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75

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An empirical analysis

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Abstract

This paper assesses how Italian companies have implemented the regulation on related party transactions enacted by Consob in 2010. Companies have been given some degree of freedom in devising their internal codes: they may "opt-up" or "opt-down" from some of the default provisions set forth in the regulation, thus tailoring internal codes to their own individual needs. We investigate how firms have made use of these options, building an ad hoc firm-specific indicator which focuses on five key provisions. We find that the options we focus on have been taken advantage of in a variety of ways. We also verify the hypothesis that firms adopt stricter/looser procedures depending on corporate governance characteristics. While non-controlled firms seem to have set up stricter procedures, among controlled-companies those where a single shareholder or a coalition holds a stake lower than 50% of voting and cash flow rights have weaker procedures. Finally, while a higher presence of independent directors does not seem to play a role, the presence of a director nominated by institutional investors is positively correlated with stricter procedures.

JEL Classification: G30, G34, K220, L510.

Keywords: related party transactions, corporate governance, tunneling.

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Contents

1 Introduction

Agency problems and tunneling are traditional features of corporate governance in Italy. Where ownership is concentrated, dominant shareholders have both the incentives and the means to monitor managers but they may also extract private benefits of control to the detriment of minorities. Transactions between the company and its controlling shareholder, generally referred to as self-dealing, raise major concerns for investor protection in that the transfer price could favor the controlling or related party at the expense of minority shareholders (Johnson et al., 2000). The empirical literature appears to confirm that Italian minority shareholders are exposed to exploitation by managers as well as by controlling shareholders (Nenova, 2003; Dick and Zingales, 2004). Pyramids and other control enhancing mechanisms (CEMs)[1] make minorities more vulnerable to the extraction of private benefits of control by insiders.

Corporate governance scandals in the early 2000s reinforced the perception that tunneling is endemic in the country. The Cirio and Parmalat scandals have offered a vivid picture of the vicious interaction between pyramidal structures, poor management and tunneling practices. In both cases, evidence has emerged of large transactions with related parties such as soccer teams and other businesses with no apparent synergy with the core business (food and dairy products respectively).[2]

The regulatory environment proved to be too lax to prevent abusive self-dealing. The late 1990s' major reforms modernized Italian corporate and securities laws but failed to specifically address conflicts of interests in listed companies, focusing instead on takeovers, internal and external audit and shareholder rights (Enriques, 2009). Further, the 2003 corporate law reform amended the obligations of interested directors, requiring them to disclose any interest they may have in a transaction but, other than previously, allowing them to vote even in case their interests conflict with those of the company. That reform also introduced new provisions for integrated corporate groups, allowing parent companies to force unlisted as well as listed subsidiaries into possibly harmful transactions, provided some procedural and substantial requirements are met. With the exception of (non-binding) corporate governance codes, no specific new rule aimed at ensuring related party transactions' fairness (Bianchi et al., 2011; Assonime, 2009).

Following the Cirio and Parmalat scandals, the Government introduced a new general provision on related party transactions entered into by listed companies (hereinafter, RPTs). It required them to adopt internal codes in compliance with implementing principles to be issued by Consob, the Italian securities regulator. In line

1 See Bianchi et al., 2001; Faccio and Lang, 2002; Bianchi and Bianco, 2006; Barca and Becht, 2001: Claessens et al. (2002).

2 Cirio's dominant shareholder Sergio Cragnotti controlled the Italian Lazio SS (one of the two main soccer clubs in Rome) while the Tanzi family-dominated Parmalat group controlled three major football teams, namely the Italian Parma Calcio, the Brazilian Palmeiras and the Chilean Audax Italiano. The Tanzi family also invested in other high-private benefit industries, such as broadcasting, tourism, and art auction. Assets from the listed company were diverted to these side businesses via related party transactions and other tunneling mechanisms. See Onado, 2003; Ferrarini and Giudici, 2006.

with the legislative mandate, a 2010 Consob regulation (hereinafter, the RPTs Regulation) comprehensively regulated RPTs: it introduced both stricter procedural requirements and heightened disclosure obligations. Boards of directors had some freedom in devising their companies' internal codes: they might in fact "opt-up" or "opt-down" from some of the provisions set forth in the regulation as defaults.

This paper looks into how strictly firms implemented the new regulation in their internal codes with regard to the available options.

In order to measure the internal codes' strictness, we build an indicator focusing on five key provisions that allow for opt-ups and opt-downs from the default requirements.[3] We assign a firm-specific score for each of them, depending on their strictness. We then compute our overall indicator of RPTs codes' strictness as a simple sum of the scores assigned to the five items.

In line with the intuition that mechanisms for monitoring self-dealing transactions are crucial in assessing the quality of firms' corporate governance in concentrated ownership systems (Bebchuk and Hamdani, 2009), our RPT Indicator can be interpreted as a proxy for the quality of governance mechanisms in any individual company.[4] This does not mean that corporate governance in companies with stricter procedures is necessarily better than corporate governance in companies with laxer procedures: the actual implementation of any adopted procedure will be crucial. To give an example, the veto power of independent directors for all transactions regardless of their size can be ineffective to protect minority shareholders from harmful RPTs if directors do not act independently in practice. Similarly, extensive use of opt-outs can be harmless to minority shareholders if a company does not enter into detrimental RPTs thanks to other, formal or informal, constraints.

Nevertheless, the strictness of RPTs procedures can at least be considered as a signal of a company's commitment not to engage in abusive self-dealing. On the one hand, companies most inclined to engage in abusive self-dealing had an incentive to set up procedures leaving a sufficient degree of freedom to the management. On the other, companies with no intention to extract value from minorities had little reason to adopt weak procedures as long as the reputational benefits arising from stricter internal codes outweighed higher compliance costs.

In order to test the hypothesis that the strictness of internal procedures is a proxy of the quality of corporate governance we assess whether individual companies' choices in the use of the opt-in and opt-out clauses are affected by the intensity of incentives (as a consequence of ownership and control structures) to extract private benefits of control through RPTs and/or by the presence of potential dissenting voices in the board (such as independent directors or other board members not

3 The provisions we focus on capture the company's intention to narrow (broaden) the scope and/or the intensity of the limits imposed by the Regulation, thus providing a measure of the quality of the internal codes. While we acknowledge that the provisions we focus on are not the only ones allowing for (some) discretion, a detailed analysis of other existing options would show that they are not unambiguously proxies for good (bad) compliance.

4 Broader scope, less tailored corporate governance indicators include the Corporate Governance Quotient system (CGQ) by RiskMetrics, the G-index developed by Gompers et al. (2003), and the Gov-Score created by Brown and Caylor (2006).

appointed by the controlling owner). We argue that the stronger the incentives to extract private benefits the more inclined a company is to have laxer RPT internal procedures, while the presence of dissenting voices within the board should have the opposite effect.

