PROXY PAPER™

GUIDELINES

2016 PROXY SEASON

AN OVERVIEW OF THE GLASS LEWIS APPROACH TO PROXY ADVICE

ITALY

GLASS LEWIS

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Guidelines Introduction

These guidelines are intended to supplement Glass Lewis' Continental European Policy Guidelines by highlighting the key policies that we apply specifically to companies listed in Italy and the relevant regulatory background to which Italian companies are subject, where they differ from Europe as a whole. Given the growing convergence of governance regulations and practices across companies subject to European Union rules and directives, Glass Lewis combined our general approach to continental European companies in a single set of guidelines, the Continental European Policy Guidelines, which set forth the underlying principles, definitions and global policies that Glass Lewis uses when analysing continental European companies.

While our approach to issues addressed in the Continental European Policy Guidelines are not repeated here, we will clearly indicate in these guidelines when our policy for Italian companies deviates from the Continental European Policy Guidelines.

CORPORATE GOVERNANCE BACKGROUND

The Civil Code, as well as the Consolidated Law on Finance and relevant Consob rules provide the legislative framework for corporate governance in Italy whereas best practices are primarily derived from the Code of Corporate Governance ("Code"), a body of non-compulsory rules for the governance of listed companies issued by Borsa Italia S.p.A. under which a "comply or explain" principle applies. The Code was first released in 1999, updated in 2002, 2006, 2010, 2011 and 2014, and most recently revisited in July 2015. Going forward, the Italian Corporate Governance Committee shall consider whether to update the Code every two years. Companies are required to file a corporate governance report, detailing compliance with the Code's provisions, every year before the annual general meeting.

In May 2014, the Bank of Italy adopted new rules on corporate governance applicable to Italian banks and the parent companies of banking groups. (Update no. 1 dated May 6, 2014 of Circular no. 285 of December 17, 2013 titled "Disposizioni di Vigilanza per le banche"). While the new regulations are currently in force, financial institutions have until June 30, 2017 to implement decisions on the provisions relating to: (i) board size; (ii) minimum number of independent members; (iii) committee composition; (iv) cooperative banks; and (v) the ban on the chairman of the board serving as a member of the executive committee. Where amendments to the companies' articles of association were necessary, companies had until their 2015 annual general meeting to propose such changes, which were to completed within one month of their approval.

SUMMARY OF CHANGES FOR THE 2016 ITALY POLICY GUIDELINES

The significant changes and updates to our 2016 Italy Guidelines are summarised below:

OVERBOARDING

In line with changes to our Continental Europe Policy Guidelines, we have updated our guidelines to reflect that going forward we will recommend voting against a board member who serves as an executive officer of any public company while serving on a total of more than two (previously three) public company boards and any other director who serves on a total of more than five (previously six) public company boards. We expect a chairman of any public company to reduce his or her external commitments appropriately and we may not recommend that shareholders vote against overcommitted directors at companies where the director serves as chairman. Further, we will generally refrain from recommending to vote against a board member who serves on an excessive number of boards within a consolidated group of companies or a board member that represents a firm whose sole purpose is to manage a portfolio of investments which include the company.

DOUBLE VOTING RIGHTS

We have codified our existing policy surrounding the implementation of double voting rights at Italian companies. We will recommend shareholders vote against the implementation of provisions relating to such loyalty initiatives into a company's articles of association.

I. A Board of Directors that Serves Shareholder Interest

ELECTION OF DIRECTORS

The traditional structure of Italian companies is based on the establishment of the board of directors, which may delegate some of its powers to a managing director or to an executive committee, and the board of statutory auditors.

The board of directors includes both executive and non-executive members elected for a term of up to three years.[1] The board of statutory auditors, whose members are elected by shareholders, is the corporate body in charge of overseeing compliance with the law and adequacy of the company's accounting system.

As a result of regulations enacted at the beginning of 2004, joint-stock companies may also choose, as an alternative to the traditional model, to implement a one-tier or a two-tier management and control system.[2] In the one-tier model, companies have a board of directors appointed by the shareholders and a control committee appointed by the board itself by choosing those directors who do not carry out executive duties. In the two-tier model, companies have a supervisory board and a management board. Whereas shareholders elect the first body, the supervisory board appoints the second one. The dualistic system has been adopted by a limited number of financial institutions and municipality owned companies. The vast majority of Italian listed companies have maintained the traditional governance model.

