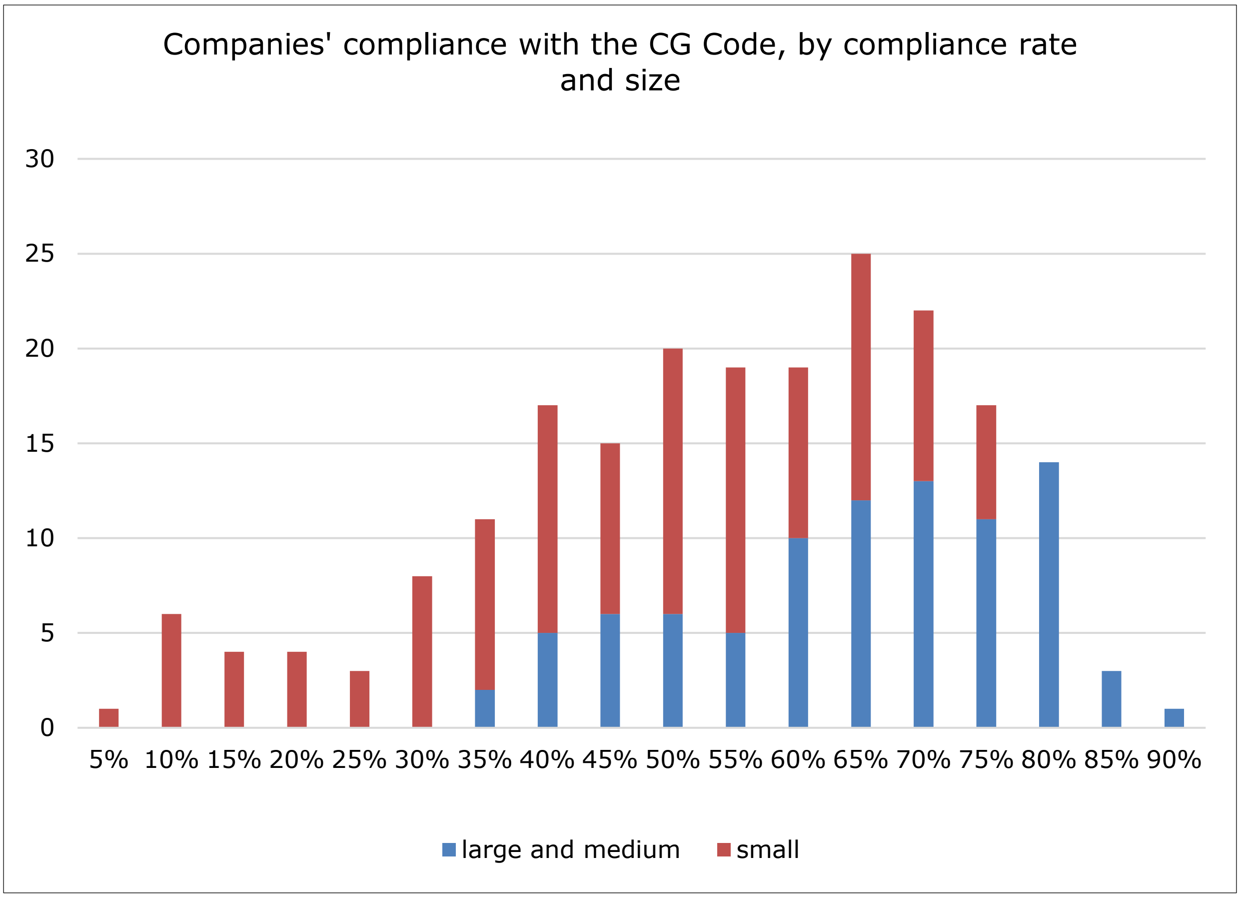
Following this approach, we assessed all companies adopting the Code in the last two years and found that, in 2020, the degree of compliance with the *criteria* of “robust” implementation of the main recommendations of the Code was about 65%, with an increase of about 2% with respect to 2019.

