

ECGS responses to the Consob's public consultation on Directors' remuneration transparency

We are writing on behalf of European Corporate Governance Service (ECGS) registered in London, to comment on the CONSOB consultation on listed companies compensation disclosure rules for management remuneration.

The ECGS is a partnership of independent local market experts which have come together to provide specialist governance research and proxy voting advice, offering institutions access to unrivalled experience on corporate governance and responsible investment issues. The Managing Partner of ECGS is Proxinvest based in Paris.

Other active ECGS Partners are DSW (Düsseldorf), Ethos Services (Geneva), Shareholder Support (Rotterdam). Frontis Governance based in Rome recently joined ECGS also associated to local governance experts in Montréal and Melbourne. The ECGS acts solely in the interest of all shareholders and is free of conflicts of interests in the production and sale of its advisory services.

ECGS considers that, in view of the globalisation of the markets and of the frequent objection to national reforms in the name of equal footing competition, fair financial markets rules are necessary to the efficient allocation of capital. We consider at ECGS that the fair treatment of shareholders resulting from a better corporate governance is the cornerstone of the financing of new investment and therefore of new employment.

ECGS considers along with its Italian local partner Frontis Governance that the Transparency of the information is fundamental for the fair functioning of the market itself and that full information should be expected from listed companies on Director remuneration.

ECGS therefore commends the Consob for this public consultation enhancing market transparency through the provision of a higher level of public disclosure on remuneration policies and compensation effectively paid to Directors. At the same time, we support rationalization and simplification of the current procedures.

Based on the analysis provided by Frontis Governance and in line with the ECGS guidelines we hereunder submit the following comments:

- **Financial Statements' attachment regarding Directors' remuneration.** ECGS supports the choice to rationalize and simplify disclosure duties. On the other hand, minority shareholders should benefit from the same simplification effort. As the reference document carrying the financial statements is the main informative document for the entire market, we recommend that the Remuneration Report be necessarily attached to the Financial Statements to be voted at the Annual General Meeting. An English version of the Remuneration Report should be also made available too, in order to facilitate the comprehension for foreign investors.
- **Remuneration Report disclosure timelines.** Generally all listed companies should follow the same rules regarding public disclosure and ECGS sees no reason why cooperative listed companies should follow different rules. Cooperative listed companies should disclose all information relevant to the vote at the General Meeting at least 21 days before the first call meeting date
- **Information to include in the first section of the Remuneration Report.** In Scheme n.7 of the Remuneration Report, the maximum amount that variable remuneration might reach has to be clearly quantified, even in form of an estimate amount in Euros. The disclosure of the weight of variable compensation on total remuneration is not sufficient to clearly quantify the impact of aggregate future remuneration on companies' financials. Applicable performance criteria should be disclosed with precise and pertinent benchmarks
- **Disclosure of procedures.** ECGS research reports confirm that Italian Remuneration Committees generally do not yet rely on independent advisors (selected external advisors paid by the Committee and not by the management) to evaluate Directors' remuneration fairness. Committees should dispose of an amount decided by the Board to hire an independent advisor. Remuneration committees should not employ the same company already advising the Executive Directors, as this clearly undermines the real independence of their decisions. Remuneration Committees should be requested to hire strictly independent advisors, that cannot hold any other advisory contract with the company or the Board of Directors.
- **Shareholder approval of Directors' remuneration.** Too often, Directors' remuneration is part of bundled items on the Meeting Agenda (usually "Election of the Board of Directors having defined the amount of their remuneration"). Such behaviour prevents shareholders who vote by proxy, that is the case for almost all minority shareholders, from correctly voting Directors' remuneration. It is absolutely necessary to enact a regulatory provision imposing Directors' (and Statutory Auditors') remuneration as a specific item on Annual General Meetings Agenda.
- **Harmonization with Bank and Insurance companies' regulation.** Current rules provide that listed banks' and insurance companies' Remuneration Reports have to be put to a binding vote of the shareholders. On the other side, all other listed

companies' Remuneration Reports are subject to a non-binding vote. As the remuneration has the same importance regardless of the business sector, shareholders' vote on the Remuneration Report should be considered as binding for all listed companies.

We appreciate the opportunity to express our views and remain available for further discussion on our proposals. Please do not hesitate to contact Pierre-Henri Leroy our ECGS Managing Director, by phone +33 45 51 50 43 or email p.h.leroy@proxinvest.fr.

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