INDEPENDENCE

In Italy, we put directors into three categories based on an examination of the type of relationship they have with the company:[3]

1. Independent Director – An independent director has no material[4] financial, familial[5] or other current relationships with the company[6], the shareholder or group of shareholders who control the company, its executives, or other board members, except for board service and standard fees paid for that service.[7] An individual who has been employed by the company within the past five years[8] is not considered to be independent. We use a three year look back for all other relationships.

1 Civil Code, article 2383.
2 Civil Code, article 2409-octies.
3 The Code of Corporate Governance ("Code") recommends that companies indicate in their corporate governance report their classification of each board member as executive, non-executive, or independent (article 1.C.1(i)). It further states that the board of directors should conduct annual self-evaluations on their respective size and composition and whether they demonstrate an adequate representation of different professional and managerial competences, including experience in international markets (article 1.C.1(g)).
4 Per Glass Lewis' Continental European Policy Guidelines, "material" as used herein means a relationship in which the value exceeds: (i) €50,000 (or 50% of the total compensation paid to a board member, or where no amount is disclosed) for board members who personally receive compensation for a professional or other service they have agreed to perform for the company, outside of their service as a board member. This limit would also apply to cases in which a consulting firm that is owned by or appears to be owned by a board member receives fees directly; (ii) €100,000 (or where no amount is disclosed) for those board members employed by a professional services firm such as a law firm, investment bank or large consulting firm where the firm is paid for services but the individual is not directly compensated. This limit would also apply to charitable contributions to schools where a board member is a professor, or charities where a board member serves on the board or is an executive, or any other commercial dealings between the company and the board member or the board member's firm; (iii) 1% of the company's consolidated gross revenue for other business relationships (e.g., where the board member is an executive officer of a company that provides services or products to or receives services or products from the company); (iv) 10% of shareholders' equity and 5% of total assets for financing transactions; or (v) the total annual fees paid to a director for a personal loan not granted on normal market terms, or where no information regarding the terms of a loan have been provided.
5 Per Glass Lewis' Continental European Policy Guidelines, familial relationships include a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws, and anyone (other than domestic employees) who shares such person's home. A director is an affiliate if the director has a family member who is employed by the company.
6 A company includes any parent or subsidiary in a group with the company or any entity that merged with, was acquired by, or acquired the company.
7 Code, article 3.C.1.
8 In our view, a five-year standard is appropriate because we believe that the unwinding of conflicting relationships between former management and board members is more likely to be complete and final after five years. However, Glass Lewis does not apply the five-year look back period to directors who have previously served as executives of the company on an interim basis for less than one year. According to the Code, reference should be made to the previous fiscal year and to the three preceding fiscal years in the case of earlier business dealings and past employment relationships, respectively (article 3.C.1).

2. Affiliated Director – An affiliated director has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company.[9] Directors will normally be classified as affiliated if they:
    - Have served in an executive capacity at the company in the past five years;
    - Have – or have had within the past three years – a material business relationship with the company;
    - Own or control 10% or more of the company's share capital or voting rights;[10]
    - Serve as board chairmen, presidents, executive directors, officers or legal representatives of the controlling entity;
    - Have served on the board for more than nine years over the last twelve-year period;[11] and/or
    - Are partners or board members of any entity affiliated with the independent auditing firm.[12]
3. Inside Director – An inside director simultaneously serves as a director and as an employee of the company. This category may include a chairman of the board who acts as an employee of the company or is paid as an employee of the company.[13]

Voting Recommendations on the Basis of Board Independence

We generally recommend that the majority of the board consist of non-executive directors and at least half of the directors be independent.[14] However, we accept the presence of representatives of significant shareholders in proportion to their equity or voting stake in the company. Furthermore, in the case of companies listed on the Star segment of the Italian Stock Exchange, boards should generally include at least 30% independent directors.[15]

When the whole board is up for election, directors must be elected on the basis of slates presented by shareholders.[16] With regard to the choice among competing slates of candidates, Glass Lewis will review the background of the nominees on each list to identify any affiliated transactions that we consider to bias them as board members. We will recommend supporting the slate that appears able to best protect the interests of all shareholders, including minority investors. We also note that individual elections may occur in some cases, and we will evaluate these candidates on a case-by-case basis in accordance with the aforementioned independence thresholds.

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9 If a company classifies a non-executive director as non-independent, Glass Lewis will classify that director as an affiliate.