Our analysis covers the 125 companies listed on the Italian MTA at the end of 2010 which were subject to the RPTs Regulation's full set of provisions, representing close to half of all Italian listed firms and a very large portion of the overall stock exchange capitalization (88%). Preliminarily we notice that blue chips and financial firms have better procedures in place. This finding is not surprising: the former are more exposed to market scrutiny; the latter, being subject to specific industry regulation and oversight, might be under pressure to set up sound governance mechanisms.

But we also find that the corporate governance characteristics of firms play a role in determining the strictness of procedures.

With regard to ownership and control features, we find firstly that widely held firms perform better than those which are controlled by a single shareholder or by a coalition of shareholders linked by a formal agreement (see section 5.1). This result is in line with our expectations, because in controlled companies dominant shareholders typically extract value in the form of RPTs, which are on the opposite less likely in manager-controlled companies (Bebchuk and Hamdani, 2009). Within controlled companies, we find laxer procedures in firms where the position of the majority shareholder is weaker (in terms of cash flow rights) and therefore her incentives for a positive monitoring role are lower. This is, however, not the case in companies with CEMs, where the need to counterbalance reputational costs normally associated with these instruments appears to lead companies into adopting stricter procedures than one would expect on the basis of the controlling shareholder's cash flow rights.

Further, companies controlled by a coalition of shareholders have stricter procedures than those controlled by a single shareholder, for any level of cash-flow rights owned. This is in line with the idea that in these companies mutual monitoring by coalesced block-holders, which stricter procedures make less costly, hampers the extraction of private benefits of control by any of them. This result is in line with a stream of economic literature on the role of coalitions, which suggests that in concentrated ownership settings the presence of other large shareholders helps mitigate agency costs by monitoring the controlling shareholder (Pagano and Roell, 1998), that the coalition formation improves firm performance since no individual shareholder is able to take any action without the consent of other shareholders (Bennedsen and Wolfenzon, 2000), and that the disagreement among a number of controlling shareholders might produce deadlocks that prevent them from taking actions that hurt minority shareholders (Gomes and Novaes, 2005).[5]

5 Lehmann and Weigand (2000) show that the existence of a second large owner is positively associated with the profitability of German firms. Faccio, Lang, and Young (2001) find that the existence of multiple large shareholders increases dividend payouts in Europe, but lowers them in Asia. A second-largest shareholder may be beneficial to

Finally, we look at the role of independent directors and at whether at least one director is nominated by institutional investors making use of a 2005 law[6] enabling shareholders with no relationship with the controlling ones to appoint at least one director selected from a slate of candidates of their own choice (hereinafter: minority director). We only look at minority directors appointed by institutional directors on the assumption that these directors are expressed by actual minority shareholders whose only goal is to maximize shareholder value: other categories of minority shareholders may more easily pursue different goals, including having access to private benefits of control extraction themselves).[7] We find that the presence of directors nominated by institutional investors makes a difference in the implementation of RPTs rules. Firms where at least one minority director sits on the board have adopted stricter procedures for RPTs, no matter whether the director also sat on the special committee in charge of vetting the RPTs internal code. On the contrary, no significant effect derives from the presence and weight of independent directors on the board.

The rest of the paper is organized as follows: section 2 illustrates the key features of the Consob regulation on related party transactions, section 3 describes our RPTs indicator, while section 4 shows its distribution across our sample. Section 5 analyzes and discusses the relationships between internal codes strictness and firms' corporate governance characteristics. Section 6 concludes.

2 The Consob Regulation on Related Party Transactions

Italy cannot be said to have a strong tradition of regulating RPTs. Even leaving aside the poor record in terms of fiduciary duties enforcement (Enriques, 2002), the law on the books itself has long been weak and ineffective. Since the 2003 general company law reform, the only curb on insiders' self-dealing under general company law has been the requirement that a director with an interest in a company's transaction disclose it to other board members. In contrast with the previous regime, she can even cast her vote on the transaction, the only requirement for the board being to state in the board's minutes the grounds for entering into the transaction.[8]

other minority shareholders and to firm value. This effect has been traced in emerging markets (Lemmon and Lins, 2003). Gutiérrez Urtiaga and Sàez Lacave (2010) show that monitoring costs incurred by blockholders in a coalition have positive effects for all investors.Another stream of the literature is, to be sure, less optimistic on the role of coalitions: Zwiebel (1995) presents a model in which the dispersion of ownership across large shareholders is negatively associated with the number of blockholders sharing the benefits of control. Winton (1993) emphasizes the free-rider problem in monitoring with multiple blockholders; according to Maury and Pajuste (2005), the second-largest shareholder may simply collude with the ultimate owner in the extraction of private benefits; Bennedsen and Wolfenzon (2000) predict a negative relationship between the dispersion of cash-flow rights across large shareholders and corporate valuations; Laeven and Levine (2007) find a confirmation of this model using data on 1657 firms across 13 countries in Western Europe, .

6 See Article 147-III, Consolidated Decree on Financial Intermediation of 24 February 1998, No. 58, as amended by the Law on the Protection of Savings of 28 December 2005, No. 262.

7 As a matter of fact, minority blockholders other than institutional investors often appoint directors (see Belcredi et al. 2013).

8 Article 2391, Civil Code.

The 2003 law also explicitly allows companies belonging to an integrated group (or, in its own words, subject to the direction and coordination of another entity), whether listed or not, to pursue the interest of the group as a whole.[9] In doing so, the law requires the subsidiary to provide a detailed justification for transactions that have been entered into under the influence of the parent company.[10] Such transactions shall also be disclosed in the annual report of the subsidiary.[11] Minority shareholders may sue the parent company if it acts in its own or some other group entity's interest and in so doing violates the "principles of correct company and business management".[12] However, the defendant will not be liable if proof is given that the damage stemming from a given intra-group transaction has been offset via another transaction or, vaguely enough, taking into account the overall results of the parent's direction and coordination activity.[13]

In early 2005, following the Cirio and Parmalat scandals, the Government introduced a new general provision on RPTs entered into by listed companies.[14] It requires them to adopt internal codes on related party transactions in line with implementing rules issued by Consob. In March 2010, after a two-year consultation with the market, Consob issued a comprehensive regulation on listed companies RPTs, introducing both stricter procedural requirements and heightened disclosure obligations.[15]

The disclosure and procedural requirements are differentiated depending on the transaction's magnitude, i.e. its materiality. What is most relevant to our purposes, boards have some degree of freedom in devising their companies' internal codes: they may in fact opt up or opt down from some of the default provisions set forth in the regulation. The Regulation's main provisions can be summarized as follows.

a) Classification of RPTs

RPTs are defined as material depending on the size of the transaction relative to that of the company. Three ratios are used: the most relevant one is the ratio between the transaction's consideration and the listed company's market capitalization. All transactions for which at least one of the indices provided by the regulation exceeds 5% are material. A reduced threshold of 2,5% applies to companies controlled by another listed company in case of transactions with the parent company. Of course, companies' internal codes may establish lower materiality thresholds. On the other hand, the regulation allows companies to establish that RPTs below a *de minimis* amount as determined by the companies themselves (small transactions) are exempt from any requirement.

