2020

PROXY PAPER™

GUIDELINES

AN OVERVIEW OF THE GLASS LEWIS APPROACH TO PROXY ADVICE

ITALY

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Guidelines Introduction

These guidelines are intended to supplement Glass Lewis' Continental Europe 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 Europe 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 Europe Policy Guidelines are not repeated here, we will clearly indicate in these guidelines when our policy for Italian companies deviates from the Continental Europe 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 published in 1999 and most recently updated in July 2018. 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"). Most recently, the Bank of Italy has published the update no. 29 on September 18, 2019.

SUMMARY OF CHANGES FOR THE 2020 ITALY POLICY GUIDELINES

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. This year we've made noteworthy revisions in the following area, which are summarized below but discussed in greater detail in the relevant section of this document:

EXECUTIVE REMUNERATION

We have updated these guidelines to reflect the introduction of a binding vote on remuneration policy for non-financial companies and an advisory vote on the second section of the remuneration report for all listed companies pursuant the Legislative Decree no. 49/2019, which transposed Directive (EU) 2017/828 of the European Parliament ("SRD II") into law.

A Board of Directors that Serves the Interests of Shareholders

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. Recently, a number of financial institutions moved from the two-tier system to the one-tier model to enhance the efficiency of internal processes. However, 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

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 adequate gender diversity and representation of different professional and managerial competences, including experience in international markets (article 1.C.1(g)).

4 Per Glass Lewis' Continental Europe Policy Guidelines, "material" as used herein means a relationship in which the value exceeds: (i) €50,000 (or 50% of the total remuneration paid to a board member, or where no amount is disclosed) for board members who personally receive remuneration 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 Europe 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.

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.

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 chairs, 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 board chair 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

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).

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 Europe 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). As outlined in our Continental Europe Policy Guidelines, we refrain from recommending to vote against directors who are not considered independent due to lengthy board tenure on that basis alone in order to meet recommended independence thresholds. 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 board chair 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 chair 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. Circular no. 285 of December 17, 2013 IV.1.IV.2.2.

the Star segment of the Italian Stock Exchange, boards should generally include the following number of independent directors: (i) at least two if the board consists of up to eight 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.[15]

When the whole board is up for election, directors must be elected on the basis of slates presented by the outgoing board and/or shareholders. 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. Moreover, we will take into account the ownership structure of companies, particularly those with a dispersed share ownership, in evaluating the lists presented and the potential voting outcome at the meeting. 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.

Voting Recommendations on the Basis of Committee Independence

We believe that the audit and remuneration committees should be composed exclusively of non-executive directors,[16] a majority of whom should be independent. Committees should be chaired by an independent director.[17] In the case of companies controlled by another listed company, the audit committee should be comprised of exclusively independent directors.[18] Moreover, we believe a majority of the members of the nominating and governance committees should be independent.[19]

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 Europe Policy Guidelines. The following are clarifications regarding best practice recommendations in Italy.

EXTERNAL COMMITMENTS

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.[20] Nevertheless, we adopt a case-by- case approach on this issue, as described in our Continental Europe Policy 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.[21]

15 Rules and Instructions issued by Borsa Italia S.p.A., Article IA.2.10.6.

16 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.

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

18 Code, article 7.P.4.

19 Code, article 5.P.1.

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

21 Code, article 1.C.3.

BOARD INTERLOCK

As stated in our Continental Europe 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.[22] 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 Europe Policy Guidelines. The following are clarifications regarding best practice recommendations in Italy.