10 Per Glass Lewis' Continental European Policy Guidelines, we view 10% shareholders as affiliates because they typically have access to and involvement with the management of a company that is fundamentally different from that of ordinary shareholders. More importantly, 10% holders may have interests that diverge from those of ordinary holders, for reasons such as the liquidity (or lack thereof) of their holdings, personal tax issues, etc. We note that according to Italian law, there is control when: (i) a shareholder owns more than 50% of the voting shares; (ii) a shareholder owns less than 50% of the voting shares, but the holding allows them to exercise a significant influence over the company since there are no other major shareholders; or (iii) a group of shareholders enters into a syndicate agreement and, as a result, this group owns more than 50% of the voting shares or a percentage that enables it to exercise a significant influence over the company.

11 Code, article 3.C.1.(e). While we will classify board members as affiliates in accordance with this standard, we will evaluate voting recommendations based on this issue on a case-by-case basis. When a board or committee does not meet the independence standards set forth in these guidelines solely as a result of a nominee's length of service on the board, we may refrain from recommending voting against the nominee if the board or relevant committee is otherwise sufficiently independent. The Code also recommends that companies indicate in their corporate governance report the duration of each member's service on the board since his/her first appointment (article 1.C.1(i)).

12 Code, article 3.C.1(g).

13 According to the Code, it is possible for members of the executive committee to be considered non-executive and independent insofar as this committee is a collective body that does not attribute individual powers to its members. When no managing director has been appointed or when the participation in the executive committee entails, as a matter of fact, the involvement of the executive committee members in the day-to-day management of the company, they will be considered as executive directors (article 2.C.1). However, under the Bank of Italy's Update no. 1 dated May 6, 2014 of Circular no. 285 of December 17, 2013 titled "Disposizioni di Vigilanza per le banche" (hereinafter "Circular no. 285 of December 17, 2013 and subsequent revisions"), in the case of financial institutions, members of the executive committee shall be considered executive directors (IV.1.I.3). Further, the chairman of the board may not be a member of the executive committee. However, if it is deemed useful to ensure an effective relationship between supervision and management, the chairman may participate in the meetings of the executive committee without holding any voting rights (IV.1.V.2.2(e)).

14 Pursuant to Italian law, at least one director, or two directors if the board is composed of more than seven members, must meet the independence requirements stipulated in article 147-ter(4) of the Consolidated Law on Finance. With regard to self-regulation, the Code recommends that at least one-third of the board of directors be independent for all companies belonging to the FTSE-Mib index. For all other companies the Code recommends that there be no less than two independent directors (article 3.C.3). In the case of financial institutions, the board of directors should be comprised of at least one-quarter independent members. Update no. 1 of Circular no. 285 of December 17, 2013, IV.1.IV.2.2.

15 Pursuant to the Rules and Instructions issued by Borsa Italia S.p.A., companies listed on the STAR segment are required to have the following number of independent directors: (i) at least two if the board consists of up to 8 members; (ii) at least three if the board consists of nine to 14 members; and (iii) at least four if the board consists of more than 14 members.

16 Consolidated Law on Finance, article 147-ter.

Voting Recommendations on the Basis of Committee Independence

We believe that the audit and remuneration committees should be composed exclusively of non-executive directors,[17] a majority of whom should be independent. Committees should be chaired by an independent director.[18] In the case of companies controlled by another listed company, the audit committee should be comprised of exclusively independent directors.[19] Moreover, we believe a majority of the members of the nominating and governance committees should be independent.[20]

Given the Italian voting list system described above, we typically do not base voting recommendations on a concern regarding committee composition alone; however, if an individual director is up for election, we may recommend voting against the nominee solely based on a concern regarding the individual's position on a committee.

OTHER CONSIDERATIONS FOR INDIVIDUAL DIRECTORS

Our policies with regard to performance, experience and conflict-of-interest issues are not materially different from our Continental European Policy Guidelines. The following are clarifications regarding best practice recommendations in Italy.

CONFLICTS OF INTEREST

We generally consider that executive officers should not serve on more than two public company boards, and non-executives should not serve on more than five public company boards.[21] Nevertheless, we adopt a case-by-case approach on this issue, as described in our Continental European Guidelines. We note that according to the Italian Corporate Governance Code, the board of directors should issue guidelines regarding the maximum number of directorships that may be considered compatible with an effective performance of a director's duties based, among others, on the director's role within the company and the company's size.[22]

Furthermore, as stated in our Continental European Policy Guidelines and reinforced by Italian law and best practice, we believe that CEOs or other top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided.[23] When a director with an interlocking directorship is up for individual election, we will recommend voting against the nominee on this basis alone.