As already emerged in our traditional monitoring, the level of robust implementation is higher for large companies and for banks and insurance companies.

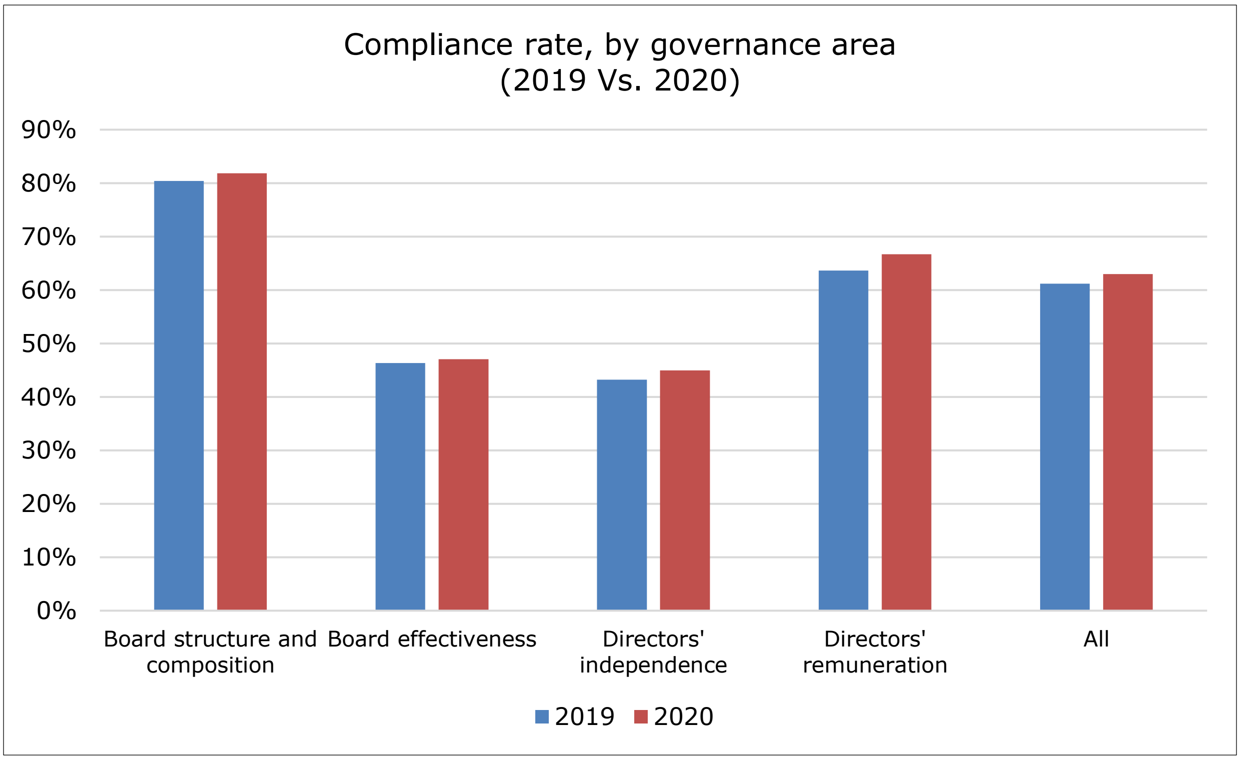
Large companies reach an average compliance rate of 73,7% against the 55,2% of small companies; financial firms show a 79% compliance with the index, against the 61,4% of non-financial ones.



