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Milan, 17th December 2024

*To the Chairmen of the board of directors of listed companies*

*c.c. to the Chief executive officer of listed companies*

*c.c. to the Chairmen of the supervisory bodies of listed companies*

Dear Chair,

I am writing to you as Chair of the Italian Corporate Governance Committee (hereinafter the "Committee") supported by Abi, Ania, Assogestioni, Assonime, Borsa Italiana and Confindustria, with the aim of promoting good corporate governance through self-regulation. To this end, the Committee has the task of issuing and updating the Corporate Governance Code (hereinafter the "Code") and periodically monitoring the status of its application by the companies that declare to adopt it. In order to implement this task, the Committee approves an Annual Report on the application of the Code (hereinafter the "Report"), which reached its twelfth edition this year.

Starting from 2015, the Committee decided to accompany the publication of the Report with a Letter to all listed companies to give greater evidence of the monitoring activity and highlight the main critical findings, providing for specific further recommendations aimed at strengthening the credibility of adherence to the Code as a signal of the quality of the governance practices followed.

By adhering to the Code, companies are committed to the market to ensure the adoption of the best governance practices defined by the *principles* and *recommendations* of the Code and to provide adequate information on how they are applied, according to the principle of "comply or explain". This commitment is further supported by the Consolidated Finance Act (so-called, TUF), which requires listed companies to disclose such information and their statutory auditors body (so-called

“collegio sindacale”) a specific duty of supervision on the arrangements for implementing the corporate governance rules provided for in codes of conduct which the company declares to adhere<sup>1</sup>.

The importance of the Code as an effective tool to ensure a high level of quality in corporate governance practices by Italian listed companies, has recently received further recognition from the legislator. In defining the delegation criteria for the comprehensive reform of the provisions on capital market regulations contained in the TUF and the provisions on joint-stock companies in the Civil Code that are also applicable to issuers, the legislator has stated the goal of “*simplifying the corporate governance rules, also taking into account the rules provided by self-regulatory codes*”<sup>2</sup>.

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The monitoring carried out this year concerns the Corporate Governance Reports referred to 2023 and published in 2024 and represents the third analysis of the application of the new Corporate Governance Code, approved on 31 January 2020 and entered into force in 2021.

With this Letter, the Committee intends to communicate to the companies the main general indications on the application of the Code resulting from the monitoring activity, with particular focus on the issues reported in the last year’s letter. The Committee reiterates the invitation to ensure an increasingly effective application of the “comply or explain” principle, emphasizing the need for improved transparency both in the practices adopted in applying certain Code’s recommendations and in clearly identifying any deviation and explaining its reasons<sup>3</sup>.

The aim is to improve the transparency of governance practices in accordance with the guidelines of the Code, to encourage an increasingly conscious application of the Code by the companies that adhere and, more generally, to promote the evolution of corporate governance by all companies listed on the Italian regulated market according to the principles of the Code, regardless of their formal adherence to it. To this end, this Letter is also addressed to Italian listed companies which, on 31 December 2023, did not adhere to the Code and to foreign-regulated companies which have the main trading venue in Italy. Regarding the latter, the Committee intends to encourage the opening of a fruitful dialogue, including through the organization of targeted initiatives, to promote greater convergence of the best governance practices of companies listed on the national market.

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<sup>1</sup> Art. 149, par. 1, letter c-bis), TUF.

<sup>2</sup> Art. 19, par. 2, letter e), of Law no. 21 of March 5, 2024.

<sup>3</sup> Corporate Governance Code, *Introduction*.

I therefore invite you to submit the "**Report 2024**" and the "**Recommendations of the Committee for 2025**", enclosed to this letter, for examination by the board and the relevant committees to analyze the alignment of the company's practices with the recommended ones and to identify any gap in the application or explanations provided. I would also ask you to ensure that these documents are properly considered in the self-assessment of the board and committees. This letter is sent for information to the Chairperson of the controlling body for appropriate assessment, in view of the duty of this body to supervise the actual implementation of the Code's recommendations.

