

## **Patrizia Grieco**

### **Chairman – Italian Corporate Governance Committee**

Ladies and Gentlemen,

Good afternoon to everybody. I am sorry that the Italian Prime Minister, Paolo Gentiloni, will not be able to attend today's Conference, due to institutional commitments in Africa. However, he kindly sent us a letter that I am now going to read out.

Thanks again to our Prime Minister. On behalf of the Italian Corporate Governance Committee, I would like to thank you all for your attendance to our 3rd Italy Corporate Governance Conference, organized by Assogestioni and Assonime in cooperation with the OECD and with the support of the Italian Stock Exchange.

Since 2014, this annual conference represents an opportunity for an open dialogue between public institutions, issuers and investors on various corporate governance topics, with the aim to identify the best ways to support the key role of corporate governance in value creation and economic growth.

The attendance of high institutional representatives as the Minister of Economy, Pier Carlo Padoan (who will introduce the tomorrow morning session), confirms the fundamental role of corporate governance for the financial system and the importance for the Italian institutions to be involved in such a dialogue.

This role of corporate governance is also acknowledged in the main international fora, such as the G20, whose endorsement of the OECD Principles, revised in 2015, represents a milestone in economic policy making. The G20-OECD Principles in fact provide a sound and forward-looking basis for any initiatives in the field of corporate governance. We are pleased that, also this year, the OECD takes part in our Conference as an institutional partner and we welcome the deputy Secretary General of the Organization, Mr. Kono, among our key speakers.

I would also like to underline the important and extensive presence, at this conference, of high representatives of Consob, as well as of various Italian listed companies and national and

international institutional investors, together with experts and academics of a high international standing.

*The role of self-regulation in corporate governance*

As you all know, corporate governance culture and standards developed primarily through self-regulation, namely through Corporate Governance Codes, which were established upon initiative of the private sector and play a major role in setting best practices and monitoring procedures. Recent studies highlight that better corporate governance entails better financial performance. At the same time, these studies confirm the importance of governance for the investors, which increasingly consider it as a key issue in addressing their investment decisions.

In Italy, in order to give a sounder basis to the self-regulatory activity, a dedicated Committee has been established in 1999 by the major business associations representing issuers, intermediaries and institutional investors, together with Italian Stock Exchange. The Italian Corporate Governance Committee, which as from this year I am honoured to chair, acts as a standard setter and monitoring entity, and plays a key role in promoting a constant evolution of Italian corporate governance, in order to keep the latter aligned with international best practices. Let me sincerely thank Gabriele Galateri, who chaired the Committee from 2011 to July 2017 (and will continue to be part of it), for his continuous commitment and leading role in pursuing such goals and building the Committee's strong reputation, in Italy and abroad.

The revised European shareholders' rights directive, the new rules on non-financial information, the regulatory activism in the financial sector – just to quote some examples – show that the emerging framework for corporate governance, at national and European level, is by far more complex than ever, with a rebalance towards mandatory rules. In this context, Corporate Governance Codes can continue to play a crucial role in identifying best practices and updating them, as to tackle the new challenges and to seize the opportunities raised by the evolution of capital markets and corporate practices. A flexible approach, based on the “comply or explain” principle, ensures an adaptable but transparent environment, and makes the companies accountable towards the market.

These needs are also perceived by our European partners. In this respect, let me recall the common statement of the Five Chairmen Group of the governing bodies of the Corporate Governance Codes (in France, Germany, Italy, the Netherlands and the UK), issued in June of this year. Such statement

underlines the essential role of effectively applied corporate governance principles (rather than the legislation, *per se*) and the inherent value in “complying-or-explaining”. In particular, the Five Chairmen Group recommended to European and national regulators to adopt a proportionate regulatory approach, which respects the different market structures and business circumstances. A correct balance between law, regulation, codes and the effective use of the “comply or explain” rule will enable European companies to maintain and improve competitiveness, also by attracting expertise and talent at all levels.

However, to be reliable, good standards of self-regulation are not sufficient; they in fact shall be complemented by an active monitoring activity, aimed at verifying the actual implementation of such standards, while avoiding the risk of a pure formalistic compliance.

### *Corporate Governance in Italy*

This morning, the Italian Corporate Governance Committee met to approve its Annual Report, which provides a global outlook on the corporate governance of Italian listed companies.

I would just like to quote some of the main results of the Report:

- 90% of Italian listed companies declare to adhere to the last edition of the national Corporate Governance Code and the quantity and quality of information they provide about the compliance with the latter recommendations are constantly improving;
- the average level of compliance with the recommendations of the Code is about 75%, and an almost full compliance with the recommendations on the composition of the board of directors as well as the control and risk and the remuneration committees is recorded;
- Italian listed companies boards have an adequate number of independent directors and a quite balanced gender composition of their members; nevertheless, the quality of information regarding the application of the Code independence criteria might sometimes be improved;
- a good level of transparency regarding directors’ remuneration policies has been achieved, but there is still room for some improvements. For instance, only half of Italian listed companies introduced claw-back clauses and about 60% are providing adequate information on the maximum amount set for severance payments;

- as far as improvement profiles are concerned, only 60% of Italian listed companies have established a nomination committee;
- only one third of Italian listed companies boards discharged the duty to express, before their renewal, the guidelines to shareholders on the professional and managerial skills deemed appropriate for their optimal composition;
- a very low number of Italian listed companies has adopted so far succession plans for executive directors, even if their adoption is not expressly recommended by the Code.