9 Articles 2497-2497-VII, Civil Code.

10 Article 2497-III, Civil Code.

11 Ibid.

12 Article 2497, Civil Code.

13 Ibid. Conac et al. (2007) more extensively describe the legislative framework applying to integrated groups.

14 Article 2391-II, Civil Code.

15 Consob Regulation n. 17221 on Related Party Transactions.

b) Disclosure of RPTs

Disclosure of RPTs is graduated according to the materiality of the transaction.

Material transactions are subject to both immediate and periodic detailed disclosure. After entering into a material RPT[16] companies must issue a circular describing the transaction, its terms and the key elements of the independent advisor's fairness opinion, if there is one (as is usually the case). Further, in line with the Transparency Directive,[17] the half-yearly and annual reports must include a description of material RPTs (as defined in Consob's regulation) and other IFRS-material RPTs entered into in the period of reference.

c) Approval of RPTs

Either of two procedures has to be followed to approve RPTs, depending on the transaction's materiality. A general procedure applies to any RPT other than small transactions, while further requirements are to be followed when a RPT is material (special procedure).

The general procedure for transactions below the materiality threshold requires that a committee of unrelated directors comprising a majority of independent ones gives its advice on the company's interest in entering into the transaction and on its substantial fairness. The opinion of the committee is not binding for the body responsible to approve the RPT – whether it is the CEO or the board of directors: the transaction can be entered into even if the advice is negative. However, if that is the case, the transaction must be disclosed in the quarterly report.

The involvement of independent directors is stronger when the RPT is material. First, a committee of unrelated independent directors must be involved in the negotiations: they have to receive adequate information from the executives and may give them their views. Second, the committee has a veto power over the transaction: material RPTs can only be approved by the whole board upon the favorable advice of the committee of independent directors.

Yet, companies may provide that a transaction can still be entered into despite the negative advice of independent directors, provided that a general meeting is convened where a majority of unrelated shareholders approve it (hereinafter: the whitewash). Internal codes may also provide that for the majority of unrelated shareholders to block the transaction, the unrelated shareholders represented at the meeting must hold a minimum percentage of outstanding shares, no higher than 10 percent. In other words, companies so providing may enter into a RPT on which indepen-

16 A similar duty applies when a firm enters into transactions with the same related party, that, while not individually qualifying as material, exceed the relevant threshold when considered together.

17 According to the Transparency Directive (2004/109/EC), the interim management report shall include a description of IFRS-material related party transactions. Directive 2007/14/EC specifies that transactions to be disclosed shall include the RPTs entered into in the period of reference, as well as any changes in those described in the previous annual report, that materially affected the financial position or the performance of the firm during that period.

dent directors have given their negative advice and a majority of unrelated shareholders have voted against, so long as the unrelated shareholders represented at the meeting hold together less than 10 percent of the shares (or less than the lower percentage as identified by the charter).

Under both procedures, the committee in charge of giving its advice may in turn obtain the advice of independent experts (such as an investment bank or a law firm) of its own choice at the company's expense. For non-material RPTs the internal code may set an annual budget for such external advice.

d) Exemptions

The regulation provides for a number of opt-outs, so that companies may adjust the applicable rules to take the transactions' potential for expropriation and urgency concerns into account. In addition to small transactions, companies may exempt transactions in the ordinary course of business and entered into on terms equivalent to those that prevail in arm's length transactions from the procedural and disclosure requirements.[18]

Further, subject to the company's charter so providing, and without prejudice to the full disclosure regime, in case of urgency, RPTs in the scope of authority of the board of directors or executives can be entered into with no involvement of independent directors. Such urgent transactions must be then submitted to the non-binding vote of shareholders at the first general meeting. Shareholders must be provided with a report by the board on the urgency concerns and with the opinion of the internal board of auditors (*collegio sindacale*) on whether such concerns are grounded. The outcome of the shareholder vote, with specific reference to how unrelated shareholders have voted, must be disclosed to the market.

A similar opt-out provision also applies to urgent transactions to be approved by the general meeting, limited to when the company is facing financial distress. In this case, because independent directors give no advice on the proposed resolution, the whitewash is only required if the internal board of auditors disagrees with the board on the presence of urgency concerns.

e) Proportionate approach for smaller and newly-listed companies

Finally, a simplified regime applies to smaller companies (with total assets and total revenues no higher than 500 million euro) and newly listed firms (for three years following the IPO). Smaller and newly listed companies may adopt the general procedure also for material RPTs. However, this opt-out is not feasible for companies controlled by another listed company.

18 The exemption is without prejudice to periodic disclosure as required according to IFRS and the Transparency Directive and subject to prompt notification to Consob in the case of material RPTs.

f) Approval of internal codes

Finally, the regulation deals with the process leading to the adoption of RPTs internal codes, requiring that the board may only approve them subject to the favorable advice of a committee of independent directors.

3 Measuring the strictness of RPTs internal codes: the RPT Indicator

We analyze the internal codes implementing the RPTs Regulation in order to test a number of hypotheses on what kind of companies can be expected to adopt stricter or laxer internal rules. Our Indicator is built upon five key provisions which allow companies to opt-up or opt-down from the Regulation defaults. For each of them we assign a firm-specific score (0, 0.5, 1, 1.5), depending on the rules' relative importance. Our overall indicator of RPTs codes strictness is then calculated as a simple sum of the scores assigned to the key items (see Table 1 for a detailed description of the items and the related scores).

In particular, we focus on:

A) The scope of internal codes

i. Threshold lower than 5% to identify material RPTs

As described in Section 2, the RPTs Regulation defines a material transaction as a transaction with at least one of the materiality indices exceeding the 5% threshold (2.5% in case of a pyramidal ownership structure). However, companies may opt for lower materiality thresholds in their codes. Thus, we look at whether companies have opted for lower-than-default thresholds and assign them a positive score (1.5).[19]

Exemption for small RPTs

The RPTs Regulation provides for the possibility of a full opt-out for RPTs of small size. Companies are allowed to identify them by setting a *de minimis* amount (whether in absolute or in relative terms) below which a transaction is qualified as "small."

In order to evaluate how individual companies' choices on the *de minimis* exemption are distributed:

19 We assign the highest value to this variable for two reasons. First, because extending the stricter procedure and the disclosure requirements to a higher number of RPTs is intuitively of greater importance than the choices described below. Second, because this is the only option that the Regulation only implicitly grants, i.e. the very decision to lower thresholds indicates a board's greater scrutiny of the Regulation implications than other options.