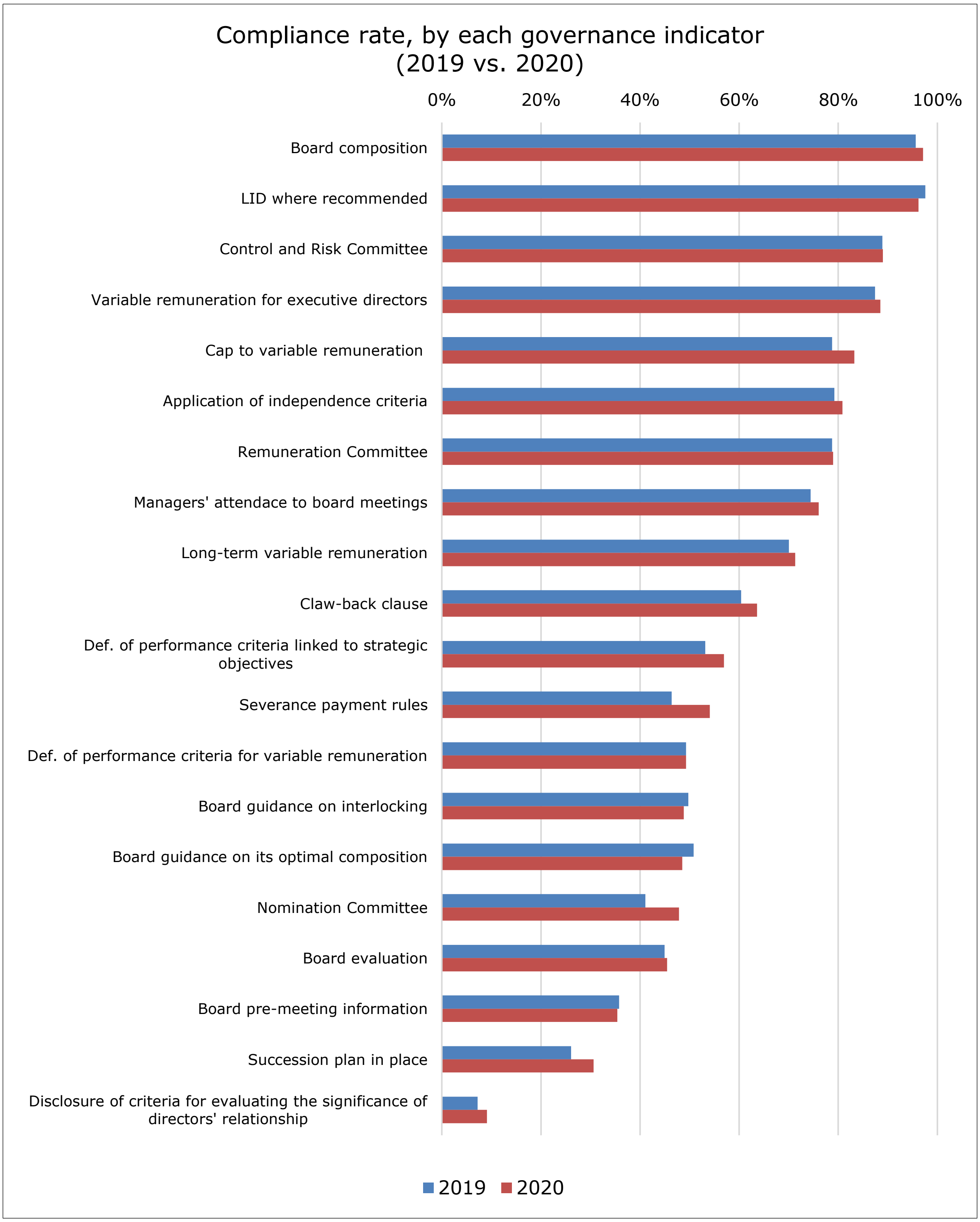

However, the size effect is limited to a narrower number of small companies: about 25% of small companies have a compliance rate higher than 60% (which is, in turn, the global average compliance rate). Large and medium size companies are frequently ranked very high: in 2/3 of cases, they have an average compliance rate higher than 60%.




The ownership structure seems to play a less relevant role: companies with a concentrated ownership show a slightly lower compliance rate than companies with a less concentrated ownership (59,6% vs. 67,1%).



Considering the compliance with individual governance areas, we observe that corporate practices are usually higher with regard to board composition and structure (80%), followed by remuneration policies (67%), while the average compliance rate is usually lower in the assessment of individual directors' independence (45%) and the effectiveness of the board (47%). All of these areas show, however, a slight increase if compared to 2019 data: in particular, the areas of major concern, such as directors' independence and the board effective functioning, improved more than others.