The Committee recommends that the outcome of the analysis could be the subject of a specific board discussion, potentially supported by preparatory work from the relevant committees. This discussion should assess the company's position with respect to the Committee's 2025 recommendations and define any initiative for governance evolution. The Committee also suggests that the considerations made regarding the 2025 recommendations and any initiative undertaken or planned should be reported, with appropriate prominence, in the next Corporate Governance Report, so that the market can assess the evolution of the quality of the governance systems and companies can signal their commitment. The Committee has entrusted the Technical Secretariat, which is available for any clarification or further information ([segretario@comitato-cg.org](mailto:segretario@comitato-cg.org)), to examine the considerations disclosed by the companies, to ensure a timely and complete monitoring of the evolution of the Code's application practices, with regard to the issues covered by specific recommendations as contained in this Letter.

Companies are also informed that the Committee, during its meeting on December 16<sup>th</sup>, 2024, adopted an updated version of the Format for the Corporate Governance Report (hereinafter, "Format"). This tool, developed by Borsa Italiana since 2008, had already been recognized by the Committee for its usefulness in supporting transparency regarding adherence to the Code, as noted in the Q&A for the application of the Corporate Governance Code (see Q. introduction).

The Format is traditionally intended to provide issuers with a (non-binding) tool for drafting the Corporate Governance Report and/or for verifying the completeness of its contents.

The new edition of the Format, developed with the coordination of Borsa Italiana, reflects the adoption by both European and Italian legislator of new regulations on corporate sustainability reporting. These regulations impose stringent analytical requirements for sustainability reporting on listed companies (based on ESRS reporting standards adopted by the European Commission through

Regulation 2023/2772 of July 31<sup>st</sup>, 2023). These requirements also include information related to the corporate governance of issuers.

This information overlaps, in some parts, with the information that companies are already required to disclose in the annual Corporate Governance Report. In other parts, it seems to usefully complement the governance information traditionally provided by issuers.

The purpose of the new edition of the Format is to provide issuers with a tool that can also facilitate the coordination of internal processes for preparing the "traditional" Corporate Governance Report with those related to the preparation of the new sustainability reporting. The Format has therefore been updated to include, in the relevant sections, references to the corporate governance information required by the ESRS. This integration will enable issuers - particularly the internal teams involved in drafting the Corporate Governance Report and the sustainability reporting - to more easily identify areas of overlap between the information required for each report and, consequently, determine the best approach to provide the market with a clear, consistent, and comprehensive description of their corporate governance system.

Therefore, the Committee invites the companies to consider the updated edition of the Format starting with reports for the 2024 fiscal year.

Best regards,

Massimo Tononi

*All.: c.s.*

**THE COMMITTEE'S RECOMMENDATIONS FOR 2025**

***1. Adherence to the Code***

At the end of 2023, 97% of Italian companies with shares listed on the Euronext Milan (thereinafter, “EXM”) formally declared that they adopted the latest version of the Code. The choice not to adopt it is limited to a few cases (7 companies) and generally due to the small size of the company (6 companies are "not large")<sup>4</sup>.

A positive sign of the structural function that adherence to the Code plays in the market access process is the fact that all Italian companies that have been listed on the EXM since 2010 have adhered to the Code. Moreover, these companies show a higher level of implementation of the recommendations than companies that have been listed longer.

Overall, adherence to the Code is to be evaluated positively. On the one hand, there is a gradual improvement in the information provided on the Code's new topics, such as the implementation of the sustainable success and of the dialogue with shareholders and other relevant stakeholders, although there is still room for improvement in the evolution of practices.

A particularly significant element emerging from the annual monitoring is the increasing use of the flexibility and proportionality measures offered by the Code (in particular, self-assessment on a three-year basis and, albeit less markedly, the increased possibility of not setting up one or more board committees and assigning the relevant functions to the full board of directors).