– we first identify the relative size of the small RPTs' thresholds as identified in a company's internal code by comparing them[20] to that company's market capitalization at the end of 2010;

– second, we consider the "granularity" of the companies' classification according to the following categories:

  a) companies envisaging a single trigger level;

  b) companies envisaging a default amount and a reduced threshold for remuneration schemes or transactions with individuals (as opposed to with other companies);

  c) companies envisaging a plurality of triggers depending on the transaction type, consequently broadening the exemption's scope.[21]

– third, we combine the two variables and assign a score from 0 to 1 depending on:

  - the relative size of the threshold(s) chosen (compared to the mean relative size of the whole sample);

  - the granularity of the cases identified by each company, assigning a higher score to the case described in b)[22], an intermediate score to case a) and a lower score to case c).

  Table 1 shows the combined scenarios and the relative scores.

B) Procedures for RPTs approval

i. Binding versus non-binding independent directors' advice on material RPTs and thresholds for MOM veto

Under the RPTs Regulation, companies may overcome the negative advice of the committee of independent directors on a material RPT, provided that a majority of non-interested shareholders at the general meeting approve it. Thus, we track companies' opt out of the default rule. We consider the submission of the vetoed RPT to the vote of (whatever percentage of) minority shareholders as effective as granting independent directors a veto power. We do so, because the veto power may put so much pressure on independent directors that they could feel more reluctant to veto a transaction than if their negative advice only refers the matter to the shareholders. However, for companies referring the matter to shareholders, we verify whether companies' internal codes provide for a minimum percentage of non-interested shareholders attending the general meeting for the independent shareholders' veto to be

20 When the company identifies more than one threshold, we consider their average.

21 We hypothesize that setting a plurality of thresholds is an attempt to enjoy greater discretion in selecting exempt transactions, thus indicating less strictness in implementing the Regulation.

22 The rationale behind this choice is that companies that have discriminated transactions with individuals by setting a reduced threshold have in fact taken into account that a given transaction – even though not material for the company itself – might be significant for the counterparty.

effective. A threshold requirement weakens the approval procedure as it reduces the scope of disinterested shareholders' veto: the lower the threshold, the better.

Based on the previous insights we give a score of:

– 1 both to companies that choose not to opt out of the default rule and to those allowing for the general meeting approval without setting a minimum threshold;
– 0.5 to companies that set a lower than 10% minority threshold;
– 0 to companies establishing the 10% threshold.

ii. Urgency exemption

The RPTs Regulation allows for two possible exemptions from the procedural regime in case of urgency. Both are opt-down provisions and require *ad hoc* charter amendments. While one provision applies to any transaction falling under the directors' or executives' authority, the other refers to transactions to be approved by the general meeting of companies in financial distress.

In measuring the codes strictness with regard to this item, we then consider four cases. We assign:

– the top score of 1 to companies that do not allow for any waiver to the approval regime;
– progressively lower scores for companies opting out for urgency reasons:
  - in case of financial distress, limited to transactions that need general meeting approval (0.5);
  - limited to transactions under the directors' or executives' authority (0.25);
  - in both cases (0).

iii. Budget limits for external independent advice

The RPTs Regulation allows companies to set budget limits for the fairness opinions independent directors may request when a transaction is below the materiality threshold. We look at whether companies have taken advantage of such an opt-down. Consequently, we assign a score of 0 if they have, and a score of 0.5 otherwise.

We chose not to focus on the opt-out provision relating to transactions in the ordinary course of business and performed at market terms for the simple reason that such a waiver is so common among listed companies that it would not be worth considering in the analysis.[23]

23 All of the companies included in our sample have opted out for such RPTs.

4 Descriptive statistics

Our analysis focuses on all companies subject to the full set of provisions in the regulation, i.e. with the exclusion of smaller and newly-listed companies that may opt for the simplified regime and of companies adopting a governance system based on a dual structure, whose specific set of rules (not described above) does not allow for direct comparison. Hence, our sample covers all companies already listed on the Italian Stock Exchange at the end of 2010 with total assets and total revenues exceeding 500 million euros (124 companies) and smaller and recently-listed firms that are controlled by another listed company (one company). These 125 companies represent close to half of the firms listed at the end of 2010[24] and a very large portion of the Italian stock exchange capitalization (88%).

Table 2 summarizes the main results of the Indicator. It shows a mean level of stringency of 2.11, that is more or less in the middle between the minimum and maximum observed scores (0.33 and 4.67, respectively): the low mean-median difference (0.06) suggests that the distribution is roughly normally shaped. The 0.96 standard deviation confirms that opting-in/opting-out opportunities provided by the RPTs discipline have been taken advantage of in very different ways.

Our intuition is that RPTs codes have been tailored to individuals companies' incentives emerging from their ownership and governance structure. Namely we assume that codes' laxity (strictness) might actually be a good proxy for the insiders' tendency to extract private benefits of control (lack thereof).

Such intuition rests upon the assumption that strict procedures may hamper the ability of companies to easily divert value from minorities. Consequently, companies most inclined to engage in abusive self-dealing had an incentive to set up procedures leaving a sufficient degree of freedom to the management.

Conversely, companies with no intention to extract value from minorities had little reason to adopt weak procedures. The reputational benefits it would reap from a stricter procedure should outweigh the higher compliance costs related to it.

We cannot rule out the possibility of companies' "dressing up", i.e. opportunistic adoption of stricter rules not followed by any effective implementation. Nevertheless, at the moment we tend to reject this hypothesis in light of data on how frequently companies enter into exempt material RPTs in the ordinary course of business, which as appears to be a good proxy of bad implementation of the RPT rules. We find that the difference between the average value of the RPTs Indicator for firms which entered into at least one exempted RPT in the period 2011-12 is not statistically different from the average value of the RPTs indicator for the other firms, (respectively 2.29 and 2.08) as measured by the t-test. The difference is higher (respectively 2.29 and 1.66), but still not statistically significant, for companies controlled by the State, where we also find a higher percentage of companies that entered into exempt material RPTs in the period.

24 The total number of listed companies at the end of 2010 was 271.

Most of the single provisions we focus on in building up the Indicator seem to vary appreciably among the firms included in our sample. In the following we illustrate some stylized characteristics of our best and worst performers.

The company performing best according to our Indicator (with a score of 4.67 out of a maximum of 5) is a non-controlled financial Blue Chip; at the time when procedures where first adopted, this company had a majority of independent board members (55%) and three minority directors.