As to the board structure and composition, companies show a high compliance with Code's recommendations regarding the number of independent directors, the appointment of a lead independent director (where recommended), while the appointment and the effectiveness of the nomination committee reveals a room for improvement.

With regard to the effective functioning of the board, all but one[33] indicators show a low compliance rate.

A large number of companies (70%) still fails to adopt a succession plan for the CEO[34] and about 2/3 of companies shall improve the effectiveness and the timeliness of the flow of information before the board meets; in the latter case, critical areas regard, in particular, the lack of a clearly identified prior notice for sending the documentation to the board and, where identified, the provision that such a prior notice can be waived for general "confidentiality" reasons. Meaningfully, the quality/timeliness of pre-meeting information is one of the key concerns that is usually raised by directors themselves during the board evaluation process.

While most companies conducted a *board review*, some practices shall be improved in about a half of companies. In particular, a high number of companies still fails to entrust the board or a board component with clear oversight tasks over the board evaluation process.

Some of our indicators are focused on independent directors, who represent a key area for an effective corporate governance.

The overall compliance is based on the evaluation of few indicators, where each of them shows different levels of companies. Basic indicators are well applied by a large majority of companies: 80% of them apply all independence criteria set by the Code or depart from one or more of them by providing an adequate individual assessment of the director's effective independence. On the contrary, more qualitative indicators reveal significant room for improvements: for example, the Code's recommendation to define *ex ante* the qualitative and quantitative criteria for the evaluation of significance of a professional or business relationship between the director and the company is followed by a tiny minority of listed firms (10%, where most of them are blue-chips).

Corporate governance practices regarding directors' remuneration find an overall good application. As in the other areas, also in this case the level of compliance varies significantly due to the specific remuneration practice and component.

On one side, almost all companies remunerate their executive directors with a variable component (90%), limit it with a clear cap (more than 80%) and link it to long term performance objectives (more than 70%). Significant improvements can be observed in the provision of claw-back clauses, which are set in the 65% of remuneration policies (with a steady increase over time), and in the companies' decision to link part of the variable remuneration to strategic non-