The new Code has expanded possible ways of implementing some recommendations according to the size and ownership structure of the companies, allowing in particular "not large" and "concentrated property" companies to adopt lighter organizational and procedural solutions than those provided for other companies. This choice does not represent a reduction of the Code's ambitions compared to expected best practices, as defined in the principles, but intends to offer greater flexibility in the definition of specific implementation methods for companies with less organizational complexity, also to avoid, in a comparative perspective, these companies are systematically considered less in line with the Code than larger companies with more complex organizational models.

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<sup>4</sup> One of the companies not currently adhering to the Code has declared its intention to proceed with its adherence, which will be completed in the year 2024. Assonime-Emittenti Titoli 2024

The enhancement of the principle of proportionality is intended to strengthen the application of the Code, and to optimize one of its fundamental inspiring principles, that of “*the prevalence of substance over form*”<sup>5</sup>. This process has been developed due to the increasing overlap of regulation and best practices in the area of corporate governance that could jeopardize the effectiveness of this principles thus favoring a formal compliance that penalizes less consolidated business realities and can discourage access to the capital market.

The need to define governance rules, whether regulatory or self-regulatory in nature, proportionate to the characteristics of the different types of listed companies, is progressively supported in the evolving policy making in this area, both at the international level (G20/OECD Principles on Corporate Governance) and at the national level (Green Paper of the Italian Ministry of Economy and Finance). This trend confirms the validity of the approach adopted by the Committee in this regard.

In contrast to a very wide and growing adoption of the Code by Italian listed companies, its adoption appears to be substantially disregarded by foreign regulated companies that have the Italian market as their main listing market, although the new Code has gone beyond the previous approach that limited its scope of application only to domestic companies and is now addressed to all companies, Italian and foreign, listed on the Italian regulated market<sup>6</sup>. Out of the 13 foreign regulated companies that have the main listing in Italy, two companies have adopted the Italian Code, and another two companies have considered parts of the Italian Code, relating to the internal control and risk management system, while systematically adhering to the Code of the country of incorporation<sup>7</sup>.

**In view of the growing importance of foreign regulated companies on the Italian market, accounting to more than a third in term of capitalisation, the Committee considers it appropriate to renew the invitation to these companies, to evaluate the opportunity to adhere to the best practices recommended by the Italian Code of Corporate Governance and offers**

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<sup>5</sup> Expressly recognized as a general principle of the Code. V. Code of Corporate Governance, *Introduction*.

<sup>6</sup> This theme was already highlighted in the Committee's previous Reports and was the subject of a broader recommendation in the President's Letters of January 25, 2023, and December 14, 2023, where all companies listed on the EXM, including those under foreign law, were invited to consider joining the Italian Code.

<sup>7</sup> Assonime-Emittenti Titoli 2024.

**its willingness to evaluate with the companies concerned any measure that could facilitate the adherence process.**

## **2. Information on the application of the Code**

The analysis in the Report shows that the quantity and quality of information provided by companies in their Corporate Governance Reports have reached and, in many cases, exceeded the prevailing international standards. They generally provide an adequate understanding of the essential characteristics of the adopted governance model and of the application of the Code's recommendations, providing explanations in case of total or partial disapplication, according to the principle of compliance or explain.

Nonetheless, the Committee highlights the opportunity for companies to make further effort in representing with greater clarity and evidence any case of disapplication of the Code's recommendations, which are a physiological component of the “comply or explain principle” (that distinguishes the Code's self-regulation from regulatory rules), provided that adequate transparency is ensured.

In terms of content, this year's analysis confirms a widespread commitment of companies to adhere to the Code's main innovations, including in particular adherence to sustainable success and the development of dialogue with shareholders and other relevant stakeholders. At the same time, considering that the application of these innovations is still subject to a physiological and natural evolution of practices, the Committee's monitoring highlights some areas of improvement on which attention will need to be paid.

## **3. The effects of the 2023 recommendations**

The Corporate Governance Reports published in 2024 show that almost all companies adhering to the Code (about 94%) considered the recommendations contained in the 2023 Letter of the Chair of the Committee for the evaluation of its degree of adherence to the Code of December 14, 2023 (hereinafter, also just “Letter 2023”).