Our best performer's internal code establishes a materiality threshold lower than that defined by the regulation (2.5 percent instead of 5) and defines a significantly lower than average amount for exempt small transactions (0.005% of the capitalization compared to the mean value of 0.09%). It also sticks to the default rule granting the independent directors a veto power on material RPTs, does not take advantage of the urgency exemptions, and does not limit the budget for outside independent advice.

At the opposite end, the worst internal code, with a score of 0.33, is from a relatively small company operating in the real estate business, controlled by one dominant shareholder and with independent directors who account for approximately one third of the board, none of which nominated by minority shareholders.

Its internal code does not opt for lower triggers to identify material transactions and defines a single threshold for small transactions with a higher than average amount (approximately 0,18% of the firm's capitalization). Also, it allows for the possibility of overcoming independent directors' veto and fixes the threshold for minority shareholders' veto at the highest possible level (10%). Finally, it fully enacts the urgency exemptions and limits the budget for external independent advice (with a cap of 15,000 euro for every transaction).

Table 3 describes how companies included in our sample have made use of the five opt-ups and opt-downs we consider. Few companies in our sample (eight) have adopted a materiality threshold lower than that defined by the regulation. They represent 12% of the sample total market capitalization and include three major companies operating in the insurance, telecommunication and banking industries.

Approximately two firms out of three in our sample have set a single triggering threshold for the small transactions exemption. Other companies have decided to introduce, in addition to a default amount, a lower threshold which applies to remuneration or advisory services. Such companies, representing nearly 20% of the sample, are large: their capitalization is nearly half of the sample total market capitalization. Within this group we find the largest Italian utilities. Finally, a few companies, representing less than 10% of the sample, have defined a wide range of thresholds for different transaction types, arguably with a view to widen the scope for the exclusion of small transactions.

Nearly two firms out of three have opted out of the default making independent directors' advice binding. Within this group, only one out of four has decided to submit the transactions to a pure whitewash, with no minimum threshold, while most companies have set a threshold for non-related shareholders at the highest possible level (i.e. 10%). Together, non-opting out companies and those allowing any majority of the minority to veto the transaction represent roughly one half of the sample market capitalization.

With regard to urgency exemptions, the sample is fairly balanced. Nearly 53% of the firms included in our sample have adopted at least one of them. The exemption covers transactions to be decided upon by the board or executives only in 29% of the cases, both such RPTs and those to be approved by the general meeting in 21% of the cases. Only in a handful of cases does the opt-out apply to general meeting resolutions only (3%).

Finally, most of the companies in our sample have not capped the budget for fairness opinions requested by independent directors (62%). Companies which opted down by introducing the cap are relatively small since they account for just 16% of the sample total market capitalization. This evidence proves to be consistent with the cap rationale, i.e. allowing small companies to limit the direct costs arising from the new rules on RPTs.

5 The relationship between strictness of internal codes and corporate governance

5.1 Hypotheses

In this section we investigate whether RPTs codes' strictness is associated with some corporate governance characteristics. To this end, we formulate three hypotheses.

First, we expect the ownership and control structure to play a role in explaining the quality of RPTs procedures. We distinguish between controlled and non-controlled firms. We consider controlled firms those where the largest shareholding, owned by a single shareholder or cumulatively by a formal coalition of shareholders, is higher than 50% or lower than 50% but higher than the floating capital (i.e. by all the shareholders with a stake lower than 2%). We consider non-controlled all other firms, including listed cooperative companies.

Controlled firms are further classified in the two following sub-groups: (i) companies where the major shareholder (or a coalition of shareholders) has a (cumulative) stake higher than 50% both in terms of voting rights and of cash flow rights (hereinafter strongly-controlled companies); (ii) companies where the cash flow rights held by the major shareholder are lower than 50% but still higher than the floating capital (hereinafter weakly-controlled companies). In the latter sub-group we include both firms where the controlling shareholder holds less than 50% of voting rights and firms where such shareholder, while holding the majority of voting rights, holds less than 50% of the company's cash flow rights due to the presence of one or more CEMs, namely pyramidal groups - i.e. at least one other listed company is included in the control chain - and/or dual class shares (hereinafter we refer to the latter category of firms as "CEMs companies").

We expect more stringent procedures in non-controlled firms than in controlled ones: on the one hand, higher contestability of control might limit insiders' opportunism; on the other, managers and directors are less likely to extract private benefits of control via RPTs and hence should have a weaker preference for laxer RPTs internal codes.

Among controlled firms, we expect the quality of RPTs procedures to depend on the level of cash-flow rights of the controlling owner, which is a measure of the incentives to expropriate other shareholders (the higher the level, the lower the incentives). So, we expect stricter procedures in strongly-controlled companies than in weakly-controlled companies, especially in CEMs companies where the level of the controlling owner's cash-flow rights is a fraction of the voting rights held.

In the distribution of companies according to their controlling structure we also look at the "intensity" of control, focusing in particular on whether a given level of cash flow rights is held by a single shareholder or by a coalition of shareholders, the latter being an increasingly common phenomenon in Italy (Bianchi and Bianco 2006).

We expect a positive effect of coalitions on the strictness of the procedures because the mutual monitoring and the transaction costs of agreeing on the distribution of private benefits among coalition members reduce exploitation of private benefits of control through RPTs.

H1: The quality of RPTs procedures is higher in non-controlled firms. Among firms controlled either by a single shareholder or by a coalition, the quality of RPTs procedures is higher in strongly controlled firms and lower in weakly controlled ones, particularly in those making use of CEMs (H1.1). The presence of coalitions in the controlling structure has a positive effect on RPTs procedures strictness (H1.2).

We finally investigate the link between internal governance mechanisms and our RPT Indicator. In particular, we check whether the percentage of independent directors[25] sitting on the board and the presence of at least one minority director appointed by institutional investors have a positive effect on our Indicator. The underlying assumption is that companies where independent directors' presence is stronger and/or minority-nominated directors are present should be more sensitive to investors' interests and therefore insist on stricter procedures. Indeed, independent directors are crucial in the set-up of RPTs procedures, as the approval of internal codes is subject to their binding opinion. A growing body of empirical research shows that firms where independent directors play a larger role are less likely to incur in ac-

25 We look at those directors classified as "independent" according to the definition set up in Consob RPTs Regulation. Hence, for firms adopting the Italian Corporate Governance Code independent directors are those identified as such by companies themselves in light of the criteria provided by the Code. In firms which do not adopt the Code independent directors are those who meet the criteria provided by the law, i.e. the criteria for statutory auditors as specified by Legislative Decree No. 58/1998 (Article 148).

counting irregularities and corporate frauds, even in countries where ownership is concentrated.[26] We assume that the positive role of independent directors is greater when at least one of them is appointed by minority institutional investors and when such minority director sits on the committee which has a veto power on RPTs internal codes (usually the audit committee), even though such cases are relatively rare.

