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Banca d'Italia
Via Nazionale, 91 - 00184 Rome - Italy
+39 06 47921

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STEWARDSHIP POLICIES. A SURVEY OF THE MAIN ISSUES

Marco Fanari,* Enrico Bernardini,† Elisabetta Cecchet,* Francesco Columba,* Johnny Di Giampaolo,* Gabriele Fraboni,* Donatella La Licata,◊ Simone Letta,* Gianluca Mango* and Roberta Occhilupo°

Abstract

Stewardship, which encompasses shareholder voting activities and engagement with company management, can strengthen the role of investors in steering companies towards long-term value creation. As investors increasingly integrate ESG considerations into their investment strategies, stewardship is becoming more central to encouraging companies to meet sustainability standards. This paper focuses on the stewardship practices of a sample of asset managers and, to a lesser extent, central banks. The survey suggests that a 'one size fits all' approach to stewardship is inadequate for meeting the goals of different investors, due to their potentially differing assessments of the trade-offs involved.

JEL Classification: E58, G11, G18, G21, G23, G32.

Keywords: Central banks, Engagement, Institutional investors, Stewardship, Voting.

Sintesi

La *stewardship*, che include le attività di voto e di dialogo (*engagement*) degli azionisti con il management di un'azienda, può rafforzare il ruolo degli investitori nel guidare le imprese verso la creazione di valore a lungo termine. Poiché gli investitori tendono sempre più a integrare considerazioni ESG nelle strategie di investimento, la *stewardship* è diventata ancora più rilevante nell'incoraggiare le aziende a rispettare gli standard di sostenibilità. L'analisi si concentra su un campione di gestori e, in minor misura, di banche centrali. L'indagine suggerisce che non esiste un unico approccio di stewardship che risponda agli obiettivi di ciascun investitore, a causa delle possibili differenti valutazioni degli aspetti da bilanciare.

Banca d'Italia; * Directorate General for Markets and Monetary Policy Operations, † Secretariat to the Governing Board Directorate, ◊ Legal Services Directorate, ° Directorate General for Economics, Statistics and Research.

CONTENTS

1. Introduction[1]

Over the past decades, institutional investors have faced mounting pressure to enhance their monitoring of investee companies; market-led initiatives and regulatory developments have set guidelines and favoured the adoption of stewardship, defined by the United Nations' Principles for Responsible Investments (PRI) as "the use of influence by institutional investors to maximise overall long-term value including the common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend".[2] In particular, stewardship can help investors to promote firms' sustainable growth, incentivizing companies to embrace sustainable practices and fostering a long-term perspective of the corporate value.

Stewardship can be exerted in various ways, depending on factors such as the nature of the investor, the investment management approaches, the size and features of the portfolios. The two main instruments are voting at shareholder meetings and engaging with current or potential investees/issuers. The latter consists in dialogue with companies beyond general shareholder meetings, which may take place through meetings, calls, emails or letters between the investor and the management of the investee/issuer. From an operational standpoint, investors can open a dialogue with companies individually, collaboratively with other investors, or enlisting the services of specialized firms, typically proxy advisory firms which assist shareholders in their role and duties, such as communication with companies and voting. As to the themes dealt with by stewardship policies, the main focus so far has been on climate change risk, but other issues are often addressed, such as for instance human rights and labour conditions, or data privacy in the telecommunications and technology sectors.

This study provides a comprehensive discussion of stewardship, illustrating the main strengths and weaknesses of various tools.[3] It highlights both the opportunities offered by this instrument and the possible risks, as well as the mitigation measures that can be adopted to reduce them. The risks can be of reputational and legal nature, with regard especially to that of alleged acquisition and misuse of insider information. In the case of central banks, they are also, and most importantly, related to their mandates and the involvement in potentially controversial issues from a political viewpoint.

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[2] PRI (2021), An introduction to responsible investment: stewardship.

[3] While a broad definition of stewardship also encompasses the engagement with asset managers, data providers, policy makers and standard setters, these activities are beyond the scope of this study.

The adoption of stewardship practices has gone hand in hand with the emergence of a number of international coalitions that gather major institutional investors – such as the PRI, the Climate Action 100+, the Glasgow Financial Alliance for Net Zero (GFANZ) and, in Europe, the various initiatives originating from the Institutional Investors Group on Climate Change (IIGCC). Numerous national and transnational stewardship codes that asset managers and other financial institutions can follow have been created. In Europe, the need to incentivize shareholder engagement in order to steer companies towards long-term policies and objectives is also recognized by law, in the EU Directive 2017/828/EU (Shareholders Rights Directive II, SRD II).

In parallel with this trend, in the last few years a backlash against ESG policies has been observed in some jurisdictions, driven by various motivations, and accelerated by the policies announced and adopted by the new US administration. Between the last part of 2024 and the beginning of 2025, in the run up to the US presidential election and following its result, several major U.S. banks and asset managers left the coalitions under the umbrellas of GFANZ and Climate Action 100+. In January 2025 the Federal Reserve Board announced to have withdrawn from the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). These developments are closely related to the subject of this work, and will need monitoring, especially in relation to potential legal controversies on the pursuit of ESG issues by institutional investors. Possible implications are briefly mentioned throughout the text.

As to central banks, while they invest in equity and corporate bonds substantially less than asset managers, their role in the financial system warrants the discussion of their stewardship activities (NGFS, 2024a). Concerning investment policies, the general objective has been to mitigate the physical and transition risk of assets not relating to monetary policy (non-monetary policy portfolios).[4] The NGFS has provided analysis on the objectives, methods, opportunities and challenges of the stewardship practices of central banks (NGFS, 2024b).

This work is organized as follows. Section 2 discusses the incentives behind stewardship activity and its effectiveness within the broader financial system according to the relevant literature. Section 3 describes the developments in the international initiatives for stewardship. Section 4 examines the main stewardship codes and the regulatory framework within the European Union. Section 5 presents our analysis of the stewardship practices among seven of the major global asset

[4] In the case of the Eurosystem, legal ground is provided by article 282, paragraph 2 of the Treaty on the Functioning of the European Union: "The European System of Central Banks (ESCB) shall be governed by the decision-making bodies of the European Central Bank. The primary objective of the ESCB shall be to maintain price stability. Without prejudice to that objective, it shall support the general economic policies in the Union in order to contribute to the achievement of the latter's objectives".

managers, carried out through a review of their reports and policies, followed by interviews that we conducted with their stewardship managers; it also describes the stewardship practices implemented by some central banks, based on their public disclosures. Section 6 explores the provision of stewardship services. Section 7 analyses the legal implications of stewardship policies. Section 8 discusses the open issues of different stewardship approaches. Section 9 concludes.

2. Review of the literature: incentives for and effectiveness of stewardship

An increasing number of studies in the fields of corporate law, economics, finance and management have analysed the stewardship of institutional investors, focusing both on the incentives underpinning it and on its effect on companies' sustainability and financial performance. As to the incentives two categories have been identified: "weak" and "strong" incentives.

Weak incentives. Institutional investors have weak incentives to apply stewardship in companies where they hold minimal stakes (Alvaro *et al.*, 2019). This is due to the disproportionate effort required for monitoring, which may not yield commensurate advantages (cost-benefit trade-off), and which is compounded by the complexity of collective actions and opportunism (free riding).

Regarding the cost-benefit trade-off, investors may lack the motivation to engage in stewardship activities for companies in which they hold very small shares. The monitoring process can be very costly in relation to the marginal benefits obtained (Becht and Roëll, 1999; Chakravarty and Hodgkinson, 2001; Easterbrook and Fischel, 1991; Zetzsche, 2008). This concern is particularly significant for institutional investors with indexed portfolios. Such managers primarily compete by minimizing management fees, and the replication of an index precludes profiting from active positioning, such as exploiting mispricing based on sustainability factors. Furthermore, engagement may entail additional disclosure costs for institutional investors holding substantial stakes in a company, thus subjecting them to greater disclosure obligations (Bebchuk *et al.*, 2017).

According to some scholars, the limited staff allocated to stewardship activities and the infrequent use of initiatives, such as proposing shareholder resolutions or conducting proxy contests, indicate weak incentives at play (Davis and Kim, 2007; Ashraf *et al.*, 2012; Cvijanović *et al.*, 2016).

With respect to free riding, stewardship can be considered as a public good due to its characteristics of non-rivalry and non-exclusivity (Samuelson, 1954; Musgrave, 1969). Stewardship initiatives also face challenges relating to collective action and opportunism. An investor must coordinate with other shareholders to increase their influence on the company. If the collaboration fails, they will bear the entire cost of stewardship while sharing any benefits with other investors who act as free riders (Becht and Roëll, op. cit.; Chakravarty and Hodgkinson, op. cit.; Gilson and Gordon, 2013).

Strong incentives. Stewardship conducted by institutional investors has the potential to alleviate agency problems arising from the manager-shareholder relationship. Unlike individual shareholders, institutional investors possess the skills and influence to conduct a more effective monitoring of management, thereby potentially mitigating agency issues (Belinga and Segrestin, 2018). Moreover, institutional investors can benefit from economies of scale in monitoring companies through the management of large and diversified portfolios (Belinga and Segrestin, op. cit.), leveraging the expertise of proxy advisors (Dubois *et al.*, 2023; Belcredi *et al.*, 2017). These factors make institutional investors well suited to assume a stewardship role for companies. While stewardship allows investors to access more information about the company, engaging in direct dialogue with management often exposes them to the risk of market abuse allegations, meaning the use of privileged information to profit from market trading (Fichtner *et al.*, 2017; McCahery *et al.*, 2016).