BOARD SIZE

As stated in our Continental Europe Policy Guidelines, we typically recommend voting against the nominating committee chair 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 against a proposal which sets the potential maximum board size for a non-financial institution at more than 15 members.[23]

SEPARATION OF THE ROLES OF BOARD CHAIR AND MANAGING DIRECTOR (CEO)

According to the Italian Corporate Governance Code, chairs 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.[24] However, it is not unusual in Italy for the same person to hold the two positions. Some management powers may be delegated to the chair 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,[25] as recommended by the Italian Code. The Code further recommends that companies belonging to the FTSE-MIB index should evaluate whether or not to establish a sustainability committee or alternatively, to allocate such tasks among the other committees.[26] In line with our Continental Europe Policy Guidelines, we will identify all instances of board-level oversight of environmental and social issues at large-cap companies, as well as where such oversight has not been clearly defined by these companies. 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 chair. At least one committee member must be a board member appointed from the minority slate.[27] As noted in our Continental Europe Policy Guidelines, should a key committee be composed of less than three members we may recommend voting against the nominating committee chair.

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22 Italian 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.6).

23 The average board size for financial and non-financial institutions in Italy during the past fiscal year was 14.7 members and 9.4 members, respectively. Report on Corporate Governance practices in Italy: An assessment of the Italian Corporate Governance Code Implementation. Assonime. 2018.

24 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.4).

25 The Code recommends that all committees have a chair 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).

26 Code, Comments to Article 4.

27 Circular no. 285 of December 17, 2013 and subsequent revisions, IV.1.IV.2.3.

BOARD DIVERSITY

Italian law requires that the less-represented gender constitutes at least one-third of a board and provides sanctions for non-compliance.[28] This principle has been reinforced in 2018 with the introduction of a one-third quota in the Code.

We expect companies to provide a description of their policy on board diversity as regards age, gender, managerial skills, professional qualification and international background, as well as a description of the implementation and results of the application of such policy. If no policy is applied, companies should disclose the rationale behind such a choice.[29]

Moreover, we expect shareholders presenting a list for the election of the board of directors to disclose whether the composition of the list is aligned with the relevant company's gender diversity policy.

ELECTION PROCEDURES

Our policies with regard to election procedures are somewhat different from our Continental Europe 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. A company can also amend its articles of association in order to introduce the right for the outgoing board to submit a list of candidates. We will usually recommend in favor of such proposals. We note that the submission of a list by the outgoing board of directors is a practice recently adopted by Italian companies with dispersed ownership and an international shareholder base. When a slate is submitted by the board, we evaluate those candidates in the same way as slates presented by shareholders, as described above.

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.[30] The articles of association can, however, reserve more than one seat for minority candidates. 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).

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.

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28 Italian Law n. 120 of July 12, 2011 amending the Consolidated Law on Finance. The law enforces a quota of at least one-fifth of the directors for the less-represented gender in the first renewal of the board after one year from the date of its entry into force (August 2012), and of one-third in the following two board renewals. Board diversity rules also apply to the board of statutory auditors. To overcome the time limit of the effectiveness of the law, which is until 2022, the code has introduced the one-third quota requirements under the new articles 2.C.3. for the board of directors and 8.C.3 for the board of statutory auditors.

29 Code article 123-bis d-bis as amended by Italian Legislative Decree no. 254/2016. Code, Comments to Article 2.

30 Consolidated Law on Finance, article 147-ter(3).

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 Europe 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 Europe 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 BOARD CHAIR

In Italy, shareholders are often asked to approve the election of the chair 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 chair 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 chair be elected from among the candidates presented and voted by minority shareholders.[33] The election of the chair 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 chair 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;

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31 Civil Code, article 2383.

32 Code, Comments to article 2.

33 Consolidated Law on Finance, article 148.2-bis. In companies with a dispersed ownership structure, where there is potential for the list presented by institutional investors to receive the most votes, and as a result, the chair will be appointed from the so-called "majority" slate, we will take this into account in our evaluation of this proposal. In some cases, we may recommend shareholders use their vote as a way to reinforce the likelihood for the candidate indicated by institutional investors to be elected as chair of the board of statutory auditors.