BOARD STRUCTURE AND COMPOSITION

Our policies with regard to board structure and composition are not materially different from our Continental European Policy Guidelines. The following are clarifications regarding best practice recommendations in Italy.

BOARD SIZE

As stated in our Continental European Policy Guidelines, we typically recommend voting against the chairman of the nominating committee if a board has: (i) fewer than five directors; provided, however, that this will generally not apply to small-cap companies with smaller boards; or (ii) more than 20 directors. However, in Italy, we may recommend that the maximum board size for non-financial institutions be set at 15 members.[24] Regarding financial institutions, we will evaluate efforts to meet the recommendations recently released by the Bank of Italy to reduce the size of the board.[25]

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17 EU Commission Recommendation of 15 February 2005 on the role of non-executive directors of listed companies and on the committees of the board. Annex I. Articles 3.1 and 4.1.

18 Code, articles 6.P.3 and 7.P.4.

19 Code, article 7.P.4.

20 Code, article 5.P.1.

21 Neither the law nor the Code provides any specific limitations to board mandates.

22 Code, article 1.C.3.

23 Itailan Law Decree 6/2011 and amendments by Law 214/2011 relate to interlocking directorships in the financial sector. The Code discourages CEOs of different companies from serving on each other's boards, unless they are in the same corporate group (article 2.C.5).

24 The average board size for financial and non-financial institutions in Italy during the past fiscal year was 14.3 members and 9.3 members, respectively. 2015 Assonime Report. "La corporate governance in Italia: autodisciplina e remunerazioni." Article 3.2.A.

25 Circular no. 285 of December 17, 2013 and subsequent revisions, IV.1.IV.2.1. The board size for financial institutions using the traditional model should not exceed 15 members. For financial institutions which have adopted the one-tier model, the board may not exceed 19 members, while under the dualistic model there may be up to 22 members. However, companies have until 2017 to adjust their board size accordingly. Further, these provisions apply to major financial institutions according to the size or complexity of their business.

SEPARATION OF THE ROLES OF CHAIRMAN AND MANAGING DIRECTOR (CEO)

According to the Italian Corporate Governance Code, chairmen and managing directors should each have their own responsibilities. Furthermore, when the two positions are combined, the board of directors should appoint a lead independent director.[26] However, it is not unusual in Italy for the same person to hold the two positions. Some management powers may be delegated to the chairman even where there are managing directors.

BOARD COMMITTEES

We believe that companies should create audit, remuneration, and nominating committees which generally consist of at least three members,[27] as recommended by the Italian Code. The Bank of Italy requires financial institutions to establish three committees to oversee board nominations, risk and remuneration. Each committee must consist of between three and five non-executive members, the majority of whom are independent, with an independent chairman. At least one committee member must be a board member appointed from the minority slate.[28] As noted in our Continental European Policy Guidelines, should a key committee be composed of less than three members we may recommend voting against the chairman of the nominating committee.

BOARD DIVERSITY

Italian law requires that women represent at least one-third of the composition of boards; the law provides sanctions for non-compliance.[29] However, there is a transitional provision which reduces this quota to one-fifth of the board for the first elected term beginning after August 2012.

ELECTION PROCEDURES

Our policies with regard to election procedures are somewhat different from our Continental European Policy Guidelines. The following are clarifications regarding best practice recommendations in Italy.

The company's articles of association stipulate the threshold for the presentation of a list, which cannot exceed the percentage mandated by Consob regulations on the basis of the company's capitalisation, free-float and ownership structure. Each shareholder (or group of shareholders) holding the required percentage of share capital is allowed to submit and vote for a single list of candidates.

Candidates included in each slate are listed in the order in which they will be elected based on the number of votes cast in favour of the slate. Furthermore, at least one director must be elected from the minority slate that obtains the highest number of votes. The articles of association can, however, reserve more than one seat for minority candidates.[30] All board members, with the exception of the director(s) to be taken from the minority list(s), are elected from the list that receives the highest number of votes, in the order in which they are listed on the slate. The remaining candidate(s) are elected from the list ranking second in terms of votes cast. In the event of a plurality of minority lists, the votes cast for each list are divided by whole numbers from one up to the number of directors to be elected. The quotients obtained are assigned to the candidates of such slates in the order in which they are listed. Candidates on the various slates are then arranged in a single ranking. Those who have obtained the highest numbers are elected to the board.