Some authors have noted that passive institutional investors leverage stewardship to enhance the value of their investments, given their inability to exit portfolio companies included in market indices (Fisch *et al.*, 2019; Mülbert and Sajnovits, 2022). In addition, the systemic nature of climate risks serves as a compelling incentive for stewardship on climate issues, enabling investors to mitigate these risks, which are not fully diversifiable (Monasterolo, 2020; Campiglio *et al.*, 2018). Large investors with diversified indexed portfolios, known as 'universal owners' (Hawley and Williams, 2000), are strongly motivated to engage in stewardship with investee companies that produce substantial negative externalities, affecting other companies within the portfolio (Condon, 2020; Gordon, 2021a; Gordon, 2021b; Coffee Jr, 2020). For instance, investors holding shares in both oil companies (usually the largest emitters) and hospitality sector companies (highly vulnerable to climate risks) have a higher incentive to encourage the former to adopt more sustainable strategies. Doing so would help to mitigate spillovers on the latter. Essentially, universal owners think systemically and may make companies internalize their climate-related externalities, thereby supporting the adoption of stronger environmental and social policies.

There may be reputational returns from stewardship (Katelouzou and Sergakis, 2020). These motivations rest on a long-term assumption of convergence between sustainability goals and the maximization of returns. This view seems to be supported by statements from major institutional investors, who have repeatedly emphasized their commitment to grant greater weight to stakeholder interests and to prioritize sustainability in their investment strategies (Fink, 2020). Furthermore, asset managers may attract and retain clients with greater sensitivity to environmental and social issues, leveraging voting and engagement on ESG topics (Wang, 2021). For example, in a context where certain investor segments are increasingly willing to forgo some (short-term) returns in favour of sustainable strategies, stewardship initiatives may become a genuine competitive advantage for large asset managers. This is particularly evident in the competition for the assets of Millennials, as there is evidence that people in the middle band of the working age population tend to sacrifice immediate returns for investments that align with their social values (Barzuza *et al.* 2020). An additional motivation for institutional investors to consider externalities in their stewardship is related to delegated philanthropy (Benabou and Tirole, 2010). As shareholders are also citizens, consumers, workers and taxpayers, they care about the impact of corporate policies on their overall welfare, beyond the financial returns they receive from the firm.

Recently, however, in particular in the U.S., active and publicized stewardship has posed a set of different issues for institutional investors. Although most lawsuits originate from plaintiffs' attempts to combat climate change and environmental degradation, reactions against ESG policies are also fuelling disputes. In some cases, investors sue governments or companies for damages resulting from climate policies adopted to comply with the 2015 Paris Agreement (Angelini, 2024b). This trend has intensified with the advent of the new administration in the United States.

Through delegated philanthropy, institutional investors take an active role in aligning corporate management activities with the values and preferences of the clients and citizens they represent. In this scenario, the potential benefit is associated with an overall enhancement of social welfare. However, the incentive for delegated philanthropy is somewhat diminished by the challenge of reconciling the sometimes divergent preferences of clients and citizens. Furthermore, institutional investors need clear delegation from their clients to engage in sustainable investments, especially if these investments may imply a trade-off with respect to the traditional risk-return-liquidity paradigm (Angelini, 2022).

Stewardship may allow investors to cope with information asymmetries. In order to attain better financial and sustainability ratings, companies might engage in unfair practices, such as the disclosure of misleading information (ESG-washing, greenwashing) or the opportunistic behaviour of transferring more polluting business units or those entangled in environmental, social, and governance controversies to entities outside the scope for consolidation. These manoeuvres essentially fail to decrease total emissions within the economic system and do not yield tangible enhancements to ESG practices for the entities concerned. In several cases, it may be particularly challenging to identify such misconduct. The stewardship of institutional investors, which entails taking pains to examine in-depth analyses of investee companies extended to their entire value chain, can assist in mitigating the risks of opportunism (Duchin *et al.*, 2022, Gözlügöl and Ringe, 2023, Fraser and Fiedler, 2023, IEA, 2023).

Stewardship's effectiveness. There is some evidence supporting the effectiveness of stewardship initiatives. Some studies show a positive correlation between large institutional investors' corporate holdings and the reduction of CO_2 emissions (Azar *et al.*, 2021), as well as a positive correlation of institutional ownership with the environmental and social performance of firms (Dyck *et al.*, 2019). Kahn *et al.* (2023) find that an increase in the stakes of pension funds mindful of environmental issues is related to a subsequent reduction in the investee's carbon emissions, with a particularly robust relationship for pension funds involved in engagement activities. Bauer *et al.* (2023) analyse the effectiveness of engagement conducted by an asset manager that also provides engagement services. They find that the dialogue on material topics is associated with improvements in ESG and environmental scores, a reduction in carbon intensity, increased profits and returns compared with peer companies, and lower costs. Similarly, Barko *et al.* (2021), find that target firms with ex ante low ESG ratings engaged by an investment management record a rating improvement during the period of activism, and in the event of successful engagement they show a higher excess return. Lastly, Heeb and Kölbel (2024) study the engagement of an index provider and their benchmark constituents, observing a remarkable capacity to affect companies' commitment to setting a science-based target.

Less attention has been devoted to the relation between engagement and financial risks. Hoepner *et al.* (2023) find that the engagement initiatives carried out by institutional investors lead to a decline in the value at risk, especially when engagement focuses on climate change.

Another relevant issue concerns the implications of reputational risks relating to the implementation of stewardship policies. For central banks, in particular, maintaining reputation along with credibility is essential to fulfil their monetary policy institutional mandates, banking supervision and public policy assessment (Bindseil *et al.*, 2009). By stepping beyond their core mandates of price and financial stability, these institutions risk to undermine their credibility and legitimacy (McPhilemy and Moschella, 2019).

Table 1 provides a summary of the studies reviewed above.

Table 1: Studies on the incentives of stewardship

Incentives for adopting a stewardship policy		
Weak incentives	Cost benefit trade-off	Alvaro *et al.*, 2019; Becht and Roëll, 1999; Chakravarty and Hodgkinson, 2001; Easterbrook and Fischel, 1991; Zetzsche, 2008; Bebchuk *et al.*, 2017.
	Free-riding and collective action	Samuelson, 1954; Musgrave, 1969; Becht and Roëll, 1999; Chakravarty and Hodgkinson, 2001; Gilson and Gordon, 2013.
Strong incentives	Management monitoring	Belinga and Segrestin, 2018.
	Economies of scale	Belinga and Segrestin, 2018; Dubois *et al.*, 2023; Belcredi *et al.*, 2017.
	Value enhancement	Fisch *et al.*, 2019; Mülbert and Sajnovits, 2022.
	Risk mitigation	Hawley and Williams, 2000; Condon, 2020; Gordon, 2021a; Gordon, 2021b; Coffee Jr, 2020.
	Reputational returns	Katelouzou and Sergakis, 2020; Wang, 2021; Barzuza *et al.* 2020.
	Delegated philanthropy	Benabou and Tirole, 2010.
	Information asymmetries mitigation	Duchin *et al.*, 2022; Gözlügöl and Ringe, 2023; Fraser and Fiedler, 2023.
Stewardship's effectiveness		
Improvements in sustainability performance		Azar *et al.*, 2021; Kahn *et al.*, 2023; Barko *et al.*, 2021; Heeb and Kölbel, 2024.
Improvements in risk-return performance		Barko *et al.*, 2021; Hoepner *et al.*, 2023.

3. Stewardship initiatives

Stewardship activities as a method for attracting investors' attention to sustainability objectives in corporate management first emerged among institutional investors in the UK in 2010 (FRC, 2010), and subsequently became a global phenomenon. This development inspired the creation of numerous national and transnational stewardship codes and significantly influenced the European Union's (EU) legal framework. In Europe, the implementation of stewardship has been promoted by various initiatives, including revisions of the EU Directive IORP II on the activities of institutions for occupational retirement provision and the Shareholder Rights Directive II. More recent measures stemming from the European Commission's Sustainable Finance Action Plan further affirm the role of shareholders in sustainability practices, reinforcing the connection between stewardship activities and the EU sustainability agenda, including the aim of achieving carbon neutrality and addressing climate change.

On the international stage, there have been various initiatives by financial institutions, including the Glasgow Financial Alliance for Net Zero (GFANZ), which comprises specific financial sector groups of banks, insurers, asset managers and other institutional investors.[5] GFANZ encourages engagement directed towards companies with less effective decarbonisation strategies and those operating in high-emission sectors. In the last few years, however, in the context of the backlash against ESG policies, there have been significant signs of disengagement from these initiatives. In particular, between the last part of 2024 and the beginning of 2025, in the run up to the US presidential election and following its result, several major U.S. banks left the Net Zero Banking Alliance (NZBA, part of the GFANZ).

In Europe, the Institutional Investors Group on Climate Change (IIGCC) serves as a pivotal organization for investor collaboration aimed at advancing the reduction of greenhouse gas emissions. The IIGCC has introduced the Paris Aligned Investment Initiative[6] (PAII) to assist its members in aligning financial assets with the objectives of carbon neutrality. PAII members should set clear climate stewardship expectations and engage investees to establish ambitious climate goals that are most relevant to their business. More recently, the IIGCC has introduced a comprehensive framework, the Net Zero Stewardship Toolkit (IIGCC, 2022), designed to enhance their stewardship practices for all types of investors. This toolkit focuses on activities such as portfolio analysis, priority setting, engagement with companies to reduce emissions, alignment of investments with carbon neutrality criteria, transparent investment strategy implementation and collaboration with other investors. The goal is to ensure effective stewardship to maximize impact and coverage across critical sectors. In addition to the efforts of the IIGCC and the PAII, the Climate Action 100+ initiative plays a complementary role. Founded by the four regional investor networks of the PAII and a coalition of financial institutions supporting the Principles for Responsible Investment (PRI) alongside the United Nations, Climate Action 100+ is a collective engagement initiative targeting companies that are significant contributors to global greenhouse gas emissions. A large number of institutional investors have engaged with many companies to improve climate governance, reduce emissions, align with carbon neutrality goals, and strengthen climate-related financial reporting. The progress made by each company is evaluated based on a public methodology (Climate Action, 2023), which includes regular monitoring of indicators grouped into ten areas, such as achieving decarbonisation goals over different time horizons, climate strategy, and investments. While Climate Action 100+ has been instrumental in highlighting the importance of climate-related engagement for high-emission

[5] The sectoral alliances of GFANZ (differentiated according to the type of investor) are: Net-Zero Asset Owner Alliance (NZAOA), Net Zero Asset Managers initiative (NZAM), Paris Aligned Asset Owners (PAAO), Net-Zero Banking Alliance (NZBA), Net-Zero Insurance Alliance (NZIA), Net Zero Financial Service Providers Alliance (NZFSPA), Net Zero Investment Consultants Initiative (NZICI) and Venture Climate Alliance (VCA).