In some cases (about 10%) companies indicate specific areas of improvement identified through the evaluation of each recommendation included in the Letter 2023. The areas of potential improvement refer mainly to: (i) the definition, in the board regulations, of the timing of sharing pre-board meeting documentation; (ii) the adoption of policies of dialogue with shareholders; (iii) the implementation of sustainable success; and (iv) the board nomination process, both with respect to the adoption and

timely publication of the outgoing board's guidance and with respect to the consistency of the so-called “long” list to the guidance expressed by the board.

The recommendations of the Letter 2023 were also considered by half of the Italian companies that do not adhere to the Code (a stable figure compared to last two years, but an increase compared to 20% in 2021), confirming the increasing value of the Committee's monitoring activities for all listed companies, even beyond their adherence to the Code.

The review of the Corporate Governance Reports published in 2024 highlights a consolidation of practices with respect to the implementation of the new recommendations of the Code – although there are still areas for further development -, as well as gradual improvement in some areas of focus in Letter 2023 and the persistence of some critical issues that have already been reported in previous monitoring reports and are therefore addressed once again in this Letter.

Regarding the first recommendation in Letter 2023, related to the **business plan** and the Committee's invitation to provide adequate disclosure on the board's involvement in the review and approval of the business plan, as well as in the analysis of the matters that are relevant for the long-term value generation, we note the persistence of a significant area of possible improvement. While there is a high degree of adherence to the goal of sustainable success, the board's involvement in integrating sustainability factors<sup>8</sup> into strategic planning remains essentially stable (with slight improvement). More specifically, only 25% of listed companies explicitly state that the board received direct information on the results of the dialogue with stakeholders (it was 18% in 2023); only 40% of companies expressly assigned the sustainability committee with the task to assist the board in the analysis of issues relevant to the generation of value in the long term for the review and approval of business plans (it was 36% in 2023)<sup>9</sup>. Overall, it is observed that about half of the companies adhering to the Code (49% compared to 44% in 2023) have implemented at least one of the two practices mentioned above<sup>10</sup>, which the Committee views as indicators of adequate accountability of the board in the pursuit of sustainable success.

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<sup>8</sup> In particular, 80% of companies adhering to the Code have provided information on how sustainable success is being implemented (integration of sustainability into strategic goals, sustainability plans, policies, statutory provisions). Assonime-Emittenti Titoli 2024.

<sup>9</sup> Assonime-Emittenti Titoli 2024.

<sup>10</sup> Assonime-Emittenti Titoli 2024.



The prevalence of the practice, highlighted in the second recommendation of the Letter 2023 and repeatedly noted in previous years, of ***allowing exceptions to the timeliness of pre-meeting disclosure for confidentiality reasons***, remain substantially unchanged compared to last year. This practice continues to be observed in 24% of companies adhering to the Code (compared to 26% in 2023 and 37% in 2022). In most cases, there are general provisions that allow the company to derogate from the pre-meeting notice period when there are reasons for confidentiality or secrecy of information, sometimes with broad wording that includes information on forecast data or strategic transactions, while in rare cases, the exemption is manifested in the ex post disclosure (i.e., recognizing that - for reasons of confidentiality - it was not possible to comply with the notice period previously identified in the rules of board operation and information was provided during the board meeting).

In companies with non-concentrated ownership, the ***board's commitment to publish a guidance on its optimal composition*** gradually improved compared to the past<sup>11</sup>. This area of governance was the subject of a specific recommendation in Letter 2023 under two aspects: (i) the expression and timely publication of the outgoing board's guidance in view of its renewal; (ii) the request for those submitting a "long list" to provide adequate information about its compliance with the outgoing board's guidance. Regarding the first aspect, it is observed that in non-concentrated companies, which are specifically subject to this recommendation in the Code, the majority of boards have formulated guidance (83% of non-concentrated companies with renewal in 2024), and in most of these cases (70% of the guidance issued in non-concentrated companies with renewal in 2024), the guidance was published in advance of the notice of shareholders' general meeting. Although the timeliness of the orientations appears to have improved compared to the data observed in 2023, it is still noted that this year less than half of the orientations were actually published at least 30 days in advance of the general meeting notice's publication (last year, only one-quarter of the guidance of non-concentrated companies with renewal in 2023 were published at least 30 days before of the

