Patrizia Grieco
Chairman
Italian Corporate Governance Committee

Ladies and Gentlemen,

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

[READING OF THE PRIME MINISTER'S LETTER]

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 4th 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 role of corporate governance for economic growth is also acknowledged in main international fora, such as the G20, that by endorsing the OECD Principles represents a milestone in economic policy making. The G20-OECD Principles in fact provide a forward-looking source for all initiatives in the field of corporate governance. We are therefore extremely pleased to have the OECD as an institutional partner of our Conference and we welcome the deputy Secretary General of the Organization, Mr. Schuknecht, among our key speakers.

I would also like to underline that this Conference hosts many representatives of institutions such as Consob, the Italian Market Surveillance Authority, 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 Acting Chair of Consob, Ms. Genovese, will deliver her speech tomorrow.

The role of Corporate Governance Codes

As you all know, the corporate governance culture and its standards developed primarily through self-regulation, namely through Corporate Governance Codes. These were established upon initiative of the private sector and play a major role in setting best practices and in monitoring procedures.

Corporate Governance Codes are a dynamic policy tool that enable us to identify best practices and update them according to new challenges and opportunities that have been identified thanks to the evolution of capital markets and corporate practices. At the same time, their flexible approach, based on the "comply or explain" principle, ensures an adaptable but transparent environment, making companies responsible towards the market.

To provide the Italian self-regulatory system with a rigorous source for its code of conduct, the major business associations representing issuers, intermediates institutional investors, together with Italian Stock Exchange established the Italian Corporate Governance Committee in 1999. I am honoured to chair this Committee, which acts as a standard setter and monitoring entity, and plays a key role in promoting a constant evolution of Italian corporate governance, in line with international best practices.

The Italian Corporate Governance Committee is now setting the path of a new revision of the Code, in order to make it more effective by assessing and developing new evolving practices. In this light, an international perspective and an open dialogue on the evolving market expectations is essential; and this is exactly the scope of this conference.

We have also to address some governance areas that are facing particular attention by the regulator. The revised European Shareholders' Rights Directive and the upcoming European Commission's Action Plan for a Sustainable Finance are two good examples that 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.

We are currently transferring the **European Shareholders' Rights Directive** at national level and we can proudly say that the Italian governance model already proves to be well developed. In fact, the Italian system anticipated the principles that led to the revision of the European directive and developed them through a proportionate framework, as well as a balanced interaction and mutual trust between rules and best practices.

Considering the implementation of the Directive at national level, companies representatives as well as the Committee as a whole, are calling for an open dialogue with the Government and other Competent Institutions to assess, on the basis of an appropriate cost benefit analysis, the possible changes to the existing framework. This shall be done through a careful consideration of the opportunity of gold-plating and open interaction on the most innovative changes.

As to **Environmental, Social and Governance (ESG)** issues, sustainability is a real challenge in its diverse dimensions. It is only by being socially responsible that companies can drive sustainable development and become real contributors to the Sustainable Development Goals set by the United Nations in its Agenda 2030. Being sustainable and having a real impact on society is therefore in the hands of everyone: governments, institutions, companies and other organizations. And the financial market has to take all of it into consideration.

Hence, policy makers today are taking a number of initiatives aimed at supporting investors and companies to pursue a sustainable economy.

On one side, international standard setters and self-regulatory Codes developed best practices pushing investors to consider ESG issues in their investment policies and companies to evaluate sustainability factors, when developing their business strategy and carrying out a related risk analysis. On the other side, the European lawmaker introduced some flexible provisions through the directive for the disclosure of non-financial information. Moreover, new forthcoming regulations stemming from the European Commission’s Action Plan on Sustainability are in the pipeline.