[6] In 2021, the PAII took the form of a global collaboration supported by four regional investor networks: the Asia Investor Group on Climate Change (AIGCC, Asia), Ceres (North America), the Institutional Investors Group on Climate Change (IIGCC, Europe), and the Investor Group on Climate Change (IGCC, Australasia).

companies, engagement efforts could be expanded to include a broader range of firms. Indeed, investors who adopt the Net Zero Investment Framework of the PAII commit to evaluating assets that represent a significant portion of their portfolios, accounting for at least 70 per cent of financed emissions in key sectors (PAII, 2021). In 2024, Climate Action 100+ faced the withdrawal of several U.S. financial firms amidst political investigations into an alleged climate-related anticompetitive collusion among investors to force American companies to decarbonize.

To address the need to cover a wider range of companies, the IIGCC launched an additional collective engagement initiative in March 2023, known as the Net Zero Engagement Initiative (NZEI; IIGCC, 2023). Investees' transition plans will be evaluated on the basis of the predefined expectations published by the NZEI. To provide further guidance to companies and investors committed to these initiatives, the IIGCC and Climate Action 100+ have drawn up specific investor guides over the past two years. These guides focus on critical high-emitting sectors such as oil and gas, electricity, aviation, mineral extraction, steel production, and food and beverages. Another initiative supporting stewardship is the PRI framework, which offers its signatories access to a platform for proposing voting initiatives and engaging in dialogue with companies on sustainability issues (see section 7.4). The table 2 summarizes the main international initiatives described above.

Table 2: International initiatives on stewardship and net zero portfolio alignment

Year	Initiative	Description
2019	Paris Aligned Investment Initiative (PAII)	A collaborative investor-led forum to support investors to align their portfolios and investment activities to the goals of the Paris Agreement.
2020-2021	Net Zero Investment Framework	A guide widely used by asset managers and asset owners to set targets and produce related net zero strategies and transition plans.
2021	Glasgow Financial Alliance for Net Zero (GFANZ)	A global coalition of eight independent net-zero financial alliances whose members have committed to support the transition to net zero. Alliance members include banks, insurers, asset owners, asset managers, financial service providers, and investment consultants.
2022	Net Zero Stewardship Toolkit	A guidance on stewardship practices consistent with an ambition for all assets under management to achieve net zero emissions by 2050 or sooner.
2017	Climate Action 100+	An investor-led collaborative engagement initiative to ensure the decarbonisation of the world's largest corporate carbon.
2023	Net Zero Engagement Initiative	An investor initiative set up to extend the reach of their engagement beyond the Climate Action 100+ focus list, including more companies that are heavy users of fossil fuels.
2013	PRI Collaboration Platform	A forum that allows investors to pool resources, share information and enhance their influence on ESG issues. Stewardship initiatives include invitations to sign joint letters to companies and join investor-company engagements, requests for support on upcoming resolutions and votes.

4. Stewardship codes and regulation

This section offers a concise analysis of how the investors-led initiatives analysed in the previous section have been translated into key stewardship codes, which institutional investors and asset managers follow, along the European regulation that has encouraged their adoption. It focuses on aspects of the UK's soft law and various transnational codes, which have significantly influenced EU codes and regulation.

4.1 Codes

Since the early 2000s, international organizations and institutional investor associations have been drafting stewardship codes to support institutional investors' active ownership in designing corporate strategies aimed at long-term value creation. These efforts are intended to benefit clients, beneficiaries, and the wider community. All stewardship codes encompass recommendations regarding the monitoring of investee companies, engagement outside of general meetings, and exercising shareholder rights in the interests of clients and ultimate beneficiaries. Compliance with stewardship codes is always voluntary; nonetheless, institutional investors and asset managers consider it as a prerequisite for maintaining investor trust and ensuring prudent investment management. Consequently, compliance is widespread for reputational and competitive reasons. The first code was adopted in the United Kingdom in 2010, and since then, it has been amended several times, most recently in 2020 by the Financial Reporting Council (FRC, 2020). The UK Stewardship Code consists of two sections, one addressed to asset managers and the other to service providers. Stewardship is defined within the code as 'the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, achieving benefits for the economy, environment, and society'.

Under the UK Code, institutional investors can undertake a range of stewardship activities, including portfolio choices, monitoring, engagement with issuers on sustainability issues, collaboration with other shareholders, and exercising shareholder rights and duties. Engagement activities are considered pivotal as they play a crucial role in preserving or increasing assets' value, influencing issuer decisions, and enhancing other stewardship tools. The main activities through which service providers can support their clients' actions are: (i) engagement; (ii) voting recommendations; (iii) consulting activities; and (iv) preparation of data and research. The UK Stewardship Code has served as the basis for the definition of national codes and constitutes an important reference for drafting European legislative acts, and for the interpretation of these acts.

Furthermore, the UK code provided a useful basis for other frameworks globally (Katelouzou and Sergakis, 2021), including those adopted by international investors' alliances (herein referred to as 'transnational codes'). The main transnational codes are those drafted by the European Fund and Asset Management Association (EFAMA, 2018), the International Corporate Governance Network (ICGN, 2020), and the Principles for Responsible Investments (PRI), initially drafted by a group of investors in 2006 (PRI, 2006; PRI, 2021), under the auspices of the United Nations, which has been supporting the PRI ever since.

The codes share some common characteristics, but differ in certain defining aspects and guidelines. Firstly, for the EFAMA Code, the terms 'stewardship' and 'engagement' are synonymous; for the other Codes, instead, engagement (intended as extra-meeting dialogue) is, in line with the UK Code, the primary - but not the exclusive - activity via which stewardship is expressed.[7] Furthermore, the concept of stewardship in relation to the fiduciary duties of institutional investors and asset managers towards clients and ultimate beneficiaries differs. For the EFAMA Code, the exercise of shareholder rights (primarily the right to vote) and engagement are functional to preserving and increasing the long-term value of holdings and, by extension, they address clients' interest; extra-corporate interests, such as sustainability factors, must be pursued by managers only to the extent that they correspond to the long-term interest of ultimate beneficiaries. On the other hand, the ICGN Code defines stewardship as a component of the overall fiduciary duty of institutional investors, extending beyond the traditional duties of diligence and loyalty, including considerations of systemic risk and investment time horizons.

The codes also differ on how to implement engagement. The EFAMA Code considers both unilateral dialogue (from investors to the company, or 'one-way engagement'), and bilateral dialogue (exchange of information between investors and the administrative body, or 'two-way engagement'). On the contrary, the PRI Code not only recognizes the bilateral mode as the only form of engagement, but it also excludes the collection of information through standardized questionnaires and the invitation to greater transparency on ESG information from qualifying as engagement activities.

[7] In the EFAMA Code, stewardship is defined as '(the) engagement, which involves monitoring of investee companies, interacting with them, and exercising shareholder rights. Engagement may cover: business strategies and their execution, risk management, environmental and social issues, corporate governance matters such as board composition and appointment of independent directors, executive compensation policies, compliance with laws, culture, ethics, shareholder performance, and composition. Asset managers must act in the best interest of clients who have entrusted them with resources'. On the other hand, the UNPRI Code defines stewardship as 'the use, by institutional investors, of their influence in investee companies or issuers to maximize long-term value, including the value of the overall economic activity, the environment, and social issues, on which dividends and the interest of ultimate beneficiaries and clients depend'.

Two elements are common and key in all the codes: the voluntary principle (adherence occurs at the discretion of the individual investor) and the 'comply or explain' approach, whereby recipients - institutional investors and asset managers - are required to adopt a stewardship policy, and eventually the associated tools and criteria, or explain the reasons why they have not been adopted. The stewardship tools mentioned in all the codes are: (i) the extra-meeting dialogue with issuers; (ii) the exercise of voting rights; (iii) the monitoring of invested companies or of those targeted for future investments; (iv) the adoption of escalation strategies in the event of unsatisfactory or no feedback from the issuer; and (v) the collaboration with other investors to achieve common objectives. All codes also recommend that the engagement policy defines at least how to: (i) integrate sustainability factors into investment strategies; (ii) monitor investees; (iii) conduct extra-meeting dialogue; (iv) manage potential or actual conflicts of interest; (v) manage escalation processes; (vi) manage collective engagement; (vii) exercise voting rights, also through proxy advisors or other services; and (viii) manage issues relating to insider information. Another common requirement which is key in all codes, albeit with different nuances, is the transparency that adherents must ensure regarding stewardship activities carried out with individual issuers.

4.2 EU regulation

The EU law recognizes the need to incentivize shareholder engagement in order to steer companies towards long-term policies and objectives. Despite the influence of the British experience and the transnational codes, the EU has adopted binding legal acts for all Member States to encourage the dissemination of self-regulation standards (soft law). In the context of stewardship, the EU Directive 2017/828/EU (Shareholders Rights Directive II, SRD II) is crucial. According to the Directive, increasing shareholders' involvement contributes to improving company performance, including non-financial aspects relating to environmental, social, and corporate governance factors (14th Recital, SRD II); in turn, sustainability factors, if integrated into investment decisions and advisory activities, can also produce benefits in terms of the real economy's resilience and financial stability (19th Recital, Regulation 2019/2088/EU).

SRD II recognizes a key role for institutional investors, asset managers and proxy advisors; the latter are subject to obligations that differ from those of the first two categories of operators. Similar to the provisions of stewardship codes, SRD II requires institutional investors and asset managers to adopt and publish an engagement policy describing their investment strategy as well; alternatively, they must provide the public with a reasoned explanation, following the 'comply-or-explain' approach. The engagement policy must illustrate how they: (i) monitor invested companies; (ii) engage with them; (iii) exercise ownership rights; (iv) collaborate with other shareholders; (v) engage with the relevant stakeholders of the investee company; and (vi) manage potential or actual conflicts of interest.