We note that in addition to the slate voting process for the election of the whole board, certain cases can result in the election of individual directors. For example, any director who has been appointed by the board during the past fiscal year ("coopted"), to replace a director who has left prior to the expiration of his/her term, must be confirmed at the next meeting of shareholders. In other instances, the Company may propose to increase the board size by the addition of new director(s).

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26 Pursuant to the Code, a lead independent director should also be appointed when the board is chaired by the controlling shareholder. For companies listed on the FTSE-Mib, the Code also recommends that a lead independent director be designated if requested by the majority of independent directors, unless the board has provided a sufficient rationale in the corporate governance report for not doing so (article 2.C.3).

27 The Code recommends that all committees have a chairman and that each committee consist of at least three members. An exception is provided for companies that have eight or less board members and in this case committees may consist of only two members, provided that they are both independent (article 4.C.1).

28 Circular no. 285 of December 17, 2013 and subsequent revisions, IV.1.IV.2.3. Financial institutions have until 2017 to establish the committees described. Further, these provisions apply to major financial institutions according to the size or complexity of their business.

29 Italian Law n. 120 of July 12, 2011 amending the Consolidated Law on Finance. According to the law, the new rules apply from the first renewal of the board after one year from the date of entry into force of the law, reserving for the less-represented gender, for the first mandate in application of the law, a quota of at least one-fifth of the directors. Board diversity rules also apply to the board of statutory auditors.

30 Id., article 147-ter(3).

In these cases, election may occur through the presentation of candidate lists by shareholders, or through the submission of the coopted director/individual nominee directly by the board. In the former case, we will follow our slate voting process, as detailed below, and in the latter we will evaluate the single nominee on a case by case basis, applying our standards for individual director election.

We note, however, that at times the name(s) of the candidate(s) up for election is unclear. Thus, if the board has not explicitly proposed to reconfirm a coopted director as nominee or in any other case where we are unable to definitively determine the identity of the candidate(s) up for election, we will recommend that shareholders abstain from voting on the election.

TERM LENGTH

Although Glass Lewis favours the annual election of directors, as noted in the Continental European Policy Guidelines, under Italian law directors may be elected for a term of up to three years and it is common practice for Italian companies to elect their directors for the maximum term permitted by the law.[31] Furthermore, the term length for directors is typically discussed at the meeting and premised on physical presence at the meeting. As such, we recommend voting for proposals to set the board's term length.

Staggered Elections

The Code suggests staggered boards as a measure to ensure continuity at the board and committee levels, provided this structure does not adversely affect shareholders.[32] As noted in our Continental European Policy Guidelines, in light of the empirical evidence suggesting staggered boards reduce a company's value and the increasing shareholder opposition to such a structure, Glass Lewis generally supports the declassification of boards and the annual election of directors; however, we may support a company's adoption of a staggered board structure if it introduces more frequent elections than existing director term lengths.

ELECTION OF CHAIRMAN

In Italy, shareholders are often asked to approve the election of the chairmen of the board of directors and board of statutory auditors. With respect to the board of directors, a Company's articles of association may dictate the procedure by which the chairman will be elected or candidates may be proposed before or during the shareholders' meeting. In the case of the board of statutory auditors, Italian law requires that the chairman be elected from among the candidates presented and voted by minority shareholders.[33] The election of the chairman may be presented separately or, more often, together with the election of the boards as a whole. Glass Lewis will generally support the election of the chairman of both boards as long as the candidates can be identified and we have not identified substantial issues for shareholder concern as to any of the nominees.

ELECTION OF BOARD OF STATUTORY AUDITORS

According to Italian law,[34] statutory auditors are elected by shareholders at the general meeting for a term of up to three years. The board of statutory auditors is the corporate body in charge of overseeing compliance by a company with the law and the articles of association. Moreover, it is responsible for ensuring the adequacy of a company's organisation, internal control, administrative and accounting system, as well as for monitoring compliance with the procedures adopted by the board of directors with respect to related party transactions and their adequacy.