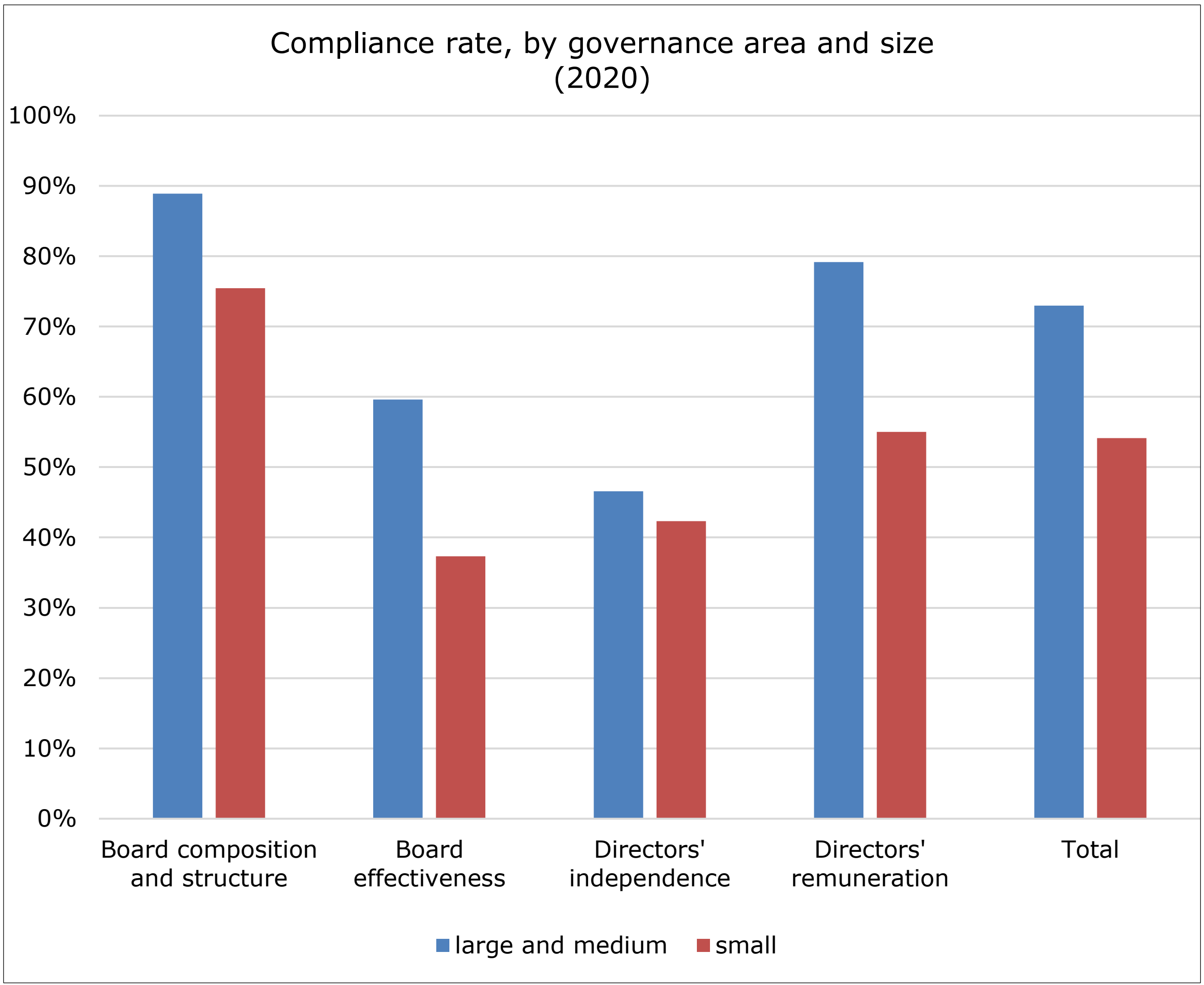
[33] Managers' attendance to board meetings.

[34] Even if the adoption of a succession plan is not explicitly recommended by the 2018 CG Code.

financial performance goals, that are found in about 60% of remuneration policies.

On the other side, there is also a room for improvement: about half of remuneration policies could provide for a better definition of the variable remuneration's performance criteria and for clearer rules on severance payments. Even though the rules on severance payments are still too vague, the comparison with 2019 shows some tiny improvements in this area.