Monitoring should not be limited to analysing the economic and financial performance of the investee, but rather has to be extended to all relevant corporate profiles, including risks, capital structure, social and environmental effects, corporate governance and non-financial results. ESG factors are therefore included among the elements that institutional investors must consider in the overall evaluation of invested companies.

SRD II does not specify the modes of engagement and nor do the implementation laws; some useful indications are provided by the engagement policies and the aforementioned stewardship codes (for investors), as well as by the corporate governance codes (for issuers).[8] SRD II also attaches great importance to the principles of transparency and publicity. Institutional investors and asset managers must publish the engagement policy adopted and an annual report on its implementation on their website.[9] They must also disclose to the public the voting decisions made in the general meetings of the investees (with the possibility of derogations for less significant ones). The comply-or-explain approach also applies to these disclosure obligations. Institutional investors must also describe how the key elements of their equity investment strategies affect asset and liability returns; additional transparency obligations apply to the contracts between institutional investors and asset managers. The directive allows proxy advisors not to adopt a code of conduct, or to adopt it in part or in full, provided that they explain the reasons for such choices and any alternative measures taken (comply-or-explain). SRD II was transposed into the Italian regulation in 2019 without changes. The legal provisions are supplemented by secondary legislation: specifically, the regulatory and supervisory authority for the Italian financial markets (Consob) has introduced detailed rules on engagement policy.[10]

The developments discussed above regarding the stewardship codes (Table 3) have inspired the adoption of several self-regulation codes and engagement protocols in Italy, the details of which are described in Appendix 1.

[8] Dialogue is not a new phenomenon in corporate law and financial markets; the novelty of recent regulatory interventions lies in its acknowledged centrality, concerning the heterogeneity and importance of the issues considered and the intensity of the information flows (Bianchi and Milic, 2021).

[9] The report should also include 'a general description of voting behaviour, an explanation of the most significant votes, and the use of voting advisory services'.

[10] The engagement policy and any modifications thereof must be published on the institutional investors' and asset managers' websites within fifteen days of their adoption; the annual report must be published every year by February; all documentation must remain freely accessible on the website for at least three years.

Table 3: Stewardship codes

Stewardship Code	**Jurisdiction**	**Latest version**	**Issued by**	**Main charateristics**
UK Stewardship Code	UK	2020	Financial Reporting Council (FRC)	Different provisions for institutional investors and service providers; strong importance addressed to engagement (intended as extra- meeting dialogue)
EFAMA	Transnational	2018	European Fund and Asset Management Association	Engagement and stewardship are considered as synonymous; sustainability factors to be pursued by managers only if functional to maximise ultimate beneficiaries' interests; unilateral and bilateral extra-meeting dialogue
ICGN	Transnational	2020	International Corporate Governance Network	Stewardship is deemed to be a component of the overall fiduciary duty of institutional investors and asset managers
PRI	Transnational	2006	Institutional investors supported by United Nations	Only bilateral engagement; standardized questionnaires not deemed to be an engagement tool.

5. A survey of stewardship approaches

5.1 Asset managers' approaches

In this section we describe the findings of an analysis of the stewardship practices and experiences among seven of the major global asset managers. The analysis has been conducted with a focus on their equity exposure and passive management approaches.

The analysis started with a review of the asset managers' stewardship reports and policies to identify their strategies, activities, procedures, and key outcomes. This review informed the development of a semi-structured interview with their stewardship managers, aimed at gaining deeper insights into their perspectives and experiences. The interview focused on the following areas.

1. Stewardship strategies – managers were asked to evaluate the effectiveness of a number of stewardship strategies, such as dialogues, escalation, and voting. They were also encouraged to provide examples of successful cases.

2. Key themes – the questions aimed to highlight the most significant themes that have influenced engagement in recent years and the relevant selection criteria.

3. Risk of micromanagement – the interview explored whether asset managers have faced the risk of excessively controlling or influencing a company's operations and decisions in their stewardship activities.

4. Investor influence on sustainability issues – the frequency with which investors influence sustainability issues during general meetings was examined, along with how often these topics are addressed in other forms, such as private meetings.

The asset managers selected hold positions in companies listed on major stock exchanges worldwide. Individually, they hold ownership stakes up to 5 per cent, and cumulatively up to 20 per cent of these public companies, with the capability to influence corporate policies and contribute to define market standards for stewardship practices. According to the analysis, since stewardship is considered as an integral part of portfolio management, it falls within the scope of fiduciary duty toward clients.

Stewardship activities are substantially aligned among asset managers. These activities include: (i) dialogue with businesses (engagement); (ii) voting; (iii) escalation of stewardship actions, including divestment, where allowed by investment mandates; and (iv) transparency and disclosure.

5.1.1 Engagement

Asset managers deem it essential to manage engagement activities in an integrated way in order to enhance their impact. The prevalent method of engagement often involves fostering direct and consistent communication channels with companies. This can be achieved through physical or virtual meetings, as well as through correspondence via letters or emails.[11] The selection of the investees' corporate representatives with whom to engage depends on the nature and complexity of the topics under consideration, as well as on the phase of the engagement, and ranges from investor relation or dedicated ESG teams to independent directors, up to Chief Financial Officers (CFO), Chief Executive Officers (CEO) or other executives.

The effectiveness of engagement activities relies on fostering a dialogue between the company and the asset manager. The methods, objectives and themes that inform engagement activities are often defined in a specific policy, which may be integrated into the stewardship policy or exist as a separate document.

Regarding collective engagement initiatives, asset managers have different orientations. Some asset managers often see minimal benefits in collective engagement, as they believe they can exert

[11] Over the last five years, the asset managers selected almost tripled the number of engaged companies and constantly increased the attendance at shareholders' meetings.

sufficient pressure on companies autonomously. Indeed, they typically prefer not to represent or to be represented by other managers when interacting with company management. This stance appears to reflect differences in the asset managers' jurisdiction, the political context, and the investment style of the assets under management.

Nonetheless, there is significant adherence to the principles outlined in the transnational PRI stewardship code, and, in some instances, to related collective engagement initiatives, as well as participation in initiatives such as Climate Action 100+.

Stewardship and engagement policies specifically identify key areas of interest. In this context, there is a common focus on the following long-term themes: energy transition and climate risk, environmental risk, biodiversity conservation and anti-deforestation efforts, social controversies, and corporate governance. Asset managers publish comprehensive annual reports of their engagement activities throughout the period, providing concrete examples, in the form of case studies, that include the following details: (i) a background context of the issue and its relevance for the target company (e.g. specific concerns for workers' conditions or data privacy risks); (ii) the initiatives performed; and (iii) a description of the outcome, if unsuccessful with the escalation measures adopted).

The most recent stewardship reports published by asset managers focused on climate change risks, especially on the transition plans of the most polluting companies and their related financing activities often included in the energy, raw materials, and banking sectors. Some of them also addressed issues such as water usage; human rights and labour conditions in the automotive, mining, and apparel industries; data privacy in the telecommunications and technology sectors; and ensuring that boards have sufficient sustainability expertise and diversity.

For instance, an asset manager has engaged with a chemical company to discuss the corporate governance practices, the developments in climate-related reporting, and recent climate plans. The company created a board-level committee tasked to overseeing climate risks and began reporting emissions, along with setting medium- and long-term emissions reduction targets. Another asset manager has engaged with a company in the beverages sector regarding its actions to address water risks, particularly in the production areas facing water stress. The company subsequently provided data on water discharge from its sites, including annual key performance indicators by geographic location, and started exploring the use of an internal water pricing mechanism. These are just two examples of the wide range of case studies regularly presented in stewardship reports to illustrate the outcomes of engagement activities.

5.1.2. Voting

Voting is universally regarded by asset managers as the strongest expression of stewardship, as it allows for a more significant impact on corporate policies, by communicating shareholders' preferences in a transparent and public way.[12] Asset managers exercise their voting rights whenever possible and all the asset managers surveyed make use of the services provided by proxy advisors, mainly due to efficiency reasons. These services are deployed both in the initial information gathering and in casting votes. Every asset manager has drawn up their own voting policy, complemented by specific criteria tailored to local regulations; based on asset managers' data, more than 90 per cent of votes conform to predetermined voting policies.

Regarding resolutions on companies' climate transition plans, known as 'Say on Climate',[13] managers have different orientations, which likely stem from the absence of established standards or widely accepted market practices governing this topic. 'Say on Climate' initiatives remain confined to a limited number of companies. Most asset managers view 'Say on Climate' as complementary to reporting and as an incentive for companies to enhance transparency regarding their strategic climate plans. However, some asset managers firmly oppose shareholder proposals that are overly prescriptive, often raised by the activism of pressure groups, as they could easily give rise to the risk of micromanagement. Scepticism over shareholder resolutions has been expressed by some investors' alliances including the PRI, which argued that the benefits of 'Say on climate' might be outweighed by the risks of potentially unintended consequences (PRI, 2022).

The management of material climate risks and companies' transition strategies remained a focus during recent proxy seasons. Although 'Say on Climate' votes were less common - particularly outside Europe - there was an increase in shareholder proposals alongside management proposals. Some managers raised concerns about board oversight during director elections, especially when they believed the board was not prioritizing shareholders' financial interests. As a result, they withheld support for management proposals related to the election or discharge of directors due to insufficient disclosure or ineffective oversight of climate-related risks.

Shareholder climate proposals often call for regular votes on climate strategy, more ambitious carbon emissions reduction targets, enhanced disclosures, or specific climate actions. For instance,

[12] In this regard, voting differs from engagement activities, whose success inevitably remains subordinated to the asset managers' ability to exert convincing pressure on top company professionals, and to their willingness to understand and accept the requests of a company's shareholders.

