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No Talking

A debate has broken out in Italy about whether independent directors should be allowed to meet separately with public shareowners. Last month it emerged that **Generali** chair **Gabriele Galateri** had brought the topic up for discussion in the **Italian Corporate Governance Committee**, which he chairs. That prompted a call-out from Italian academic and former **Eni** director Luigi Zingales, who served with Galateri on the board of **Telecom Italia**. Historically Italian firms have discouraged engagement and often even banned it outright in their bylaws due to insider trading concerns. **But Zingales pointed out that the rules are routinely violated by directors appointed under Italy's *salotto buono* shareholder agreement system of cross ownership, who say openly in board meetings that they want to take sensitive issues back to their firms before a vote.** He called Galateri's view that all directors operate as equals without a binding mandate as "Orwellian double-speak," since in reality those appointed by controlling shareowners are more equal than those representing public shareowners through Italy's *vota di lista* nomination process. Galateri responded without mentioning Zingales, implying that such engagement is a bad idea. But if the committee restricts engagement by independent directors, Zingales charges, it will only be to keep criticism out of Italy's closed boardrooms.

Briefings

Delisting The **UN Principles for Responsible Investment** should delist signatories that make no progress, say two-thirds of 500 respondents to the consultation on the initiative's future that closed March 31 (**GPW** XIX-46). PRI head Fiona Reynolds reported the headline findings to signatories Tuesday, adding that nearly three quarters think the PRI should publicly differentiate between signatories at different stages based on reporting and assessment data. Full findings will be announced at workshops in 21 cities starting next month to discuss a **Blueprint for Responsible Investment** intended to guide the PRI over its next decade. A combination of carrot and stick is needed to help signatories put the principles into practice and mainstream responsible investment, says an independent report assessing the PRI's first decade that also was published Tuesday. It suggests the PRI build a new accountability system to externally verify signatory progress, which could include partnering with a "peer organisation with a robust track record on non-financial reporting (e.g. **GRI** or **IIRC**)."

Last Chance See rare majority votes against say-on-pay (SOP) resolutions against **BP** and **Smith & Nephew** last week as portents of a second "shareholder spring" in the UK, like the 2012 one that spurred CEO resignations and legislation on binding SOP ballots (**GPW** XVI-25). The atmosphere now is equally heated, with even business stalwarts like the **Institute of Directors** weighing in against BP CEO Robert Dudley's £13.8 million pay after steep losses. **After the steep 59% no vote at the April 14 AGM IoD chief Simon Walker warned that "British boards are now in the last chance saloon, if the will of shareholders in cases like this is ignored, it will only be a matter of time before the Government introduces tougher regulations on executive pay."** Hours later 53% of investors voted against pay at medical device maker Smith & Nephew's AGM. Such majority rejections have only happened seven times before, says **Glass Lewis**. Then on Monday **WPP** CEO Martin Sorrell defended his £63 million bonus, the second largest ever among **FTSE 100** CEOs—and an order of magnitude greater than his £6.3 million pay in 2012 that triggered a 60% no vote (**GPW** XVI-24). Yesterday an interim report released by the **Investment Association**'s **Executive Remuneration Working Group** named in September called for firms to ditch the standard three-year incentive plan in favor of alternatives such as deferring bonuses into shares that vest over many years (**GPW** XIX-32). The system is "broken," it said, with the FTSE 100 trading at 1998 levels while executive pay has tripled since then.

System Failure

Deutsche Bank's extraordinary agreement April 14 with German shareholder association **DSW** to conduct an outside audit of the bank's risk controls is a sign of just how serious its many legal problems have become. DSW had been demanding a review for more than a year, even threatening a lawsuit, after the bank racked up billions in fines for alleged interest-rate rigging and other violations. But DSW did not know the half of it. The same day Deutsche Bank agreed to the external audit, **Reuters** exposed an internal investigation the bank conducted into its Russian operations which found "systemic" failure in internal controls on money laundering. **Then yesterday the bank was forced to put demands for yet more special audits and resolutions against management on its 19 AGM, focused on whether directors and management breached legal obligations around the violations**.

Makeover

Brazilian stock exchange **BM&FBOVESPA** opened a consultation last month on revisions to its **Novo Mercado** good governance listing segment. Questions address board training and independence plus the adequacy of internal controls—particularly sensitive given impeachment charges against Brazilian President Dilma Rousseff, which seem motivated by the **Petrobrás** corruption scandal (**GPW** XX-06). Other questions ask about requiring ESG reporting using international standards such as the **GRI** and the **IIRC**. **But key topics such as controlling shareholder abuses were left out, says Mauro da Cunha of the Association of Capital Market Investors, who is engaging investors on the revisions (GPW XIX-31).** Comment by May 16.

Material Standard

Draft **Sustainability Reporting Standards** were published Tuesday by the **Global Reporting Initiative** to remake its existing **G4 Guidelines** into a modular form with three universal standards and 35 topic-specific ones. The new structure, devised by the GRI's independent **Global Sustainability Standards Board**, aims to give firms flexibility to select reporting topics material to their business (**GPW** XIX-40). Modularity also will allow updates of individual standards." Comment by July 17.

Services

The S&P ESG Index Series was launched Tuesday by **S&P Dow Jones** to track companies using data from **RobecoSAM**'s annual **Corporate Sustainability Assessment**, which also underlies the **Dow Jones Sustainability Index**. It focuses only on ESG, without the financial metrics included in the **Long-Term Value Creation Global Index** S&P launched in January (**GPW** XX-04). The new series covers the **S&P Global 1200 ESG**, **S&P 500 ESG**, **S&P Europe 350 ESG** and **S&P/TOPIX 150 ESG**.

Insights

Companies that use specific EPS targets for executive pay for performance packages are probably manipulating revenue to hit the goal, concludes a paper released last month by Benjamin Bennett of **Ohio State University** and colleagues. Their analysis of the 750 US largest firms between 1998 and 2012 found that those hitting their targets were more likely to have cut R&D or advertising to boost short-term profits.

Job Board

The Harvard Law School Program on Corporate Governance seeks an executive director to run the program with faculty director Lucian Bebchuk.

Diary

*The calendar for May, Part 1. Click here to access the entire 2016 diary on **GPW**'s website.*

- May 4-5, **Boston**. *Annual Conference*, Ceres. www.ceres.org.
- May 4-5, **New York**. *Global Institute*, WomenCorporateDirectors. www.womencorporatedirectors.com/.
- May 5, **London**. *Stewardship Accountability Forum*, Pensions and Lifetime Savings Association. http://plsa.co.uk/.
- May 8-11, **Montreal**. *Annual Conference*, CFA Institute. www.cfainstitute.org.
- May 10, **Melbourne**. *Annual Conference*, Australian Council of Superannuation Investors. http://acsi.org.au/.
- May 15-19, **San Diego**. *Annual Conference*, National Conference On Public Employee Retirement Systems. www.ncpers.org/.
- May 16, **Washington, DC**. *Annual Conference On Financial Market Regulation*, SEC/University of Maryland. www.rhsmith.umd.edu.

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