It is important to ensure an efficient and consistent evolution of new and forthcoming European measures regarding sustainability with the existing best practices. This view is shared by main European Corporate Governance Committees. In last November, the Chairs of the Committees from France, Germany, Italy, the Netherlands, the United Kingdom and Sweden met in Rome and shared the opportunity of an appropriate enhancement of the role played by Corporate Governance Committees in setting ESG best practices and monitoring their application. At the same time, in their role as Corporate Governance Codes custodians, the Six Chairs committed to develop a shared approach to enhance sustainability best standards.

Indeed, Corporate Governance Codes consider a company’s sustainability as a key pillar, requiring companies to integrate ESG material factors into the company’s business strategy and risk management. If we look closely, almost all the recent revisions of the main European Codes aim at enhancing best practices by pushing companies to: pursue a sustainable long-term success, develop a sustainability strategy, consider ESG risks, and set long-term oriented incentives for their directors.

Moreover, as we affirm once again the importance of a balanced approach to governance issues –and call even for a step back by Regulators – we take the responsibility to keep the model of Corporate Governance Codes in line with social expectations, to retaina the principles that we think are valuable and develop them further. In the next revision of the Italian Code we will in fact adopt this approach, to lead the evolution of corporate practices towards a more sustainable growth, and we have already accomplished a first relevant step in this direction.

In July 2018 the Committee decided to introduce the principle of board diversity within our Code, as the Italian law on gender quotas is going to expire after the first three mandates (hence, the latest in 2023). By doing so, the Committee decided to recommend the same quota that is now required by law and at the same time introduced an advanced approach to diversity issues. This approach aims to: (i) set the primacy of competence and professional skills when implementing diversity policy (including gender); (ii) provide companies with a wide array of different measures that might be adopted to ensure board diversity (from by-laws to board guidelines); (iii) suggest companies to promote equal opportunities within their organizations.

Accountability stems also from an effective monitoring of best practice application, which is in fact a core element of a sound corporate governance system.

Corporate Governance in Italy

The Italian Corporate Governance Committee met this morning to approve its Annual Report, that provides a global outlook on the corporate governance of Italian listed companies and identifies some areas for further improvement.

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

- 90% of Italian listed companies adhere to the last edition of the Corporate Governance Code and the quantity and quality of information provided to describe their practices is overall good;
- the average level of compliance with the recommendations of the Code is about 75%;

- Italian listed companies' boards have an adequate composition, also in terms of gender diversity. Almost all Italian listed companies have a control and risk and a remuneration committee, while the creation of a nomination committee is still to be considered by half of the listed companies;
- pre-meeting information is still an issue in one-third of Italian listed companies: the Committee focused on a better implementation of these best practices, since an adequate and prompt information of the board members is fundamental for an efficient governance of the company;
- 90% of Italian listed companies carry out the board and committees review; nevertheless, the Committee called for some further improvement regarding the governance of the process the contributions from each director;
- a good level of transparency regarding directors' remuneration policies has been achieved, but there is still room for some substantial improvements: one third of companies need to assess the introduction of long term oriented variable remuneration and to better regulate possible severance payments;
- the number of succession plans for executive directors is still low, but is increasing over time, 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.

The structure of the conference

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

In particular, the **first panel** will focus on the development of engagement policies and practices between the board and investors.

The **second panel** will debate the role of the controlling shareholders and some governance measures, such as control enhancing mechanisms that might influence companies' access to capital markets. The panel will talk about loyalty shares, introduced in 2014 in Italy and adopted by almost one fifth of the listed companies: a tool that is widely debated at international level, but deserves an in-depth and data-supported analysis

The **third panel**, tomorrow morning, will address the role of shareholders' activism. This panel will debate the different aspects and targets of active ownership and the wide range of possible effects that such activism might have on companies.

The **fourth** (and final) **panel** will deal with the challenges and opportunities presented by the evolving technological tools such as the *blockchain technology*.

Conclusions

Corporate governance is a dynamic and evolving tool that can support companies to effectively face the rapid and significant changes that today affect the financial globalized markets. The contribution of all players, in the analysis of the new challenges and the identification of new governance standards, is therefore essential.

Then, thank you for being here and thank for your attention.