[13] 'Say on Climate' is an initiative that allows shareholders of listed companies to vote annually on the company's climate policy and transition plans. This vote is advisory and not binding. 'Say on Climate' is not explicitly encouraged by European corporate regulations, unlike Say on Pay, which pertains to shareholder voting on executive remuneration policies (Article 9a of the SRD II).

some resolutions call for halting financing to traditional energy companies, decommissioning their assets, or aligning business models with specific scenarios or absolute emissions reduction targets. However, some asset managers showed caution in supporting such proposals that they consider overly prescriptive or inconsistent with long-term value creation.

Examples of voting include opposition to an oil and gas company whose strategy and targets were deemed insufficient to align with the 'well below 2°C' climate mitigation objectives. Additionally, votes against environmental underperformers have targeted a financial intermediary for its lack of commitment to phase out coal from its portfolio, as well as a utility company due to concerns over the absence of an adequately clear policy to abandon thermal coal.[14]

5.1.3 Divestment

Divestment is the extreme form of active ownership and can occur at the end of an escalation process within stewardship, as it entails a reduction, or even the complete elimination of an exposure to a company. This tool is available to active asset managers, while those following passive index replication strategies are forced to include all the index constituents. In a few and predefined cases, asset managers may make exclusions in passive strategies, within narrow deviations from the reference index. However, some room for underweighting or excluding specific issuers is more commonly allowed for funds employing a statistical index replication of ESG indices, as they are not limited by the constraint of full replication which is used by traditional index funds. In both cases, these instruments allow funds to underweight or exclude specific issuers

So far there is no clear evidence on the effects of divestment, although some papers find that excluding stocks of high-emitting firms from a passive investor portfolio can lower their prices, or increase the firms' cost of funding (Cheng *et al.*, 2023; Rohleder *et al.*, 2022), when a large enough number of investors implement similar divestment strategies or sustainable policies; the collective action can thus incentivize investees to decarbonize their corporate activities (Becht *et al.*, 2023; Green and Vallee, 2023; De Angelis *et al.*, 2022).

At the same time, it is important to consider that rationing capital for carbon-intensive firms might produce unintended consequences on actual decarbonisation and fail to mitigate transition risk in the intermediaries' assets (Angelini, 2024a; Hartzmark and Shue, 2022).

[14] As mentioned earlier regarding engagement, these voting cases represent a small selection from the broader range of examples detailed in the stewardship reports of the asset managers.

5.2 Central banks' approaches

While central banks invest in equity and corporate bonds substantially less than asset managers, their role in the financial system warrants the discussion of sustainable and responsible investment in their portfolio management, including of stewardship, which poses legal, reputational risks and issues of alignment with policy mandates (NGFS, 2024a).

Stewardship activities are carried out by central banks either directly, or indirectly, i.e. through external managers.

5.2.1 The NGFS analysis of stewardship practices

The NGFS Workstream Net Zero for Central Banks (NGFS, 2024b) has published a Progress Report on Sustainable and Responsible Investment practices of central banks, providing an overview of the objectives, methods, opportunities and challenges of the stewardship practices that central banks can adopt consistently with their mandate, depending on their portfolio management approaches. In particular, some issues in the conduct of stewardship that are particularly important for central banks have emerged (NGFS, 2024a). The main risks highlighted in the NGFS analysis, and the respective measures that can mitigate them, are reported below.

Risks relating to central banks' mandate. Stewardship activities should be carefully framed in line with the core tasks and objectives outlined in the central bank's mandate, without compromising them or appearing to do so. In this regard, not all central banks may have the leeway to conduct stewardship activities, and this margin can vary across their portfolio types and mandate. In January 2025 the Federal Reserve Board announced to have withdrawn from the NGFS as it deemed that the work of the NGFS has increasingly broadened in scope, covering a wider range of issues that are outside of the Board's statutory mandate.

Reputational risk. Reputational risks could stem from controversial votes and from involvement in shareholders' disputes on specific themes. If the voting and engagement policies guiding the ensuing votes and activities are made public, stewardship is deemed to be more effective. The publication of these policies, in fact, increases transparency, objectivity and predictability of specific actions, mitigating the reputational risks associated with stewardship activities, by means of a reduction in the degree of discretion allowed for the specific actions undertaken.

Risk of inconsistency. When voting through different asset managers and according to their voting policies, divergent orientations may appear. For example, an asset manager may consider a climate transition plan adequate, while another may deem it not ambitious enough. It is therefore important for central banks to monitor and identify the reasons for divergent votes and engage with asset managers to ensure votes consistent with their policies and objectives.

Knowledge gap. Voting and engagement activities may require specific knowledge about invested companies. What constitutes good corporate behaviour varies across jurisdictions and over time, as national corporate governance codes are regularly updated. Moreover, company-specific initiatives, such as shareholder resolutions or corporate transition plans, often require thorough and specialized assessments. The environmental implications of shareholder resolutions may not be easy to assess. In many cases, they may need evaluations that require deep knowledge of complex technological matters and have a high margin of uncertainty.

Legal risks. Involvement in direct dialogue with companies may give rise to risks of judicial controversies or breaches of confidentiality regulations, mainly relating to receiving inside information that must be carefully monitored and mitigated through specific measures (see Section 7). Recently, climate- and environment-related litigation fuelled by ESG backlash has grown, posing new legal risks to institutional investors (Angelini, 2024b).[15]

Resource constraints. An important hurdle for central banks with relatively small portfolios pertains to the availability of adequate resources in terms of staff, knowledge, and information sources to perform voting and engagement activities. Where internal resources of central banks are inadequate, proxy voting services may provide viable solutions such as voting recommendations, automated voting and reporting (see Section 6).

5.2.2 Central banks' practices

This section examines the stewardship experiences of a set of central banks that have adopted stewardship policies for their equity investments. This analysis is based exclusively on the respective central banks' public disclosures.[16] Furthermore, some of these central banks adhere to national or transnational stewardship codes.[17]

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[15] Setzer and Higham (2024) report that nearly 50 of the more than 230 cases filed in 2023 were not aligned with climate goals.

[16] This section is based on the public disclosures of the central banks of Belgium, Finland, France, Italy, Netherlands, Norway and Switzerland and of the Monetary Authorities of Hong Kong and Singapore. For Norway, the analysis focus on the activity of the Norges Bank Investment Management (NBIM), the arm of Norway's central bank that manages the Government Pension Fund Global.

[17] For example, the adoption of the Principles of Responsible Ownership (developed by the Securities and Futures Commission of Hong Kong) in 2016 by the Hong Kong Monetary Authority (HKMA, 2024). The Bank of Finland, Norges Bank Investment Management (NBIM) and De Nederlandsche Bank are signatories of the UN Principles for Responsible Investment

Implementation options for stewardship initiatives vary depending on the investment management approaches. Central banks managing equity investments with internal resources or via their investment arms normally employ voting as the main stewardship tool, based on their own voting policy. Internally managed portfolios benefit from the highest level of control on stewardship practices, and central banks may use proxy advisors to cast votes through proxy voting platforms and benefit from voting recommendations to complement their own analysis.[18] Some central banks also select asset managers' whose strategies are focused on companies in specific markets or sectors with a high environmental impact. The voting policies, and in one instance even voting intentions prior to a shareholders' meeting, are typically published.[19]

The central banks considered acknowledge that the effectiveness of stewardship efforts is maximized by combining engagement and voting activities (NBIM, 2024); both stewardship instruments, if carried out in isolation, might prove less impactful (DNB, 2023). However, the significant limitations on engaging with all portfolio companies, due to the cost and the operational burden, may suggest a focus on a small perimeter of investees and corporate themes. As a rule, engagement is usually only conducted with the most significant portfolio stakes or with companies involved in controversies or with ESG-related issues (NBIM, 2024).

Central banks do not take part in collective engagement initiatives, with the exception of the NBIM regarding their third-party managed funds.[20]

Central banks whose equity investments are managed externally (either through mandates or through collective investment such as ETFs and mutual funds) usually entrust their preferences for voting and engagement to external asset managers (HKMA, 2024; MAS, 2022; Bank of Finland, 2024) or to a specialised voting and engagement manager based on preset voting principles (DNB, 2023).

[18] For example, Norges Bank uses the voting-related research and the infrastructure of Institutional Shareholder Services (ISS), but the voting decision is always its own (NBIM, 2025). The Swiss National Bank (SNB) turns to external service providers tasked with interpreting the guidelines for exercising voting rights and applying them to the proposals being made at the shareholders' meetings. The SNB is in regular contact with the external service providers and monitors the correct interpretation of the guidelines for exercising voting rights (SNB, 2025).

[19] For example, Norges Bank publishes both its voting guidelines and, five days before the shareholder meeting where practicable, its voting decisions (NBIM, 2025). Banque de France has published its voting policy (Banque de France, 2023). The main topics covered by the voting policy may include: the approval of the financial statements; the capital structure; the composition of social bodies; the dividend distribution policy; executive remuneration; the publication of extra-financial information on climate change management strategy; and the shareholder meeting proposals aiming to improve the environmental, social, and governance profile of a company (Banque de France, 2024).

[20] NBIM, as the asset manager of the Norwegian Government pension fund, serves as a co-lead investor in the PRI Advance collaborative stewardship initiative, where institutional investors seek to advance human rights and positive outcomes for people through investor stewardship (NBIM, 2025).

When stewardship activities are entrusted to external asset managers, central banks normally do not passively accept a manager's approach, but often engage with these managers to encourage them to strengthen their commitment and transparency regarding sustainability and to follow best practices (NBB, 2023), such as those relating to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and aligned with the Paris Agreement goals. Central banks monitor asset managers through annual questionnaires requesting updates on various aspects of stewardship, such as voting statistics, concrete examples of engagement, and tools for monitoring engagement progress (HKMA, 2024; Bank of Finland, 2024). Voting decisions and their consistency with voting policies are analysed ex post.