H2: Companies where independent directors are stronger adopt stricter RPTs procedures.

H3: Companies where minority directors are present (H3.1) and sit on the audit committee (H3.2) adopt stricter RPTs procedures.

5.2 Empirical analysis

To get a preliminary intuition on the relationship between strictness of internal codes and corporate governance, we first provide some descriptive statistics. Then, we better ground our analysis by regressing the Indicator on the main corporate characteristics through a multivariate analysis.

5.2.1 Descriptive statistics

Tables 4 and 5 show the distribution of the Indicator across different market indices and industries (financial, public utilities and other). We observe that average levels of the RPT Indicator are higher for larger cap stocks – i.e. companies in the FTSE MIB, the index comprising the 40 most liquid and most capitalized stocks in the Italian stock exchange – than for smaller companies.

Table 5 shows that the stringency is highest in financial companies, followed by public utilities and by all the other firms. The explanation for that appears to be that regulated sectors have stricter rules than companies in unregulated sectors and, being subject to public oversight, are also under greater pressure to set up proper corporate governance mechanisms.

Table 6 and 7 show the distribution of our indicator with respect to company control structure. Non-controlled companies seem to perform relatively better, with an average score of 2.69 against 2.02 for controlled firms. The difference is statistically significant at the 5% level (Table 10 provides the results for the mean comparison t-test).

Companies controlled by the State, both by the central Government and local Governments, seem to perform slightly worse than the other controlled companies, but the difference is not significant.

26 See Bebchuk and Hamdani (2009), Dahya et al. (2008), Black et al. (2006), Smaili and Labelle (2009), Klein (2002) and Nguyen and Nielsen (2010).

Among controlled firms, if we consider the weakly-controlled companies category as a whole (including those with relevant use of CEMs), their average score in terms of RPTs Indicator is almost equal to that of strongly-controlled companies (2.03 and 2.01 respectively). But a different picture emerges if we exclude CEMs companies: in this case we have a lower score in weakly-controlled companies than in strongly-controlled companies (1.83 vs. 2.01). However, the difference is still not statistically significant.

Surprisingly enough, for companies adopting CEMs the RPTs Indicator is higher (2.23) than in the other two categories of controlled firms. Hence, the use of CEMs discriminates in a significant way the weakly-controlled companies and the difference between the average scores for the two categories of companies is statistically significant. The possible explanation is twofold. On the one hand, companies with a significant use of CEMs may have chosen to implement the Regulation strictly, as a response to *ad hoc* regulatory pressure.[27] On the other hand, they may have made this choice for the reputational concerns that such companies, and more generally the group they belong to, face due to market participants' negative view on CEMs. We tend to exclude the possibility of "dressing up", i.e. opportunistic adoption of stricter rules not followed by any effective implementation, also for these companies, again by looking at how frequently companies enter into exempt material RPTs in the ordinary course of business, which can be held as a proxy of bad implementation of the RPT rules. The percentage of companies controlled via CEMs which entered into at least one exempt RPT in 2011-12 is lower (10.7%, or 3 out of 28) than the percentage among other companies (15.4%, or 15 out of 97). While the average number of exempted RPTs is higher in CEM-controlled companies than in other companies (6.3 vs. 2.3), this is entirely due to one CEM-controlled company having entered into 16 exempt RPTs. This data suggest that the "dressing-up" hypothesis for CEM controlled companies can be rejected.[28]

As Table 8 shows, the average RPTs indicator score is higher in companies controlled by a coalition of shareholders than in companies having a single controlling shareholder. However, the difference is not statistically significant.

In sum, the analysis of the average values of the RPTs Indicator, once the different aspects of ownership structures are individually considered, shows that in general "control matters" but that the relationship with the strictness of RPTs rules is complex, as it appears to be affected not only by the actual ownership of controlling shareholdings (in terms of cash flow rights), but also by the adoption of instruments to strengthen the controlling position. The interaction between these factors will be considered in a multivariate perspective in the regression analyses performed in the following section.

27 A number of requirements in the Regulation specifically apply to companies controlled by another listed company, such as a lower threshold for material transactions and the unavailability of the simplified regime for smaller and recently-listed companies. See supra, section 2.

28 Our analysis does confirm the dressing hypothesis for the one outlier mentioned in the text, its high number of exempt RPTs being associated with a RPT indicator score strongly above the average: 3.50 vs. 2.11). That company is part of a State-controlled group. For this kind of companies, as outlined in section 4, it is harder to exclude the "dressing-up" hypothesis.

Finally, Table 9 shows how the Indicator varies according to companies' internal governance mechanisms. Companies where institutional investors have managed to nominate a director show on average stricter procedures than other companies. This result is statistically significant. On the contrary, the share of independent directors within the board appears not to be correlated with the stringency of internal codes.

5.2.2 Regression analysis

In order to test our hypotheses, we perform an ordinary least squares (OLS) regression analysis of the data.[29]

Table 11 provides a description of the variables we used as regressors[30] while Tables 12 and 13 show the results of our regressions. In all regressions we control for size[31] (as measured by the firms' relative capitalization) and industry.

In Table 12, column (1), we first consider as regressors the firms' relative capitalization and the industry in which they operate. The results confirm the descriptive analysis, since the coefficients for *relcap* and *financial* are positive and significant. On the contrary, the coefficient for public utilities is positive but never significant.

In columns (2)-(6) we test H1 by verifying whether the existence of a controlling shareholder and the magnitude of its stake (strong vs. weak control) affects our indicator.

Non-controlled firms seem to adopt stricter codes, although the coefficient is not always significant. Such result might confirm the idea that firms characterized by a more dispersed ownership structure and possibly by a higher contestability of control have enacted a more rigorous approach to RPTs possibly as a result of their effort to maximize shareholder value.

Among controlled firms, we find that weakly-controlled firms not making use of CEMs display laxer procedures. The variable is always significant at the 1% level. One possible explanation for this result is that these are firms where neither the disciplinary role of the market nor the positive monitoring role of a majority shareholder (whose interests are more aligned to other shareholders') operate to reduce the risk of private benefits extraction.

29 We have also performed an ordered probit regression and a probit regression. Results are not reported here since they are very similar to those obtained through OLS regressions. Standard errors have been corrected to account for heteroschedasticity. Moreover the VIF coefficient confirms that our regressors do not suffer from multicollinearity issues.

30 Data on internal governance mechanisms are drawn from companies' 2010 Annual Reports on Corporate Governance; data on ownership and control structure are drawn instead from Consob publicly available databases.

31 While we consider market capitalization a better proxy for size, as it is not affected by industry-specific features, most of our results are confirmed if we measure firms' size by the logarithm of their total assets. Only the variable "coalition" loses significance if we use total asset rather than market capitalization.

Differently, the sign of the variables *strongly controlled* and *CEMs weakly controlled* is not in line with our expectations, but the results are not significant.