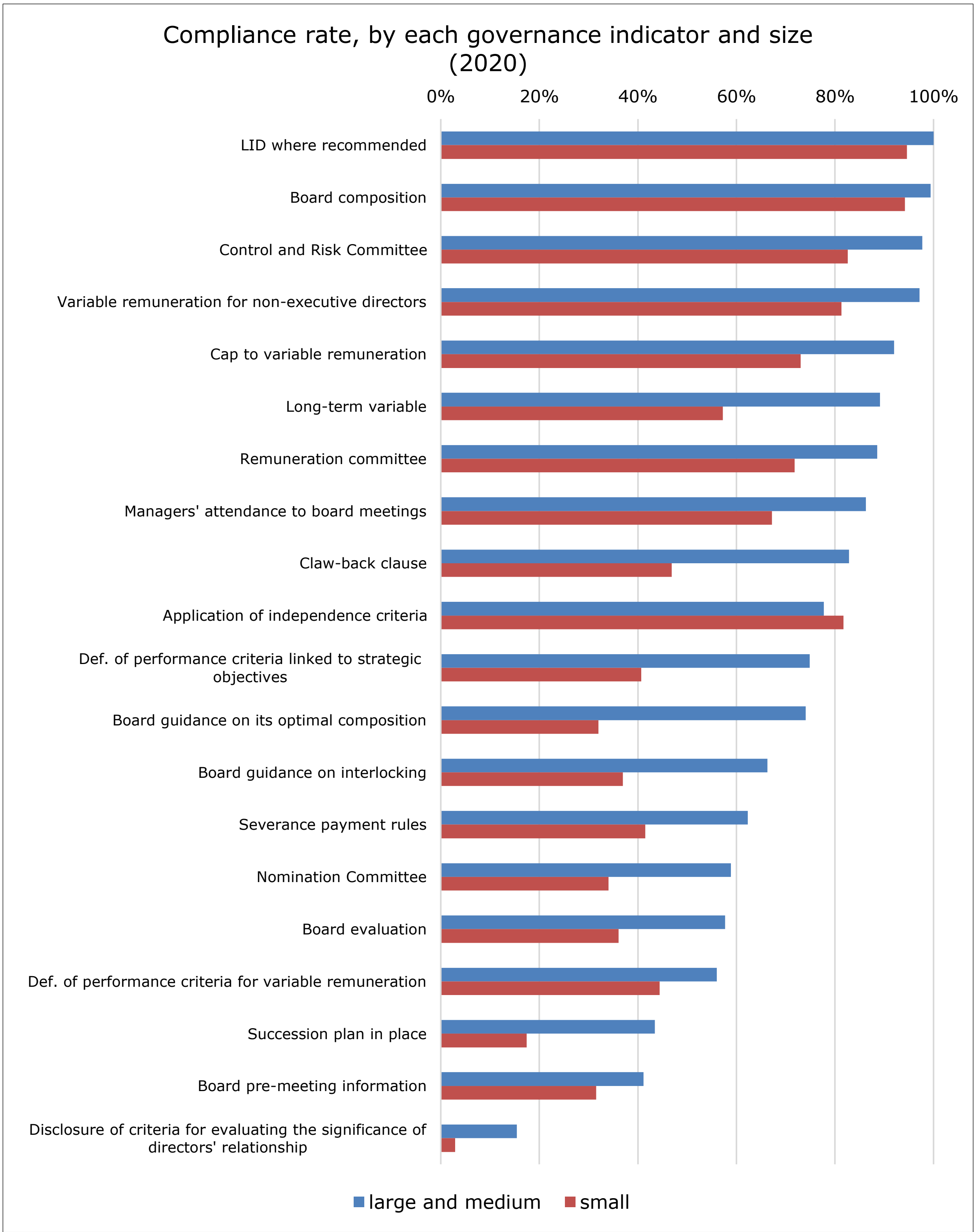
All the above-mentioned areas of improvement arise with different shades across companies' size and ownership structure.