As for the Bank of Italy, it has adopted a sustainable investment policy for its non-monetary-policy portfolios since 2019 (Scalia, 2023). According to the Bank's Responsible Investment Charter (Bank of Italy, 2021), the Bank promotes sustainability practices across the financial system to contribute to achieving the objectives of the Paris Agreement and the EU's climate neutrality goals by 2050.[21]

5. 3 Key findings

Overall, the survey highlights that asset managers adopt comprehensive and relatively standardized stewardship practices, while central banks' practices are more heterogeneous, with voting and engagement employed to different extents (Table 4).

[21] For an overview of the Bank's recent initiatives see Bank of Italy (2025).

Table 4: Use of stewardship instruments by asset managers and central banks

	Asset managers	**Central banks**
Formalized stewardship strategy	***	*
Formalized voting policy	***	*
Formalized engagement policy	***	
Reporting on stewardship activities	***	*
Delegated engagement to third parties		***
Direct engagement with companies	***	*
Collaborative engagement	**	*
Exercise of voting rights at annual general meetings	***	**
Reliance on proxy advisory/voting services	***	***
Dedicated stewardship department/unit	***	*
IT platform supporting stewardship activities	***	

Note: ( ) no cases observed; (*) up to one third of the cases; (**) up to two thirds of the cases; (***) over two thirds of the cases. Source: based on the public disclosures of selected central banks and information shared by large asset managers from advanced economies.

Stewardship use by asset managers reflects their large scale of business, extensive experience and need to abide by the fiduciary duty towards clients. Some asset managers show a preference for direct oversight of engagement, rather than participating in collaborative initiatives. They leverage their infrastructure and significant scale to implement effective stewardship strategies, thereby safeguarding their independence and flexibility.

The heterogeneity of stewardship practices among central banks may be due to the different features of their investment portfolios. In many cases these portfolios are relatively small, which precludes resource-intensive stewardship practices. Besides, they traditionally consist mostly of government securities. Investments in securities issued by private entities represent a small share in central bank non-monetary policy portfolios, although they are increasing and can be sizeable in absolute terms compared with other institutional investors. Moreover, since these corporate securities are often externally managed either through asset managers, mutual funds or ETFs, implementing stewardship practices for them may be more complex than on direct holdings.

Asset managers in many jurisdictions are obliged by regulatory and accountability reasons to disclose their strategy, voting and engagement policies in more detail. Central banks usually provide a general overview of their stewardship strategy and of their voting policy, reflecting their commitment to transparency and accountability (Bindseil *et al.*, 2009; Archer and Moser-Boehm, 2013).

The prevalence of indirect investments in stocks and corporate bonds in central banks' portfolios explains why they often delegate engagement to external asset managers. Collaborative engagement does not seem to be widely employed by central banks, while this strategy typically involves private institutional investors.

6. Stewardship commercial services

As previously mentioned, institutional investors may lack the necessary expertise, staff and technical resources necessary to implement stewardship policies. Using the services of proxy advisors offers a viable mean to address these hurdles, although it is always essential to assess the costs of such services vis-à-vis the benefits that can be obtained. This section, after discussing recent developments in the market for proxy advisory services, describes the main voting and engagement services typically offered by proxy advisors. The use of proxy services is widespread among investors, particularly for voting purposes.

The section concludes with a brief discussion on the Principles for Responsible Investment (PRI) initiative, which provides one of the most widely used platforms for investors' collaboration to support voting and engagement with companies on ESG matters.

6.1 Developments in proxy advisory services

Proxy advisory firms provide investors with services relating to: (a) information and analysis to support voting decisions in company shareholders' meetings (advisory), (b) assistance to shareholders in casting their voting rights in annual general meetings (voting), and (c) engagement with investees, concerning several themes such as sustainability issues.

The costs associated with the advisory and voting services typically vary according to the number of issuers in the portfolio, the frequency of shareholders' meetings, and the type of voting policy that the investor chooses to follow. A customized policy is more operationally cumbersome and expensive than a standard one (see section 7.1.2). As for engagement services, the cost largely depends on whether the investor opts for a collective engagement campaign or a customized initiative. Customized engagements, which allow the investor to select the themes, targets, escalation measures and other aspects, are generally more expensive than collective engagements (see section 7.1.3).

The proxy advisory market is highly concentrated, with the two main service providers, ISS and Glass Lewis, making up about 97 per cent of the market. In addition to these proxy advisors, there are specialized companies focused on specific European countries, such as Frontis Governance

(Italy), Proxinvest (France), DSW (Germany) and Pensions & Investment Research Consultants (UK).

From an economic standpoint, these companies enable investors to mitigate costs, both operationally and in terms of the human resources necessary to analyse shareholders' resolutions and casting vote decisions. Such costs can be significant, in particular for investors with large and diversified portfolios. Institutional investors, who hold approximately 60 per cent of listed equities globally – a share that increases to 70 per cent in the United States – constitute the primary users of such services. For mutual fund managers, specifically for passive funds, cost savings for voting activities are particularly significant, given that the primary competitive leverage for these instruments is the contained level of their expense ratio.

Institutional investors differ from individual investors in several ways since they exhibit: (i) a high participation in shareholders' meetings (82 per cent in 2022 in the United States; Broadridge, 2022); (ii) fiduciary duties towards clients; and (iii) the need to comply with specific rules on voting transparency, which require them to publish special disclosure reports.

Empirical evidence from a substantial cohort of institutional investors in the United States, overseeing assets worth over five trillion US dollars, indicated that approximately 95 per cent of the votes cast were in line with the advice provided by proxy advisors (Doyle, 2018). This trend, referred as robo-voting, is a source of concern. In the absence of shareholders' evaluations of the reliability and quality of the voting recommendations, proxy advisors can shift from consultants to decision-makers with no checks and balances and without suffering the economic consequences of their recommendations.

In light of this evidence, when evaluating the activities undertaken by proxy advisors, two critical aspects deserve attention: the risk of conflicts of interest and the adequacy of organizational structures. Conflicts of interest may arise from the possibility that these firms, in addition to the provision of voting advice to shareholders, also offer consulting services to the issuers themselves in various areas, such as corporate governance, remuneration policies and ESG policies (Tao, 2018).

Criticism concerning organizational adequacy stems from the fact that proxy advisors often assess a significant number of companies. The concern is that when an analyst is responsible for covering numerous companies, they may compromise the accuracy and reliability of voting recommendations (Copland *et al.*, 2018).

With the increasing role of proxy advisors and the potential risks linked to their operations, regulatory developments across different jurisdictions have been steered to cover their activities. In

Europe, the SHRD II introduces measures to guarantee transparency in the practices of proxy advisors. According to the Directive, Member States are required to ensure that proxy advisors publicly disclose the reference to the code of conduct that they apply, if any, and report on its application.

A clear and reasoned explanation is necessary if the advisor has chosen not to comply with any code of conduct or, despite having adopted a code of conduct, has deviated from any of its recommendations (‘comply-or-explain approach’, see section 4). Furthermore, all proxy advisors are required to disclose information annually at least on the methodologies employed to formulate recommendations, the sources of information accessed, the quality assurance procedures and the measures to mitigate conflicts of interest.

The European Securities and Markets Authority (ESMA) also monitors the risks associated with voting advisory services. Following a market analysis conducted in 2013, ESMA initially required the proxy advisors’ industry to adopt its own code of conduct. Subsequently, the Best Practice Principles (BPP) were defined in 2014, signed by five proxy advisory firms. In 2019, the Best Practice Principles Oversight Committee was formed, comprising a president, six representatives nominated by institutional investors, and two representatives nominated by listed companies. The Committee assesses proxy advisors’ compliance statements, prepares an annual report on the checks conducted, and can propose changes to the principles of conduct. According to ESMA and EBA’s joint Report issued in 2023, the current framework has proven to be robust overall; nonetheless, some issues need to be addressed, particularly concerning the management of conflicts of interest. Additionally, the Report proposes the introduction of a registration system for proxy advisors at the European level (ESMA, 2023).

Figure 1 below illustrates the services provided by proxy advisors to support the stewardship needs of institutional investors, while Figure 2 details the underlying activities of advisory and voting services.

Figure 1. Proxy advisors and investors

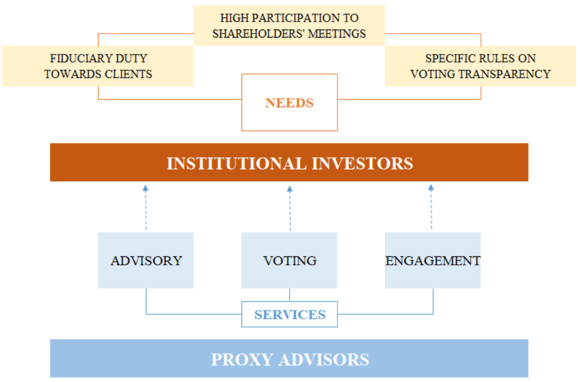
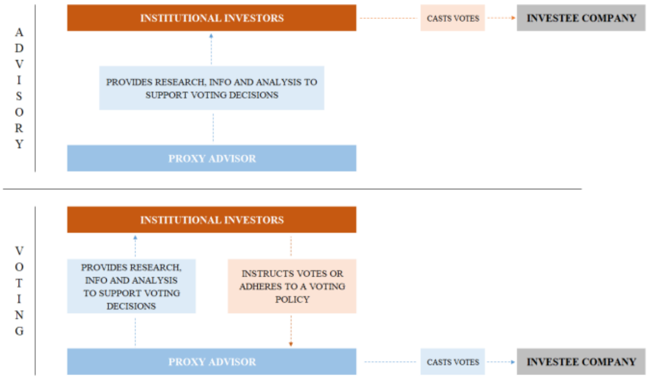


Figure 2. Stewardship services



6.1.1 Proxy advisory and voting

Investors can relieve the voting burden by relying on specialized service providers for advice and recommendations on shareholders' meeting resolutions and for casting votes. Voting recommendations are based on policies or guidelines developed by each provider. These policies are periodically updated and made available to the public. They consider items proposed at shareholders' meetings and explain the rationale behind voting recommendations based on the best corporate governance practices for the relevant market, the legal requirements and other relevant references. Proxy advisors typically offer investors different recommendations based on three types of voting policies:

1. A general policy tailored to the domicile jurisdiction of the issuer, covering typical corporate governance resolutions, such as board member appointments, compensation policies and mergers and acquisitions (M&A);
2. A thematic policy relating to specific issues, values or concerns, such as climate risk, sustainability principles or religious beliefs;
3. A fully customized policy crafted to align with the clients' voting policies or preferences.