Starting from this evidence, also this year the Committee has decided to strengthen the effects of its monitoring activity, by sending a formal letter to all listed companies in order to highlight the main critical issues that should be carefully considered and enhanced by each addressee for a substantial compliance with the Code.

At the same time, the Report highlighted a significant “size effect” in the compliance rate with specific Code recommendations. In this regard, the Italian Corporate Governance Committee is considering the possibility to develop specific measures that might help small listed companies to reach a better and more substantial evolution of their corporate governance models.

Small and medium enterprises, indeed, represent the historical backbone of the Italian economy. An economy that today shows strong signals of recovery, with the Gross Domestic Product expanded by 1.8% in the third quarter of 2017, compared to the same period in the previous year. We are aware that the growth of such companies requires a larger capitalization, as well as the consolidation of the capital raising tools in the long term. The actual Italian framework already shows some interesting developments in this direction, with specific measures aimed at incentivizing access to the capital markets by small and medium companies, and there are positive signals on the effectiveness of such a strategy. In particular, I refer to the “Individual Saving Plans” (PIR) instrument, with around 7.5 billion euro collected in 2017.

Finally, the Italian Corporate Governance Committee will work on fostering: (i) the role of sustainability, as its inclusion in the strategic guidelines of listed companies will strengthen the competitiveness of the same in the long run, representing an essential tool of the overall risk management strategy; and (ii) the effectiveness and the efficiency of the Board, including as far as

the definition of the strategy, the monitoring of the company's management, the engagement with the shareholders and the board role vis-à-vis its composition are concerned.

### *The structure of the conference*

Today's Conference represents a unique opportunity for issuers and investors, as well as for the other main actors of the Italian and international financial community, to discuss some of the most relevant issues of the corporate governance framework.

Specifically, the **first panel** will focus on the essential role of corporate governance in supporting growth. Starting from a presentation of the current initiatives carried out by the OECD in this field, we will have the opportunity to discuss the need for a more flexible and proportionate approach in corporate governance policy making.

The **second panel** will focus on the evolving role of the board in relation to the changing ownership structure of listed companies, and especially the larger ones, where the growing weight and activism of institutional investors is challenging the traditional distinction between controlling and minority shareholders.

The **third panel**, tomorrow morning, will address the role of corporate governance in fostering a more responsible business. This is an area of growing importance, considering the stronger orientation of investors towards sustainability issues in their asset allocation, and the increased expectations of the civil society for higher standards of ethical behaviors in the business community.

The **fourth (and final) panel** will then come back to the role of the board, considered as a key governance mechanism for companies that access capital markets. Following corporate governance scandals and the financial crisis, one may doubt on the effective functioning of corporate boards, and their ability to perform their essential duties to define corporate strategies, monitor their implementation and ensure that appropriate controls are in place. In this respect, the relationship between executive and non-executive board members is a crucial issue, also considering that the latter are increasingly involved in board committees (with control and monitoring, as well as advisory and proactive duties) and therefore require appropriate skills and rewards.

### *Conclusions*

Corporate governance is a dynamic and evolving tool that can support companies to effectively face the rapid and significant changes which today affect the financial globalized markets (in this sense, we can define corporate governance as a continuous “work in progress”). The contribution of all players, in the analysis of the new challenges and the identification of new governance standards, is therefore essential.

Hence, we decided that the Italy Corporate Governance Conference needed to have an international dimension, in order to offer a forum for dialogue consistent with the growing internationalization of capital markets. The topics we suggested for the discussion in fact cover the main developments in the current debate on corporate governance and have a relevance that clearly goes beyond the national borders.

In this context, the Italian Corporate Governance Committee and all its constituencies intend to continue: (i) enhancing the evolution of corporate governance standards and the actual behaviors of Italian listed companies, as well as (ii) promoting a stronger engagement by investors. These goals will be pursued through the strengthening of some Code recommendations on the main critical issues highlighted in the Committee’s monitoring activity, including the provision of succession plans, the role of the nomination committee and the quality of directors’ independence.

Furthermore, as we said before, given the importance of a proportionate approach in the evolving corporate governance framework, the Committee is also considering the opportunity to ensure more flexibility to small and medium size companies, through the development of dedicated corporate governance measures and the introduction of a scaling approach in relation to some more sophisticated recommendations. The challenge is to consolidate the positive signals shown in this direction by the actual Italian framework into a stable growth path, in which corporate governance plays a central and fundamental role.

And with this, I thank you for your attention and I leave the floor to Mr. Carmine Di Noia, who will introduce the first panel, focusing on: “Supporting growth: flexibility and proportionality in corporate governance policy making.”