In column 7, we add the coalitions variable to test H1.2 as regards joint control situations. Companies controlled by a coalition of shareholders are found to have better procedures in place, suggesting that such shareholders may make use of RPT procedures to facilitate mutual monitoring.

As a last step, in columns (1-3) of Table 13, we enrich our analysis including as regressors internal governance variables, according to H2 and H3. We look at the presence of independent directors, in particular at their relative weight within the board (*ind_dir*),[32] at the presence of a minority director appointed by institutional investors (*dummy_min*), and at the presence of such director in the committee vetting the RPTs internal code (*dummy_min_com*). While the first variable has no significant effect (countering H2) , the other two variables play a role in explaining the quality of RPTs procedures (confirming both H3.1 and H3.2). In line with the results shown by the previous descriptive analysis, the presence of a minority director is associated with stricter internal codes. This result holds not only when minority directors were members of the committee of independent directors vetting the internal code, but also when such directors merely sat in the board.[33]

A possible explanation for this evidence is that non-minority independent directors' ability to negotiate better terms for RPTs procedures is limited. They know that they face the risk of not being renewed at the next board election if they play too tough.

To the contrary, minority directors seem to be more effective in getting better internal codes because they do not run that risk (in fact, they run a higher risk of non-renewal if they do not play tough enough) and are consequently better able to bargain a fair deal.

6 Conclusion

This paper has investigated how listed firms have implemented the Italian regulation on related party transactions. To do so, we have first reviewed the main features of the RPTs Regulation and provided data on how companies have taken advantage of opt-ups and opt-downs from a set of default rules. On the basis of these choices we have built a firm-specific stringency score, which can be viewed as a proxy of the tendency to avoid the extraction of private benefits of control, and pro-

32 In order to investigate the link between internal governance and the quality of RPTs procedures we have also considered as regressors board size, the number of board meetings and the level of attendance to board meetings. However, none of these variables have proved statistically significant.

33 We also checked whether such effect is a function of the presence of institutional investors as major shareholders (i.e. with more than 2% of the voting capital of the investee company) or whether, more specifically, it depends on the their ability to appoint a director. Results support the latter hypothesis: the mere presence of institutional investors as shareholders with a stake higher than 2% is not significant in explaining the quality of RPTs procedures, while the presence of a minority director appointed by them is.

vided some descriptive statistics. Finally, we have used this indicator as a dependent variable of a number of listed firms' corporate governance features.

Our intuition is that RPT procedures have been tailored to individuals companies' incentives as a function of their ownership and governance structures. Namely, we assume that codes' laxity (strictness) might actually be a good proxy for the insiders' tendency to extract private benefits of control (lack thereof). Since strict procedures may hamper the ability of insiders to easily divert value from minorities, companies most inclined to engage in abusive self-dealing had an incentive to set up procedures leaving a sufficient degree of freedom to management. On the contrary, companies with no intention to extract value from minorities had little reason to adopt weak procedures as long as the reputational benefits arising from stricter internal codes outweigh higher compliance costs. Because our econometric analysis deals with features of internal procedures as set up by individual companies as opposed to their implementation, it cannot rule out the possibility of companies' "dressing up." However, data on exempt transactions, which are a good proxy for bad implementation, allows us to infer that "dressing up" is an exception (within the subset of companies controlled by the State) rather than the rule.

According to our findings, the scores' distribution is roughly normal and several examples of strict as well as lax implementation emerge, with best performers especially frequent among blue chips and financial firms.

As for the possible correlation between our indicator and corporate governance features, we find stricter procedures in firms where no stable controlling position can be identified. Among controlled companies, those controlled through a stake lower than 50% of cash flow rights display a worse stringency rate, while use of CEMs mitigates this effect. The presence of a coalition of controlling shareholders, rather than a single one, positively affects the stringency of procedures.

When we look at whether the composition of the board has an impact on the strictness of internal codes, what seems to matter is the presence of a minority director appointed by institutional investors, whereas the degree of board independence (as measured by the percentage of independent directors), does not.[34] We find that the presence of at least one minority director is indeed associated with adoption of stricter internal codes, not only when minority directors are members of the committee of independent directors vetting internal codes, but also when they merely sit in the board.

34 A few authors have challenged the conventional wisdom that independent directors matter. For example, an empirical analysis by Bhagat and Black (2002) finds that the degree of board independence has no effect on profitability. More recently, Gutiérrez Urtiaga and Saez Lacave (2012) highlight possible inefficiencies of independent directors, especially in concentrated ownership contexts.

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Annex

Table 1 – Methodology for the assignment of scores with respect to the components of the RPT Indicator

A) Scope of Internal Code

i. Provision of a threshold lower than 5% (2,5% for pyramids) to identify material RPTs				
		Lower threshold	1.5	
		Regulatory threshold	0	
ii. Identification of small RPTs to be exempted from the regulation				
		Granularity		
		Default and reduced threshold	*Single threshold*	*Plurality of thresholds*
Size	*< average*	1	0.66	0.33
	> average	0.66	0.33	0

B) Procedures for RPTs approval

i. Non-binding independent directors' advice on material RPTs	
No	1
Yes, whitewash applies with any percentage of unrelated shareholders represented at the general meeting	1
Yes, whitewash applies with unrelated shareholders representing less than 10% of the share capital	0.5
Yes, whitewash applies with unrelated shareholders representing 10% of the share capital	0
ii. Urgency exemption	
No	1
Yes, for general meetings resolutions in case of financial distress	0.5
Yes, for board resolutions	0.25
Yes, for both resolutions	0
iii. Budget limits for external independent advice	
No limits	0.5
Limits	0

Table 2 – Descriptive statistics for the RPT Indicator

	RPT Indicator
Mean	2.11
Median	2.17
Min	0.33
Max	4.67
St. deviation	0.96

Table 3 – Descriptive statistics for the components of the Indicator for firms included in the sample

A) Scope of Internal Code

i. Provision of a threshold lower than 5% (2,5% for pyramids) to identify material RPTs

	N. of firms	% of firms	% Market value
Lower threshold	8	6.4	12.3
Regulatory threshold	117	93.6	87.7

ii. Identification of small RPTs to be exempted from the regulation

		Granularity								
		Default and reduced threshold			*Single threshold*			*Plurality of thresholds*		
		N. of firms	% of firms	% Mkt value	N. of firms	% of firms	% Mkt value	N. of firms	% of firms	% Mkt value
Size	*< average*	20	16.0	46.0	66	52.8	38.1	8	6.4	12.6
	> average	8	6.4	0.9	20	16.0	1.8	3	2.4	0.5
Total firms		*28*	*22.4*	*46.9*	*86*	*68.8*	*39.9*	*11*	*8.8*	*13.1*