The main issues addressed by the voting policies concern: (i) the appointment of directors and the composition of the board of directors (BoD);[22] (ii) the remuneration policies for the directors; (iii)

[22] The main factors considered are: gender diversity and skills heterogeneity within the Board of Directors; the duration of the mandate; the minimum number of independent directors; and the accumulation of roles.

the capital structure;[23] (iv) the corporate governance policies;[24] (v) the corporate financial reporting; and (vi) corporate actions, such as M&A, splits and corporate restructuring.

In the event that general and thematic voting policies apply to the same agenda, they may lead to partially divergent voting recommendations. For instance, in the context of climate risk, the main proxy advisors emphasize environmental considerations when voting on board composition, executive compensation and financial reporting. A negative assessment of the management's behaviour regarding climate risk could result in a vote against the appointment or the reconfirmation of responsible administrators or the proposed compensation package, while the same management may have been in principle supported under the general voting policy. Notably, most climate policies provide stricter recommendations for companies listed in the Climate Action 100+ initiative.

The main proxy advisors offer a wide range of voting policies that differ either by region (state and geographically-specific voting policies) or by the issues, values or concerns being addressed. Though there may be some differences, the voting policies by region address common corporate governance topics and, additionally, they can be alternatively tailored to the specific country, or in the absence of a country-specific focus, the policy relating to the geographical area applies to countries with harmonized regulations on the relevant topics (e.g. environmental, social and governance rules in the EU region).

Regarding the voting on governance deliberations, particular emphasis might be placed on the appointment and composition of the Board of Directors, as the independence of directors is involved. Moreover, the 'overboarding' phenomenon may lead to votes against the appointment of a director who holds more roles than specified in the policy. The voting policy concerning directors' remuneration might envisage, among other things, some provisions on (i) balancing the fixed and variable components of the compensation, (ii) defining maximum limits, and (iii) using predetermined and measurable performance indicators to determine bonuses, to be primarily linked to long-term performance and consistently with the company's strategy and sustainable growth.

Within thematic voting policies, guidelines may concern climate and ESG topics. A climate-related voting policy is suitable for investors who prioritize climate risk mitigation and transparency, and it generally recommends supporting shareholder initiatives on ESG themes, with the goal of creating value for shareholders and other stakeholders. Climate guidelines might recommend voting in favour of proposals that also seek: (i) greater transparency on the exposure and management of

[23] In assessing the capital structure, the existence of special categories of shares (such as preferred shares, multiple voting shares, or enhanced voting rights) is taken into account.

[24] These primarily refer to mergers and acquisitions, anti-takeover mechanisms, corporate actions and changes to the bylaws or articles of incorporation.

financial, physical or policy risks relating to climate change; and (ii) greater transparency on emission reduction actions and targets. Climate voting policies can be differentiated by the proxy advisor depending on corporate carbon emissions. If such a distinction is applied, voting recommendations can lead to an increasing level of scrutiny proportional to the company's emissions. For example, the companies considered as high polluters (or highly exposed to climate or environmental risks) have a greater need to commit to a carbon neutrality objective (net zero); for all other companies, setting emission reduction objectives could be deemed as adequate. Depending on the proxy advisor, the climate-related voting policy might also include specific recommendations concerning the 'Say on Climate' initiative: (i) supporting shareholder resolutions on climate-related topics, (ii) requiring a thorough analysis of decarbonisation strategies when transition plans are subject to vote, (iii) assessing the board of directors' responsiveness to stakeholder engagement and (iv) evaluating individual actions in transition plans, such as risk profiles relating to capital allocation, operational costs and net-zero targets. If deficiencies are detected in such items, the climate policy may advise against supporting a board's proposals.

Broader thematic voting policies on sustainability might also recommend voting against or abstaining from voting for an individual director or the entire board of directors if there are serious deficiencies relating to ESG factors. Specifically, this may apply if the following gaps are identified: (i) inadequacies in governance policies, or in the management and mitigation of ESG risks, (ii) failures in effectively addressing sustainability risks, (iii) insufficient sustainability disclosure in corporate documents or on website, (iv) misconduct of one or more board members and (v) executive compensation policies that fail to establish a correlation between compensation and social or environmental objectives.

The proxy advisor contract may also encompass services for voting at shareholders' meetings, whereby the shareholder's voting instructions are transmitted to the company through a specialized entity known as the proxy distribution agent. This transmission occurs provided that the proxy distribution agent has automated procedures with the intermediary where the shares are deposited. The advantage for the shareholder lies in the extreme simplification and automation of the voting process. Proxy voting servicers typically collect voting decisions through digital platforms, where clients, as shareholders, can access their investees' meeting agendas and analyse the proxy advisor's recommendations for each agenda item. If clients choose to deviate from a voting recommendation, they have the flexibility to do so. These recommendations are complemented by detailed reports that assess agenda items in light of the client's chosen voting policy. Once the voting instructions are approved on the proxy advisor's platform, all the subsequent steps are automated.

6.1.2 Engagement services

In addition to voting services, proxy advisors also provide engagement services, fostering dialogue on behalf of their customers as shareholders, offering both collective and customized approaches. As far as the former is concerned, a proxy advisor typically selects the companies to engage with on the basis of their relevance for a specific sustainability theme and their involvement in legal controversies. Customers of a proxy advisor are usually consulted through periodic questionnaires to elicit their ESG concerns and any issues deemed material for engagement. The proxy advisor conducts engagement with companies confidentially, without necessarily disclosing the identity of those shareholders adhering to the collective engagement initiative. Additionally, the different steps and outcomes of the engagement are tracked by the proxy advisor through a web platform and with regular reporting. Notably, under a collective engagement service, the shareholder cannot autonomously select companies and relevant topics.

The alternative engagement approach means subscribing to a customized engagement service, which is fully tailored to the client's needs and would come at a higher cost for investors. Under this approach, the proxy advisor assists the client in the various stages of engagement: from analysing and identifying topics and companies to verifying the engagement results.

Generally, voting and engagement platforms enable investors to generate summary reports relating to their portfolio activities, including statistics on the votes cast during shareholders' meetings and the progress of engagement initiatives.

6.2 PRI collaboration platform

The Principles for Responsible Investment (PRI) initiative provides a collaboration platform to support voting and dialogue activities with companies on ESG topics. Although both PRI signatory[25] and non- signatory investors can access the platform there are slight differences in the range of services available to each group. The initiative aims to facilitate joint action by investors and stakeholders on ESG themes, thereby enhancing their collective influence.

Collaborative initiatives can be initiated either by the PRI organization or by each individual signatory. In the latter case, the initiative must still receive approval from the PRI before being

[25] The PRI is an international network of institutional investors supported by the United Nations that promotes the adoption of six Principles for Responsible Investment aimed at favoring the incorporation of environmental, social and governance factors into investment practices. The PRI signatories commit to adopt and implement the Principles, and to maintain the status of signatories they have to meet three minimum requirements: (i) a formalized approach to responsible investment that covers more than 50 per cent of assets under management (AUM); (ii) a formal senior-level oversight and accountability for responsible investment; (iii) at least one person whose role includes having responsibility for implementing responsible investment.

published on the platform. Non-signatory users can access the information, and express interest in joining the stewardship initiatives. The platform offers investors five key features:

1. Dialogue initiatives: investors can participate in collective dialogues focused on sustainability objectives. For instance, they can advocate for pharmaceutical companies to improve access to medicines in low-income countries or encourage companies to validate their sustainability transition plans (PRI, 2023a). These initiatives involve actions such as email communication, sending formal letters to company executives, requesting meetings, intervening in shareholders' meetings and proposing resolutions.
2. Information sharing: investors can share experiences and best practices relating to sustainable investments. Thematic groups cover topics like sharing stewardship experiences among institutional investors, complying with obligations relating to the European taxonomy and understanding international regulations on sustainable investments.
3. Investor statements and letters: investors have the opportunity to endorse public statements expressing their positions on specific sustainability issues. Examples include supporting reduced plastic packaging (PRI, 2023b) and endorsing the European Commission's proposal to strengthen regulations against forced labour (PRI, 2023c). These statements can target both companies and governments/institutions.
4. Shareholder resolutions: investors can endorse resolutions to be presented during shareholders' meetings.
5. Consultations: investors can access a database of ongoing consultations by governments, organizations and institutions on sustainability topics.

The PRI also offers a valuable resource in the form of its resolutions database, comprising both ongoing and concluded shareholder resolutions. This database encompasses resolutions promoted directly on the collaboration platform as well as those relating to ESG themes from external sources. Signatories have the option to publicly disclose their voting intentions for each resolution. Moreover, once resolutions are finalized, the outcomes of shareholders' voting are reported.

Additionally, the collaboration platform serves as a nexus for investors and stakeholders, facilitating collaborations, exchanging information, sharing experiences and, overall, amplifying influence on ESG issues.

7. Legal implications of stewardship practices in Europe

This section briefly outlines the main legal implications of engagement and the exercise of voting rights, whose analysis is necessary for the overall assessment of the potential adoption of stewardship practices as outlined in the following sections.

7.1 Legal implications of engagement

Engagement entails dialogue with companies beyond general shareholder meetings and can be performed in different ways. This dialogue can be unilateral or bilateral, depending on whether only investors or also the corporate management express their positions. It can be conducted publicly or privately, depending on whether third parties have the chance to follow the dialogue or not. Selective bilateral dialogue between company executives and only some investors is not only generally considered feasible today, but also encouraged at a regulatory level.[26] When assessing the potential legal risks relating to engagement with European issuers, it is necessary to examine: (i) the implications of confidential communication and possible abuse of inside information (in the case of listed companies); and (ii) the compatibility of selective dialogue with the principle of equal treatment of shareholders (Hopt, 2017; Ringe, 2021). Regarding collective engagement, there is also the issue of potentially being considered as concerted action (Schneider, 2012).