The law bars the appointment to the position of statutory auditors for:

- individuals who went bankrupt or were interdicted from public functions;
- spouses or relatives of the directors of the company or of its parent or subsidiaries companies;
- individuals who work either in a self-employed capacity or as employees of the company or of its parent or subsidiaries companies; and

31 Civil Code, article 2383.
32 Code, Comments to article 2.
33 Consolidated Law on Finance, article 148.2-bis.
34 Consolidated Law on Finance, articles 148-151; Civil Code, articles 2397-2407.

- individuals who have professional or other business relationships with any director of the company or any member of the director's family.

We believe that these limitations should ensure the independence and the integrity of statutory auditors. Further, in line with the Code, we determine the independence of the statutory auditors on the basis of the criteria outlined for the board of directors (See Pages 2 & 3).[35]

Pursuant to Italian law, statutory auditors are elected on the basis of slates presented by shareholders, as detailed under "Election Procedures" on page 5. The company's articles of association can stipulate the threshold for the presentation of a list, which cannot exceed the percentage mandated by Consob regulations on the basis of the company's capitalisation, free float and ownership structure. Each shareholder (or group of shareholders) holding the required percentage of share capital is allowed to submit and vote for a single list of candidates. Furthermore, the chairman of the board must be elected from the minority slate that obtains the highest number of votes.[36]

With regard to the choice among competing slates of candidates for election to the board of statutory auditors, Glass Lewis will review the background of the nominees on each list to identify any affiliated transactions that we consider to bias them as board members. We will recommend supporting the slate that appears able to best protect the interests of all shareholders, including minority investors. Further, when formulating our recommendation, we will take into consideration any issues that have emerged where there is evidence of poor oversight on the part of the board of statutory auditors. We may consider voting against a proposed member of the board of statutory auditors if we have significant concerns regarding that member, should the nominee be up for individual election. In the case of slate voting, we may recommend that shareholders do not vote on a slate which includes such candidate or vote against this slate should it be the only one presented for election.

SHAREHOLDER PROPOSALS REGARDING BOARD ANCILLARY PROPOSALS

Under Italian law, a shareholder (or group of shareholders) holding at least 2.5% of a company's share capital may submit additional items to the agenda of a general meeting already convened.[37] When presenting a list of candidates for the election of the board of directors and the board of statutory auditors, shareholders holding the required percentage of share capital (usually the company's largest shareholder) often submit resolutions regarding board ancillary proposals which may be on the agenda of the meeting. These proposals typically address board size, term length, election of the chairman and directors' and statutory auditor's compensation. In cases where the board of directors has not provided a recommendation regarding such proposal(s), we will base our analysis and voting recommendations on the proposal(s) presented by the shareholder(s) in lieu of management proposals.

Moreover, when ancillary proposals to set the board size are included in the agenda in order to invite shareholders to present proposals at the meeting, but where no specific proposals have been received in advance, we will recommend voting for such proposals as long as the company's articles of association define a reasonable range for board size. In the case of proposals relating to board term length, although Glass Lewis favours the annual election of directors, as noted in the Continental European Policy Guidelines, under Italian law directors may be elected for a term of up to three years and it is common practice for Italian companies to elect their directors for the maximum term permitted by the law. As such, we will recommend shareholders vote for in such cases regardless of the absence of proposals presented by shareholders.

35 Code, article 8.C.1.
36 Consolidated Law on Finance, article 148; Consob Regulations n. 11971, articles 144-quinquies and sexies.
37 Consolidated Law on Finance, article 126-bis.

II. Transparency and Integrity in Financial Reporting

In Italy, shareholders are required to approve a company's financial statements and the allocation of profits and dividends annually. Shareholders are also required to approve the company's choice of independent auditors, which are appointed for terms of nine years, and the fees to be paid to the auditor.[38] Our policies for these issues in Italy do not deviate materially from our Continental European Policy Guidelines.

ACCOUNTS AND REPORTS/CONSOLIDATED ACCOUNTS AND REPORTS

As a routine matter, Italian company law requires that shareholders approve a company's financial statements, within the six months following the close of the fiscal year, in order for them to be valid.[39] The financial statements are accompanied by the directors' report, the independent auditors' report and by the board of statutory auditors' report.

38 Legislative Decree n. 39 of January 27, 2010 implementing Directive 2006/43/CE. According to the law, the independent auditor is elected upon proposal of the board of statutory auditors, supervisory board or control committee depending on the governance model chosen by a company.
39 Civil Code, article 2364.