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<sup>11</sup> Although the data cover different sets of companies, considering that each year the analysis focuses exclusively on companies whose boards are up for renewal in the year of publication of the relevant Corporate Governance Report (e.g., this year, the focus was on 2024 renewals) - some improvements can already be observed. This is partly because companies that renewed their boards in 2024 had the opportunity to consider the recommendations made by the Chair of the Corporate Governance Committee in the Letter published on December 14, 2023.

publication of general meetings notice)<sup>12</sup>. Regarding the second aspect, the quality of the information provided in the so-called “long lists” about their alignment with the outgoing board’s guidelines does not appear to have substantially improved: while most of the lists state that they have considered the guidelines (80% compared to 75% in 2023)<sup>13</sup>, only one-third of these cases expressly express their opinion on the “consistency” of the list with the guidelines expressed (it was about half in 2023)<sup>14</sup>.

Finally, regarding the fourth recommendation in Letter 2023, which concerns the reasons provided by the board for *introducing the enhanced voting rights*, there has been an improvement in compliance with the related Code recommendation, both with respect to the disclosure of the expected effects on ownership structure and future strategies, as well as the decision-making process<sup>15</sup>. In the pre-meeting documentation related to bylaw changes resolved in 2024<sup>16</sup>, an articulated overview of the effects on ownership structure was always provided (100% in 2024 vs. 56% in the 2020-2023 period) and a broader indication of the expected effects on strategies has become very common (73% in 2024 vs. 44% in the 2020-2023 period)<sup>17</sup>. The number of companies that provide information on the decision-making process progressed (87% in 2024 vs. 61% in the 2020-2023 period), however the typical content of this information remains the same, which in almost all cases reports only that the board has resolved unanimously<sup>18</sup>.

#### **4. The Committee’s recommendations for 2025**

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<sup>12</sup> The data refers exclusively to non-concentrated companies whose boards were up for renewal in 2024. Assonime-Emittenti Titoli 2024. For a complete analysis of the data and statistical findings, including those related to concentrated companies, please refer to paragraph 2.2.4 of Part II of the 2024 Report attached to this Letter.

<sup>13</sup> The percentage represents non-concentrated companies with board renewals in 2024 that provided guidance. Assonime-Emittenti Titoli 2024.

<sup>14</sup> The percentage pertains to non-concentrated companies with board renewals in 2024 whose “long lists” included references to the consideration of the board’s guidance. Assonime-Emittenti Titoli 2024.

<sup>15</sup> For a more comprehensive discussion of the topic, beyond the summary provided here, refer to paragraph 3.8 of Part II of the Report attached to this Letter.

<sup>16</sup> The data pertains to extraordinary general meetings held by November 30, 2024. Assonime-Emittenti Titoli 2024.

<sup>17</sup> Assonime-Emittenti Titoli 2024.

<sup>18</sup> Assonime-Emittenti Titoli 2024.

The outcome of the monitoring activity<sup>19</sup> shows signs of improvement in many of the areas reported in recent years, highlighting both the long-term effectiveness of the Committee's recommendations, and the gradual adherence of companies to the new Code.

In order to consolidate ongoing trends, the Committee considers it appropriate to reiterate the importance of compliance with the specific recommendations issued over the past three years (i.e., following the new Code's entry into force), for which there is a need for further improvements.

One aspect to which the Committee calls on particular attention is the limited impact so far of its invitation, expressed in letters of the past two years, for a clearer and more concise representation of the adherence to the Code, clearly identifying any instances of disapplication of the recommendations and providing appropriate reasons. There remain areas where, in a considerable number of cases, the information provided does not make it possible to assess whether there is a substantial alignment with the Code's recommendations or disapplication of them.

