



**ICGN**

International Corporate Governance Network  
*Inspiring good governance & stewardship*

Senator Massimo Garavaglia  
Chair of the Finance and Treasury Committee of the Italian Senate  
Palazzo Madama  
00186 Roma  
Italy

6 June 2023

Dear Chair Senator Garavaglia,

**Re: Proposed Italian legislation on interventions to support the competitiveness of capital markets**

The International Corporate Governance Network (ICGN) appreciates the opportunity to comment on the proposed Italian legislation on interventions to support the competitiveness of capital markets (*Interventi a sostegno della competitività dei capitali - AS 674*). Please note that our views are aligned with those of Assogestioni on this matter, which will be sharing its perspective with the Senate on 7 June 2023.

Led by investors responsible for assets under management of \$77 trillion, ICGN is an authority on global standards of corporate governance and investor stewardship. Headquartered in London, our membership is based in more than 40 countries and includes companies, advisors, and other stakeholders.

The ICGN Global Corporate Governance Principles - written by market participants - are widely used by investors in their company assessments and voting decisions, and by regulators when developing corporate governance rules. The EU Corporate Sustainability Reporting Directive refers to the ICGN Principles as an authoritative global framework of governance information of most relevance to users.<sup>1</sup>

**‘One share, one vote’**

The ICGN understands the objectives of the legislative proposal AS 674, which seeks to enhance the competitiveness of the Italian capital market and encourage companies to go public. However, we are concerned by the weakening of investor protection.

Shareholders have a residual claim on the company’s income and bear the ultimate economic risk. This is why they have the right and responsibility to vote on important company decisions. According to corporate governance best practices, when a shareholder holds one share, they get one vote (the ‘one share, one vote’ standard). Their influence on the company’s decision-making is proportionate to their economic exposure. This standard

---

<sup>1</sup> Directive (EU) 2022/2464, recital 44

ensures the equal treatment of all shareholders; increases the board's accountability; and alleviates conflicts of interest around major transactions.<sup>2</sup>

Some markets allow 'multiple class shares', with unequal voting rights. This means some shareholders may have more voting rights than others, disproportionate to their economic interest. Such structures can be used to give a company's founders or early investors more control, allowing them to implement their vision without perceived obstacles while raising equity capital.

Unequal voting rights are problematic because they dilute the voice of minority shareholders. They may serve to entrench management and allow founders and controlling shareholders to monopolise the decision-making, potentially putting minority shareholder interests at risk. In extremis such structures create opportunities for expropriation, with controlling shareholder gaining private benefits of control at the expense of minority shareholders. This can have serious implications for pensioners and retail investors' savings, among others.

Furthermore, at a time in which regulators are encouraging investors to play a greater, and more responsible, role in monitoring company governance and engaging with companies, the imposition of unequal voting rights has the effect of watering down investor influence. Voting is a key tool that investors have at their disposal to hold company boards accountable. For example, investors may decide to vote against the re-election of board members when they have not taken any measures to manage climate change risk. They may vote against the CEO's remuneration plan if it does not incentivise him/her to act in the long-term interest of the company. Voting is an important escalation tool when engaging with a company.

The ICGN Global Governance Principles<sup>3</sup> emphasise the importance of equal voting rights for all shareholders. In the event of the existence of multiple class shares, we recommend that strong safeguards be in place, such as:

- an annual review of the share structure by the board of the company,
- sunset clauses specifying that any multi-class share mechanisms will automatically lapse after a certain period or events (for instance 5 years),
- a right for minority shareholders to an equal say at least in decisions that can materially impact the investment case for the company (e.g., major mergers and acquisitions transactions, change of control, etc.),
- restrictions on transfer of such shares to third parties,
- limitations on the weighted voting rights ratio (no more than 5:1),
- an adequate number of independent directors.

ICGN is concerned by the "race to the bottom" that is taking place in many markets, in which the relaxation of past multiple voting rights limitations is regarded by some policymakers, regulators and stock exchanges as justified to attract market listings. We believe the

---

<sup>2</sup> [ICGN Viewpoint differential share ownership](#), 2017

<sup>3</sup> [ICGN Global Governance Principles](#)

weakening of corporate governance standards is more likely to lower the reputation of these markets over time.

### ***The importance of Annual General Meetings (AGMs)***

The Annual General Meeting (AGM) is an important forum for corporate boards and management to communicate the company's financial position, performance, strategy, and long-term prospects to shareholders. As such, the AGM is a key mechanism by which accountability is upheld for sustained value creation through the conduct of high standards of corporate governance and exercise of shareholder rights.

It is traditionally a legal requirement in most markets around the world for companies to meet physically with shareholders at least once a year. However, the Covid pandemic caused many Governments to enact emergency legislation to allow for companies to conduct virtual-only AGMs. In Italy, companies were allowed to hold AGMs in "closed doors" format (i.e., in which participation is allowed only through the designated representative).

Shareholders pragmatically understood this type of measure during the pandemic when there were limitations on gatherings for health and safety reasons. Shareholders continue to be tolerant of the need for this in the event of 'emergency' situations. It must however be recognised by regulators and companies alike that this pragmatism comes at the expense of watered-down shareholder rights. It significantly limits the ability of shareholders to interact with boards and management (particularly on contentious proposals), view materials presented at the meeting, ask unmoderated questions, and make statements from the floor.

As we are no longer in an 'emergency' situation, it is not necessary for companies to restrict AGMs to a virtual-only or 'closed doors' formats. ICGN calls on policymakers and regulators to discourage such practice. We recommend that companies provide instead for hybrid AGMs to allow investors to have the option of virtual or live participation.<sup>4</sup>

Thank you again for the opportunity to share our perspective on the proposed legislation. If you would like to follow up with questions or comments, please contact our Global Policy Director, Séverine Neervoort ([severine.neervoort@icgn.org](mailto:severine.neervoort@icgn.org)).

Yours faithfully,



**Kerrie Waring**  
Chief Executive Officer, ICGN

---

<sup>4</sup> [ICGN Statement on Post Covid AGM Practices and Shareholder Rights](#), April 2023