III. The Link Between Compensation and Performance

In 2011, Italian law required that all listed companies submit remuneration reports for shareholders' review.[40] Specifically, the new law implemented European Commissions' Recommendations 2004/913/CE and 2009/385/CE pertaining to the remuneration policies of directors and executives of listed companies. Prior to the enactment of this law, only banks and other financial institutions were subject to this requirement.[41] Our policies with regard to these issues do not deviate from the principles discussed in our Continental European Policy Guidelines, except with regard to severance pay, as detailed on page 11.

VOTE ON COMPENSATION ("SAY ON PAY")

As of 2012, as a result of the implementation of a new law, shareholders are entitled to vote on the compensation policy for all listed companies in Italy. We discourage companies from bundling the approval of its remuneration report with the general approval of a company's accounts and reports proposal, as it does not allow shareholders voting by proxy to express their views on each item individually. We may recommend voting against the chairman of the remuneration committee should a company fail to propose its remuneration report for approval as a separate voting item on the agenda of the general meeting. Further, we will recommend voting against the bundled proposal itself if we have any concerns regarding the company accounts or the remuneration report that would cause us to vote against either item as a standalone voting proposal.

Companies are required to make available a remuneration report divided into two sections. The first section explains the company's policy for board members, general managers and executives with strategic responsibilities with reference to at least the following year. The same section also details the procedures used to adopt and implement this policy. The second section provides a representation of each of the remuneration items and analytically illustrates the amounts paid by the company and/or its subsidiaries during the last fiscal year. Shareholders annually vote to approve the first section with a non-binding resolution.[42] However, for banks and insurance companies, the shareholder vote is binding in accordance with the relevant rules.

The Italian Corporate Governance Code emphasises the following best practices with which we believe most companies should comply:[43]

- The establishment of upper payout limits for variable components;
- The deferral of a significant portion of the variable component of remuneration for an appropriate period of time; the amount of that portion and the length of the deferral should be consistent with the characteristics of the issuer's business and associated risk profile;
- The institution of contractual arrangements that permit the company to reclaim, in whole or in part, the variable components of remuneration awarded on the basis of data which subsequently proved to be manifestly misstated;
- A vesting period of at least three years for awards of shares, options and all other rights granted to directors to buy shares or to be remunerated on the basis of share price movements;
- The use of predetermined and measurable performance criteria to determine the vesting of awards;
- The retention of a certain number of shares granted or purchased through the exercise of the rights referred to in paragraph a), until the end of their mandate.

40 Legislative Decree 30 December 2010, n. 259 published in the Italian Official Gazette of 11 February 2011; Consolidated Law on Finance, article 123-ter.
41 Supervisory provisions concerning banks' organisation and corporate governance, article 4; Bank of Italy's Regulation of March 30, 2011 concerning remuneration policies of banks; and ISVAP Regulation n. 39 of June 2011 concerning remuneration policies of insurance companies.
42 Consolidated Law on Finance, article 123-ter.
43 Italian Corporate Governance Code, Article 6.

- The disclosure of adequate information on the indemnity and/or other benefits paid to directors, including their amount, timing of disbursement and "claw-back" clauses, if any, in particular with reference to:
  - indemnities for the end of office or termination of the employment relationship, specifying the circumstances of its accrual (for example, expiry, revocation or settlement agreement);
  - maintenance of rights related to any incentive plans, monetary or financial instruments based;
  - benefits (monetary and non monetary ones) subsequent to the end of office;
  - non-competition commitments, describing their main contents;
  - any other payment assigned for any reason and in any form;

The Code also recommends that companies disclose information regarding the application, or non-application, of any mechanism that provides restrictions or corrections to the indemnity in case of termination due to the achievement of objectively inadequate results, as well as whether requests have been formulated for the reclaim of remuneration already paid out.

SEVERANCE PAYMENTS

While we generally believe that severance payments should be limited to two years' fixed salary, executive severance agreements in Italy often exceed this cap. We will take into account this market practice when evaluating a severance based payment on an existing contract; nonetheless, we may recommend voting against a severance policy that allows for payments that are excessive.