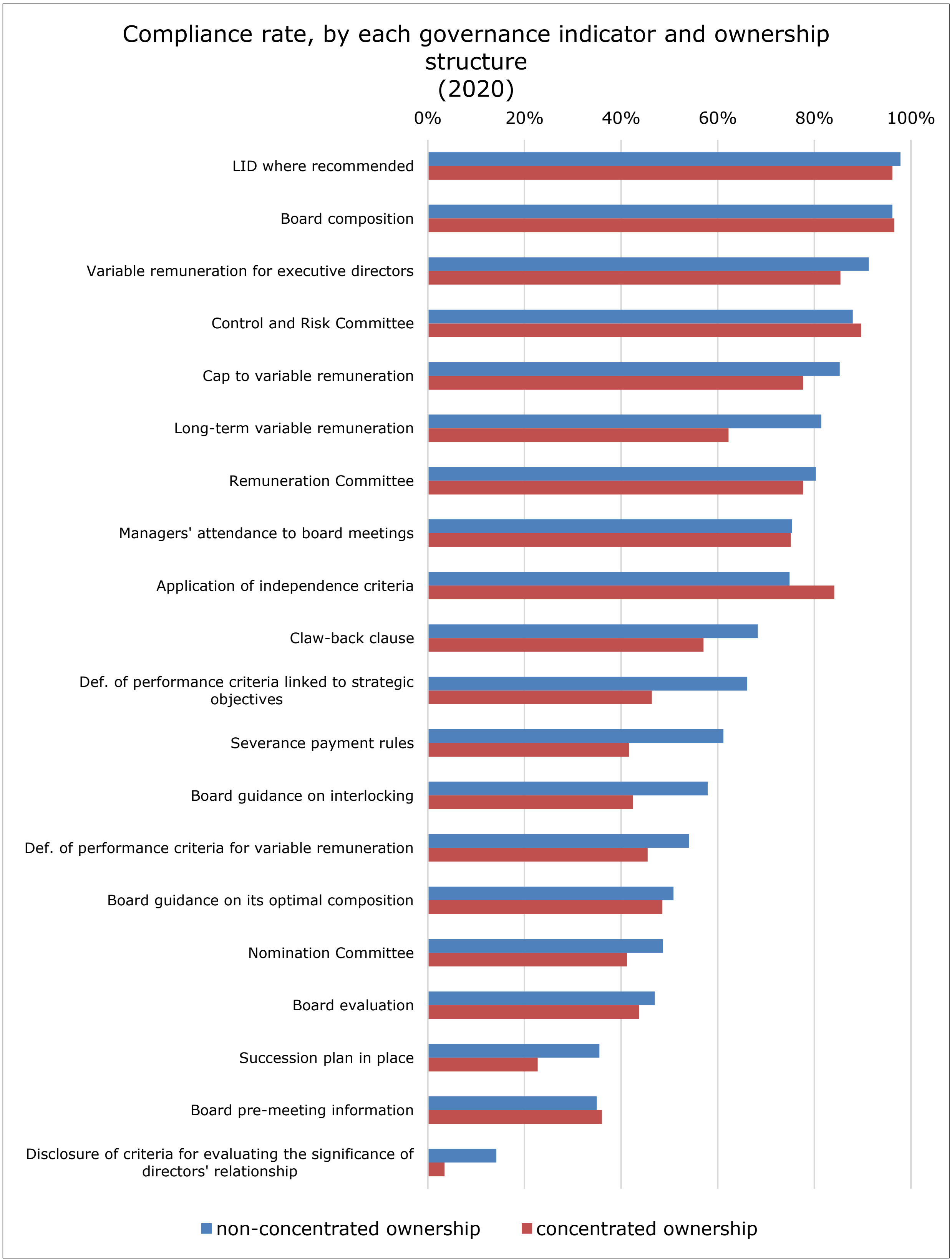

Major differences are due to company's size, where small companies leg behind larger ones in a number of governance practices: particular differences are observed with regard to the board effective functioning and the remuneration policies.

In the first case, small companies show lower compliance rate regarding the role of the board in its self-evaluation process, the appointment and the role of the nomination committee, and the adoption of a succession plan for the CEO.

In the latter case, small companies provide less frequently for long-term variable remuneration and claw-back clauses; also the rules governing severance payments shall be improved.




The ownership structure seems to affect some governance practices only, namely in the areas where the controlling shareholder can play a significant role, especially when he is also a board member. Companies whit relevant shareholder – and, in particular, family firms with controlling family members who sit on their board and plays an executive rule – are less likely to provide for elaborated remuneration policies, with long term incentive plans, and to define ex ante the succession plan for its CEO.


Compliance rate, by each governance indicator and ownership structure (2020)
0%
20%
40%
60%
80%
100%
LID where recommended
Board composition
Variable remuneration for executive directors
Control and Risk Committee
Cap to variable remuneration
Long-term variable remuneration
Remuneration Committee
Managers' attendance to board meetings
Application of independence criteria
Claw-back clause
Def. of performance criteria linked to strategic objectives
Severance payment rules
Board guidance on interlocking
Def. of performance criteria for variable remuneration
Board guidance on its optimal composition
Nomination Committee
Board evaluation
Succession plan in place
Board pre-meeting information
Disclosure of criteria for evaluating the significance of directors' relationship
non-concentrated ownership
concentrated ownership

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