B) Procedures for RPTs approval

i. Non-binding independent directors' advice on material RPTs

	N. of firms	% of firms	% Mkt value
No	43	34.4	54.1
Yes, whitewash applies with any percentage of unrelated shareholders represented at the general meeting	20	16.0	12.3
Yes, whitewash applies with unrelated shareholders representing less than 10% of the share capital	2	1.6	0.1
Yes, whitewash applies with unrelated shareholders representing 10% of the share capital	60	48.0	33.5

ii. Urgency exemption

	N. of firms	% of firms	% Mkt value
No	59	47.2	59.7
Yes, for general meetings resolutions in case of financial distress	4	3.2	0.5
Yes, for board resolutions	36	28.8	28.6
Yes, for both resolutions	26	20.8	11.2

iii. Budget limits for external independent advice

	N. of firms	% of firms	% Market value
No limits	77	61.6	83.9
Limits	48	38.4	16.1

Table 4 – The RPT Indicator by market index

Market Index	Total N. of firms	Mean	Standard dev.	Average cap.
FTSE Mib	32	2.30	1.10	9.397.334.045
Other	93	2.04	0.90	668.141.016

Table 5 – The RPT Indicator by industry

Industry	Total N. of firms	Mean	Standard dev.
Financial	34	2.46	0.98
Public Utilities	16	2.35	0.80
Other	75	1.90	0.93

Table 6 – The RPT Indicator by control model

Control Model	Total N. of firms	Mean	Standard dev.
Controlled	109	2.02	0.84
Of which controlled by the State	*16*	*1.90*	*0.82*
Non-controlled	16	2.69	1.25

Table 7 – The RPT Indicator of controlled companies by control model

Control Model	Total N. of firms	Mean	Standard dev.
Controlled with C1>50%	52	2.01	0.93
Controlled with C1<50%	57	2.03	0.82
of which:			
controlled with CEMs	*28*	*2.23*	*0.85*
controlled without CEMs	*29*	*1.83*	*0.75*

Table 8 – The RPT Indicator in controlled companies by the presence of coalition

CEMs		Total N. of firms	Mean	Standard dev.
Coalition	Yes	14	2.24	0.80
	No	95	1.99	0.89

Table 9 – The RPT Indicator by internal governance characteristics

CEMs		Total N. of firms	Mean	Standard dev.
Minority director	Yes	14	2.82	1.09
	No	111	2.02	0.91
% Independent directors	> mean	65	1.96	1.02
	< mean	60	2.26	0.87

Table 10 – Mean comparison tests. T-Student value between couple of governance characteristics

(In parentheses p-values are reported. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively)

	Non-controlled companies	Weakly-controlled companies (CEMs excluded)	CEMs controlled	Coalition (no)	Minority directors (no)
Controlled companies	2.3844** (0.0186)				
Strongly-controlled companies		1.1253 (0.2636)			
Weakly-controlled (CEMs excluded)			2.2130** (0.0311)		
Coalition (yes)				0.9940 (0.3225)	
Minority directors (yes)					3.1598*** (0.0035)

Table 11 – Description of the variables

Name	Description
C	Constant
Relcap	Firm capitalization relative to the sample capitalization
Financial	Dummy variable assuming value equal to one if a company is in the financial sector (i.e. banks, insurance companies or other financial institutions)
P.U.	Dummy variable assuming value equal to one if the company is a public utility
Strongly-controlled	Dummy variable assuming value equal to one if the controlling shareholder holds a stake higher than 50% both in terms of voting rights and cash flow rights
Weakly-controlled (CEMs excluded)	Dummy variable assuming value equal to one if the controlling shareholder holds a stake (i) lower than 50% both in terms of voting rights and cash flow rights and (ii) higher than the floating capital
CEMs weakly- controlled	Dummy variable assuming value equal to one if the controlling shareholder holds a stake higher than 50% of voting rights but her stake is lower than 50% in terms of cash flow rights because of the use of pyramid or of dual class shares
Non-controlled	Dummy variable assuming value equal to one if the largest shareholder holds a stake lower than the floating capital
Coalition	Dummy variable assuming value equal to one if a company is controlled by a coalition
%ind_dir	Percentage of directors independent according to the criteria provided by Code of Corporate Governance within the board
Dummy_min	Dummy variable assuming value equal to one if the company has at least one director nominated by institutional investors
Dummy_min_c	Dummy variable assuming value equal to one if at least one director nominated by institutional investors sits in the committee in charge of vetting the RPT internal code

Table 12 – OLS regressions

(OLS: The dependent variable is the RPT Indicator. Regressors: size, sector, control model variables. In parentheses p-values are reported. * , **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
C	1.8560*** (0.000)	1.8523*** (0.000)	1.9073*** (0.000)	1.9844*** (0.000)	1.8111*** (0.000)	1.9426*** (0.000)	1.9446*** (0.000)
Relcap	9.71*** (0.009)	9.13*** (0.001)	10.73*** (0.001)	12.95*** (0.000)	11.50*** (0.001)	11.21*** (0.000)	13.69*** (0.000)
Financial	0.5279*** (0.007)	0.4615** (0.014)	0.4866** (0.011)	0.4738** (0.012)	0.5189*** (0.007)	0.4546** (0.017)	0.4775** (0.012)
P.U.	0.2281 (0.347)						
Non-controlled		0.6314* (0.096)				0.4967 (0.195)	
Strongly-controlled			-0.0458 (0.787)				
Weakly-controlled (CEMs excluded)				-0.4761*** (0.003)		-0.4014** (0.011)	-0.5384*** (0.001)
CEMs wealky-controlled					0.2778 (0.150)		
Coalition							0.3701* (0.063)
Obs	*125*	*125*	*125*	*125*	*125*	*125*	*125*
R^2	0.1140	0.1420	0.1093	0.1510	0.1231	0.1705	0.1669

Table 13 – OLS regressions

(OLS: The dependent variable is the RPT Indicator. All regressors. In parentheses p-values are reported. * , **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively)

	(1)	(2)	(3)
C	2.1398*** (0.000)	1.9140*** (0.000)	1.9099*** (0.000)
Relcap	14.73*** (0.00)	9.4352*** (0.000)	8.8467*** (0.001)
Financial	0.4516** (0.018)	0.5169*** (0.006)	0.4921*** (0.008)
Weakly-controlled (CEMs excluded)	-0.5456*** (0.001)	-0.5079*** (0.002)	-0.5048*** (0.002)
Coalition	0.3595* (0.065)	0.3543* (0.081)	0.3690* (0.068)
%ind_dir	-0.4680 (0.455)		
Dummy_min_c		0.6118* (0.082)	
Dummy_min			0.5522* (0.053)
Obs	*125*	*125*	*125*
R^2	0.1717	0.1882	0.1890