34 Consolidated Law on Finance, articles 148-151; Civil Code, articles 2397-2407.

- individuals who work either in a self-employed capacity or as employees of the company or of its parent or subsidiaries companies; and
- 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 "Independence" section).[35]

Pursuant to Italian law, statutory auditors are elected on the basis of slates presented by shareholders, as detailed under "Election Procedures". 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 board chair 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, we will evaluate whether the slates are aligned with the company's diversity policy and gender diversity requirements.[37] Moreover, we will take into account the ownership structure of companies, particularly those with a dispersed share ownership, in evaluating the lists presented and the potential voting outcome at the meeting. 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, such as those related to the independent auditor. 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.[38] 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 where the board has invited shareholders to submit resolutions. These proposals typically address board size, term length, election of the chair and directors' and statutory auditor's remuneration. 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, 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 Europe 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 Code, Comments on Article 8.

38 Consolidated Law on Finance, article 126-bis.

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.[39] Our policies for these issues in Italy do not deviate materially from our Continental Europe 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.[40] The financial statements are accompanied by the directors' report, the independent auditors' report and by the board of statutory auditors' report.

39 Legislative Decree n. 39 of January 27, 2010 and subsequent revisions 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.

40 Civil Code, article 2364.

The Link Between Pay and Performance

Since 2011, Italian law has required all listed companies to submit remuneration reports for shareholder review.[41] In 2019, the law implementing the EU Shareholder Rights Directive ("SRDII") reinforced the existing reporting framework with a focus on principles of clarity, alignment to corporate strategy and long-term sustainability, and introduced a binding remuneration policy vote for non-financial companies.[42] The Code of Corporate Governance provides best practice remuneration recommendations and the Consob rules mandate the structure and content of such remuneration.

Further regulations regarding remuneration policies at financial institutions are included in (i) Circular 285 of December 17, 2013 and subsequent revisions issued by the Bank of Italy; and (ii) ISVAP Regulation n. 39 of June 2011 concerning remuneration policies of insurance companies.

Our assessment of a company's remuneration policy is not materially different from the approach to evaluating remuneration outlined in Glass Lewis' Continental Europe Policy Guidelines, except with regard to clarity, transparency, comprehensibility to severance pay, as detailed below.

VOTE ON REMUNERATION ("SAY-ON-PAY")

In accordance with the revised Consolidated Law on Finance, companies are required to make available a remuneration report divided into two sections and to submit each of them to shareholder approval.

REMUNERATION POLICY

The first section of the remuneration report explains the company's forward-looking policy for board members, general managers, executives with strategic responsibilities, and members of control bodies. This section also details the procedures used to adopt and implement the remuneration policy, and how the policy contributes to the corporate strategy, long term interests and company sustainability.

The remuneration policy must be put to a binding shareholder vote requiring majority approval at least every three years. If the proposal does not receive majority approval, payments are made in compliance with the most recently approved policy or, in its absence, in compliance with market practice and a new policy is submitted to shareholders vote at the next AGM. The policy must also be put to shareholders if the company wishes to amend the policy. Companies are allowed to temporarily deviate from the policy under exceptional circumstances to pursue long-term interests and/or the company's sustainability, or to ensure business continuity.[43]

We expect companies to fully disclose and explain their remuneration policies in a manner that is consistent with shareholder interests. Our voting recommendations for a binding vote on the remuneration policy will reflect an overall assessment of the structural alignment between pay and company performance as well as any changes that would affect the alignment of executive and shareholder interests.

41 Legislative Decree 30 December 2010, n. 259 published in the Italian Official Gazette of 11 February 2011; Consolidated Law on Finance, article 123-ter.

42 Legislative Decree 10 May 2019, n. 49 published in the Italian Official Gazette of 10 June 2019; Consolidated Law on Finance, article 123-ter.