As a result, in this year's letter, the Committee therefore thought it appropriate to highlight certain practices, particularly widespread, which in some cases qualify as disapplication of the Code<sup>20</sup>; in others, while not explicitly contradicting the literal content of the Code's recommendations, they may conflict with the underlying purpose and, therefore, indicate their substantial disapplication<sup>21</sup>. In both scenarios, the Committee calls on companies to provide adequate disclosure and, where applicable, to acknowledge the non-application of the Code's recommendations according to the “*comply or explain*” principle, as clearly outlined in the introduction to the Code.

The decision was made to focus on topics of relevance to the proper functioning and adequate transparency of key institutions within the corporate governance system outlined in the Code, and on which, even though the Committee has indicated in the past a need for greater transparency on how the relevant recommendations are applied, insufficient progress has been observed.

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<sup>19</sup> For more details see Corporate Governance Committee, Annual Report 2024, Part II, based on Assonime-Emittenti Titoli 2024 data.

<sup>20</sup> In particular: (i) the failure to specify deadlines for the prior submission of the pre-meeting information to the board of directors and/or committees, and (ii) the lack of explanation for assigning significant managerial powers to the chair of the board.

<sup>21</sup> In particular: (i) the inclusion of "exceptions" to the pre-meeting information deadline for confidentiality reasons, and (ii) the inclusion of generic sustainability objectives or one-off extraordinary payments in remuneration policies.

The issues may be integrated in future years, using the same criteria of significance based on the analysis of the evolution of practices with regard to the innovative elements introduced in the 2020 Code.

It should be noted that, in line with this objective, the Format for the Report on Corporate Governance, adopted by the Committee at its meeting on December 16, 2024 and available on the Committee's webpage, includes a specific annex, entitled ***“Recommendations contained in the Letters of the Corporate Governance Committee’s Chair sent to issuers from 2020”***, which consolidates all Committee's recommendations contained in the Letters published after the entry into force of this Code and which will be progressively updated in the coming years.

#### **A) Completeness and timeliness of pre-meeting information**

Recommendation 11 implementing Principle IX stipulates that, in establishing procedures for managing pre-meeting information in the operational rules governing the board of directors and its committees, the board shall identify *“the prior notice for the submission of the documentation, ensuring that confidentiality issues are properly managed without affecting the timeliness and completeness of the flow of information”* and provide adequate information *“on compliance with the procedures aimed at ensuring the timeliness and adequacy of the information provided to the directors”*.

This recommendation is crucial to ensuring the effective functioning of the board of directors, as defining clear rules for timely information flows on all agenda items and their actual compliance are necessary conditions for directors to be enabled to take informed action as required by their role and responsibilities.

The analysis of the Corporate Governance Reports shows that:

- there are still cases where the deadlines for the prior submission of pre-meeting information to the board of directors are not indicated (just under 10% of companies), or companies do not provide information on actual compliance with these deadlines (about 20% of companies). Additionally, about half of the listed companies (53%) do not provide information on the deadline for submitting information to the board committees, as required by the Code's recommendation;

- the practice of allowing "exemptions" to the deadline for the prior submission of pre-meeting information for generic reasons of confidentiality/secretcy of information is still widespread (about 24% of companies).

The monitoring shows that companies adopting the above practices do not qualify them as non-compliance with Recommendation 11.

**Therefore, companies are invited to provide all relevant information on how Recommendation 11 is applied, bearing in mind that the lack of predetermined deadlines for the prior submission of pre-meeting information to the board and committees and/or the lack of information on the actual compliance with the deadlines and/or the provision in the board regulations or adopted in practices of the possibility of derogating from the above mentioned deadlines for reasons of confidentiality may represent a disapplication of Recommendation 11 of the Code. In the case of actual non-compliance, companies are therefore encouraged to clearly state it in their Corporate Governance Report, explaining: the reasons for the non-compliance, how the decision was made within the company, and how they intend to ensure compliance with Principle IX of the Code.**

#### **B) Transparency and effectiveness of remuneration policy**

Recommendation 27 on the policy for the remuneration of executive directors and top management, in the application of Principle XV, provides in letter c) that the performance objectives, to which the variable components of remuneration policy are linked, must be “predetermined and measurable”.