Pursuant to circular n. 285 published by the Bank of Italy, banks must seek shareholder approval of their severance policies. The quantum of such severance payments should be based on company performance and a clear maximum limit should be defined. Where a bank does not set a clear maximum limit on a severance payment, where that limit is excessive, or where performance conditions may allow for undue payouts, we will recommend voting against the proposal.[44]

DIRECTOR COMPENSATION PLANS

According to Italian Law,[45] the shareholders' general meeting fixes the compensation of the members of the board of directors. The board of directors fixes the compensation of those directors who are appointed to particular positions, after consultation with the board of statutory auditors. Where permitted by the company's articles of association, shareholders at the annual general meeting can determine a cap on the total compensation of the directors, including those who are appointed to particular positions.

44 Supervisory provisions for banks. Circular 285 of December 17, 2015 issued by the Bank of Italy.
45 Consob Resolution n. 17221 of March 12, 2010.

IV. Governance Structure and the Shareholder Franchise

In Italy, shareholders may be asked to approve amendments to a company's articles of association, or the authorisation of competing activities. Our policy on these issues does not deviate materially from our Continental European Policy Guidelines.

AUTHORISATION OF COMPETING ACTIVITIES

Italian law prescribes that board members may not become partners of unlimited liability in competitor companies, nor carry out competing activities on their own account or that of third parties, nor take up the office of director or general manager in competitor companies, unless authorised by shareholders. In case of violation of the non-competition clause, the board member may be revoked and is responsible for any damage caused.[46]

If any of the appointed directors is in competition with the company, either directly or indirectly, shareholders will be asked to vote on a waiver of the non-competition clause. We also note that a director is required to disclose to the other directors and to the board of statutory auditors any interest that, personally or on behalf of third parties, he or she has in a specific transaction of the board. In such a case, the board resolution must state the reasons why the transaction is in the company's best interest. Further, a director is liable for damages suffered by the company as a result of his or her personal interest in a transaction.[47]

While Italian law provides for some measures to protect the company and its shareholders from abuses, we will recommend against such a proposal, as we believe that it is not in shareholders' best interests to grant directors the right to potentially enter into a situation that may be considered a conflict of interest.

DOUBLE VOTING RIGHTS

Law no. 116 of August 11, 2014 (converted, with amendments, from Legislative Decree no. 91 of June 24, 2014) introduced the possibility of increased voting rights, as an incentive for shareholders to become long-term investors in listed companies. Once provided for in its articles of association, a company may grant up to two votes per share to shareholders who have held their shares continuously for at least two years. Pursuant to Italian law, the articles of association shall specify the terms and conditions for allocating increased voting rights and establish a special list to ensure the relevant conditions are met. In order to be included on this list, shareholders must submit the relevant certifications provided by the financial intermediary in accordance with its accounting records.[48]

Glass Lewis is generally opposed to measures that treat shareholders unequally. In general, we do not favour the creation or extension of stock with differential voting rights as it implicitly creates multiple classes of stock, which we believe is detrimental to the equal exercise of shareholder rights. As such, we will recommend shareholders vote against the implementation of provisions relating to such loyalty initiatives into a company's articles of association.

46 Civil Code, article 2390.
47 Civil Code, articles 2391 and 2392.
48 Consolidated Law on Finance, Article 127-quinquies, subsection 2.

V. Capital Management

Shareholders in Italian companies may be asked to approve capital-related proposals. Our policies with regard to these matters do not differ materially from our Continental European Policy Guidelines.

ISSUANCE OF SHARES AND/OR CONVERTIBLE SECURITIES

In Italy, shareholders are required to approve all proposals related to the issuance of shares and/or convertible securities. According to Italian law, shareholders may delegate the power to increase the company's share capital to the board of directors. Notwithstanding the aforementioned, shareholders must determine the length of the authority, which in no event may be greater than five years, and the overall ceiling for the increase.[49]

AUTHORITY TO REPURCHASE SHARES

Under Italian law, a company may seek shareholder approval to repurchase its own shares. The law requires the company to indicate (i) the maximum number of shares to be acquired; (ii) the duration of the authority (which must not exceed 18 months); and (iii) the corresponding minimum and maximum purchase prices. The number of shares to be repurchased may not exceed 20% of the company's share capital. Further, repurchases must be made out of the company's distributable profits so as to ensure equal treatment of shareholders according to procedures set by Consob.[50]

We will generally support buyback programs so long as the company is left with a sufficiently strong balance sheet in light of its capital requirements.

49 Civil Code, article 2443.

50 Civil Code, articles 2357 and 2357-bis; Consolidated Law on Finance, article 132.

DISCLAIMER

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