43 Consolidated Law on Finance, article 123-ter, paragraph 3.

The Italian Corporate Governance Code emphasises the following best practices with which we believe most companies should comply:[44]

- 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 until the end of their mandate; and
- The disclosure of adequate information on the indemnities and/or other benefits paid to directors, including their amount, timing of disbursement and clawback 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, either monetary or based on financial instruments;
    - benefits (monetary and non-monetary) subsequent to the end of office;
    - non-competition agreements, describing their main contents; and
    - 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 indemnities in the 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. When a company's executive remuneration policy deviates from these guidelines, we expect a clear and compelling rationale for why the proposed structure or practice is appropriate for the company.

POLICY IMPLEMENTATION

The second section of the remuneration report illustrates the amounts paid by the company and/or its subsidiaries during the fiscal year under review and explains how the company has taken into consideration shareholders' votes of the previous year.[45] The company's independent auditor will verify that the board of directors has prepared this section of the remuneration report.[46] Shareholders vote annually to approve the second section on an advisory basis.[47]

We believe this vote provides shareholders with an important opportunity to support or oppose remuneration policies and practices. As such, our voting recommendations may reflect ongoing structural concerns as well as remuneration decisions and outcomes during the past fiscal year. In assessing implementation during the

44 Italian Corporate Governance Code, Article 6.
45 Consolidated Law on Finance, article 123-ter, paragraph 4.
46 Consolidated Law on Finance, article 123-ter, paragraph 8-bis.
47 Consolidated Law on Finance, article 123-ter, paragraph 6.

year under review, particular attention is paid to the alignment between performance and pay outcomes, and the board's level of disclosure regarding any application of discretion.

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. Similarly, as executives in Italy are often entitled to additional termination payments under their collective bargaining agreements, we expect companies to disclose such entitlements in detail in the remuneration report.

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 (i) individual performance; (ii) the level of capital and liquidity of the bank; and (iii) the length of employment. A clear maximum limit should also be defined.

Further, the law specifies that severance indemnities fall under the definition of "variable remuneration" and as such are included in the maximum ratio of variable-to-fixed-remuneration, which cannot exceed 100% of fixed remuneration (or 200%, with shareholder approval).

While payments for non-compete agreements, as well as amounts paid for the settlement of a current or potential dispute and indemnities in lieu of notice exceeding the legal entitlements, are considered severance payments, the following amounts are not included in the calculation of the maximum ratio of variable-to-fixed-remuneration: (i) non-compete agreements which do not exceed one year's fixed remuneration for each year of the duration of the agreement; and (ii) any amount paid for the settlement of a current or potential dispute related to termination of employment if calculated according to a predefined formula.[48]

Where a bank does not set a clear maximum limit on a severance payment, and where that limit is excessive or where performance conditions may allow for undue payouts, we will generally recommend voting against the severance policy in question.

DIRECTORS' REMUNERATION PLANS

According to Italian Law,[49] the shareholders' general meeting fixes the remuneration of the members of the board of directors. The board of directors fixes the remuneration 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 remuneration of the directors, including those who are appointed to particular positions.

48 Supervisory provisions for banks. Circular 285 of December 17, 2013 and subsequent revisions issued by the Bank of Italy.

49 Civil Code, article 2389.

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 Europe 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.[50]

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.[51]

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.[52]

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.

50 Civil Code, article 2390.

51 Civil Code, articles 2391 and 2392.

52 Consolidated Law on Finance, Article 127-quinquies, subsection 2.

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 Europe 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.[53]

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.[54]

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

53 Civil Code, article 2443.
54 Civil Code, articles 2357 and 2357-bis; Consolidated Law on Finance, article 132.

DISCLAIMER

This document is intended to provide an overview of Glass Lewis' proxy voting policies and guidelines. It is not intended to be exhaustive and does not address all potential voting issues. Additionally, none of the information contained herein should be relied upon as investment advice. The content of this document has been developed based on Glass Lewis' experience with proxy voting and corporate governance issues, engagement with clients and issuers and review of relevant studies and surveys, and has not been tailored to any specific person.

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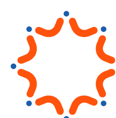

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