This Recommendation is of fundamental importance to ensure the transparency and effectiveness of the remuneration policy, as the determinacy and measurability of the performance parameters for the variable components are necessary conditions for determining their weight in the overall remuneration and their functionality in achieving the company's strategic objectives.

The analysis of the Corporate Governance Reports shows that:

- variable remuneration linked to one or more environmental and/or social parameters is increasingly common (87% of the companies adhering to the Code): however, it is very frequent (in over half of the cases) that the company has used at least one environmental/social parameter that is not clearly measurable;

- more than a third (41%) of the companies adhering to the Code provide for the possible issuance of extraordinary bonuses, in addition to those linked to incentive plans: although in most cases the companies provide for governance safeguards (involving the remuneration committee) and, in about half of the cases, a maximum limit on the payout is also set, the nature and conditions for the actual payment are not expressly indicated, making it difficult to predict its activation and/or verify its correct application ex post.

The monitoring shows that companies adopting the above practices do not qualify them as non-compliance with Recommendation 27.

**Therefore, companies are invited to provide all relevant information on how Recommendation 27 is applied, taking into account that the provision in the remuneration policy of variable components linked to generic sustainability objectives, for which specific evaluation parameters are not provided, and/or one-time extraordinary payouts, for which the nature and objectives are not identified and adequate decision-making procedures are not defined, may constitute a disapplication of Recommendation 27 of the Code. In the case of actual non-compliance, companies are therefore asked to expressly indicate it in the Corporate Governance Report, explaining: the reasons, how the decision to disapply was made within the company, and how it is intended to ensure compliance with Principle XV of the Code.**

### **C) Executive role of the Chairperson**

Recommendation 4 in the application of Principle V states that, *“if the chair is entrusted with the position of chief executive officer or with significant managerial powers, the board of directors explains the reasons for this choice.”*

This Recommendation is of fundamental importance to ensure transparency in the division of functions between executive and non-executive directors within the board, required by Principle V, but also to ensure effective performance of the Chair’s duties, as defined by Principle X. Although the Code does not recommend “non-executive” role for the Chair, it attributes to him, under Principle X, the responsibility for ensuring the effective functioning of the board’s work and the coordination between executive and non-executive directors. If the Chair takes on executive roles, either as CEO or with significant managerial delegations, it is necessary that this situation be clearly indicated and accompanied by adequate justification for the decision.

The attribution to the Chair of the CEO role or significant managerial powers concerns a considerable proportion (55%) of the companies adhering to the Code<sup>22</sup>. In 40% of these cases, the Corporate Governance Report does not provide a justification for the decision to attribute executive functions to the Chair; where provided, the justification is sometimes not well-founded, only describing the delegated powers attributed.

Monitoring indicates that companies that do not provide adequate disclosure on the reasons for assigning significant managerial delegations to the Chair do not qualify them as non-compliance with Recommendation 4.

**Therefore, companies are invited to provide all relevant information on how Recommendation 4 is applied, considering that the lack of an adequately reasoned explanation of the decision to assigning significant managerial powers to the Chair (whether the CEO or not) may qualify as a disapplication of Recommendation 4 of the Code. In the case of actual non-compliance, companies are therefore asked to expressly indicate it in the Corporate Governance Report, explaining: the reasons, how the decision to disapply was made within the company, and how it is intended to ensure compliance with Principles V and X of the Code.**

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<sup>22</sup> In about half of the cases, the Chair holds the position of CEO, while in the other half, he is granted significant managerial delegations.

*ANNEX:*

- *TWELFTH ANNUAL REPORT ON THE APPLICATION OF THE CORPORATE GOVERNANCE CODE*
- *FORMAT FOR THE CORPORATE GOVERNANCE REPORT*