7.1.1 Communication and abuse of inside information

The EU Regulation on Market Abuse (Reg. EU/596/2014, Market Abuse Regulation, MAR) defines inside information as ‘precise information that has not been made public, concerning, directly or indirectly, one or more issuers or one or more financial instruments and which, if made public, would be likely to have a significant effect on the prices of those financial instruments or related derivative financial instruments’ (Article 7, paragraph 1, letter a, MAR).

The fundamental elements of inside information are therefore: (a) the precision;[27] (b) the non-public nature; and (c) the ability to significantly influence the price of financial instruments. In general, and subject to specific conditions, issuers must disclose any inside information that concerns them as soon as possible to ensure that recipients have ‘rapid access and a comprehensive, accurate,

[26] See for example the provisions outlined in the SRD II (Articles 3-octies and 3-undecies). For a comprehensive overview, see Strampelli (2018).

[27] According to Article 7, paragraph 2 of the Market Abuse Regulation (MAR), information is considered precise if it refers to (i) existing circumstances or circumstances that can reasonably be expected to occur, or (ii) an event that has occurred or is reasonably expected to occur. Furthermore, the information must be sufficiently specific to allow conclusions about the potential effect of such circumstances or events on the prices of the financial instruments to which they relate.

and timely assessment' of the information (Article 17, MAR).[28] Within this framework, MAR prohibits the abuse and unlawful communication of inside information (Article 14, MAR).

Abuse occurs when a person in possession of inside information uses it to acquire or dispose of financial instruments to which that information relates, among other specific scenarios (Article 8, MAR). In the event of a legal entity possessing inside information, and where there is an acquisition or disposal of financial instruments relating to such information, no abuse is inferred if the company has implemented the measures identified by the Regulation (Article 9, MAR).[29]

Illicit communication occurs when a person in possession of inside information communicates it to another person (Article 10, MAR), except in cases where communication occurs 'during the normal course of employment, profession, or duties'. To limit the risk of inadvertently transmitting inside information during extra-meeting dialogue, the main stewardship codes require, depending on the circumstances, that: (i) stewardship policies include guidelines on managing issues relating to inside information (Principle 1, EFAMA, 2018); and (ii) in the context of monitoring activities, asset management companies urge listed issuers and their advisors not to communicate market-sensitive information without their prior consent. Additional measures have been identified by the doctrine and engagement protocols: (i) avoiding dialogue immediately before the publication of periodic financial reports to prevent the exchange, even if unintentional, of information about financial results; (ii) predefining discussion topics to ensure they are not privileged; (iii) ensuring a legal counsel is present at meetings between issuer executives and shareholders; (iv) signing a confidentiality agreement; and (v) formalizing an organized procedure that expressly binds all the issuer's representatives participating in the extra-assembly dialogue not to disclose sensitive or confidential information discussed during such meetings. Nonetheless, the risk of inadvertently gaining access to inside information during dialogue cannot be entirely excluded, thus potentially violating prohibitions on the abuse and communication of such information (North, 2009; Mosca, 2018a; Strampelli, 2018).

However, there are some mitigation instruments in addition to the aforementioned measures: (i) adopting organizational precautions so that any inside information is not used in investment decisions (Article 9, paragraph 1, MAR); (ii) ensuring compliance with confidentiality obligations

[28] On 24 April 2024, the European Parliament adopted at the first reading the Commission proposal which amends some European Regulations regarding the Capital Union Market, among which there is also the MAR (COM (2022) 0762). Since it is still a draft, the analysis will be based on the text currently in force.

[29] The legal entity must demonstrate that: (a) it has established, implemented and maintained internal procedures to ensure that all individuals involved in making trading decisions did not possess inside information regarding the financial instruments subject to those transactions; and (b) it did not encourage, recommend, induce or otherwise influence the individual who acquired or disposed of financial instruments on behalf of the legal entity with regard to the information concerned (Article 9, MAR).

and specific behavioural rules by employees involved in engagement; and (iii) limiting the scope of extra-meeting dialogue to topics that inherently reduce the risk of transmitting inside information.

Subject to prohibitions on unlawful communication and the abuse of inside information, the MAR does not prohibit dialogue between shareholders and issuer executives (Alvaro *et al.*, 2019; Balp and Strampelli, 2022); on the contrary, it recognizes that it is necessary for the effective functioning of markets (Consideration, 19 MAR).

7.1.2 Selective dialogue and equal treatment

Selective dialogue does not present any significant issue regarding the compatibility with the EU principle of equal treatment of shareholders.[30] The latter exclusively postulates a principle of relative equality, namely among all shareholders in identical conditions: equality refers to shares of the same category and not to shareholders, whose weight varies according to their shareholding (Maugeri, 2021; Strampelli, 2018). The principle of equitable treatment of shareholders is found to serve more as a guideline for directors' conduct rather than as an absolute constraint on selective dialogues (Mosca, 2018b).

The limitation of the equal treatment principle is considered legitimate if the issuer has a specific corporate interest (Hopt, 2017; Gilotta, 2022), such as establishing a mutually collaborative relationship with institutional investors (Balp and Strampelli, 2022; Mosca, 2018b), also incentivized by European regulations (Articles 3-octies and 3-undecies of the Shareholder Rights Directive II).

Part of the doctrine has also highlighted that preferential treatment of institutional investors serves the interests of small investors that the equal treatment principle aims to protect, as the latter mainly invest through the former (Strampelli, 2018). Therefore, the obligation to respect equal treatment is directed solely at issuers, so that no legal challenge could be raised against investors. Reputation risks also appear remote, especially if engagement activities are conducted to promote the pursuit of sustainability goals endorsed at international and European levels.

7.1.3 Concerted action

Joint action with other investors can represent an effective response to the main issue of engagement, namely free-riding. Nonetheless, empirical analysis has demonstrated that institutional investors regard regulations on concerted action as the fourth most significant disincentive for

[30] The main regulatory sources explicitly establishing the principle of equal treatment are: i) Article 65 of Directive 2001/34/EC; and ii) Article 17 of Directive 2004/109/EC, transposed into Italian law by Article 92, paragraph 1, of the Consolidated Financial Act (CFA), which states that 'listed issuers and listed issuers having Italy as their home Member State must ensure equal treatment for all holders of listed financial instruments who are in identical circumstances".

engagement (McCahery *et al.*, 2016). This legal constraint has been highlighted by both academic literature (Schneider, 2012; Ghetti, 2014; Alvaro *et al.*, 2019) and stewardship codes. The latter, in particular, while favouring collective engagement, urges investors to thoroughly analyse the takeover regulations of the issuer's home country in advance (ICGN Code; EFAMA Code). At the European level, the Takeover Bids Directive (Directive 2004/25/EC, hereinafter 'TBD') defines 'acting in concert' as 'natural or legal persons who cooperate with the offeror or the offeree company on the basis of an agreement, either express or tacit, either oral or written, aimed either at acquiring control of the offeree company or at frustrating the successful outcome of a bid' (Article 2, TBD). The consequence of the potential qualification of coordination among investors as concerted action, is the formation of a joint liability for the participants ('concert party') to launch a mandatory takeover bid upon reaching or exceeding the ownership thresholds that trigger the presumption of the acquisition of control.

The TBD has been transposed into national laws in two different ways (Taleska, 2018). On the one hand, there are EU Member States that simultaneously require: (i) the specific purpose for acquiring control underlying the formation of the concert party and (ii) an additional share acquisition subsequent to the formation of a concert party. On the other hand, there are EU Member States that have implemented the definition of 'acting in concert' by focusing on reaching an agreement to adopt a lasting common stance towards the management, without requiring prior share acquisitions for the mandatory takeover bid to be applicable. Furthermore, the relevant ownership thresholds to make the takeover bid obligation applicable vary across Member States.

Despite the Transparency Directive's primary goal of ensuring greater protection for minority shareholders in the event of a change in corporate control, due to a 'heterogenesis of ends', the regulation of concerted actions can pose a barrier to institutional investors' joint exercise of corporate rights. To address this issue and to compensate for the lack of full harmonization across EU Member States,[31] ESMA has issued a public statement clarifying which operations are not deemed to be concerted actions *per se* (ESMA, 2014). However, this is still insufficient to ensure a level playing field. ESMA intervened after some national regulatory authorities (such as Consob in Italy and BaFin in Germany) had already supplemented the relevant national regulatory frameworks with similar lists, which may diverge from ESMA's. Therefore, ESMA itself clarifies that the decision will ultimately

[31] In addition to the lack of a full harmonization, another issue derives from the fact that the Transparency Directive (Directive 2004/109/EC) and the Transparency II Directive (Directive 2013/50/EU) provide another definition of concerted action, not entirely consistent with the one provided by the TBD. The European Securities Markets Expert Group (ESME) and the European Commission have highlighted the need for a reform to provide a unified and more detailed definition of acting in concert; however, these requests have remained unanswered to date (ESME, 2008; EC, 2010; EC, 2011).

rest with national regulatory authorities, which will have to decide 'each case on the basis of its own particular facts' (ESMA 2014).[32] Thus, it is necessary to analyse the notion of concerted action prevailing in the State where the issuer is headquartered on a case-by-case basis.

7.2 Legal implications of voting

According to the prevailing belief, especially among institutional investors, voting is a weak stewardship tool when considered individually (Gilotta, 2022), as it simplifies the assessment of different demands and neglects the benefits of debate. When accompanied by engagement, however, voting can enhance effectiveness, as it can ensure the positive results achieved through extra-meeting dialogue or, conversely, manifest dissent with the board of directors' actions or dissatisfaction with its response to requests through engagement. In stewardship codes, voting against resolutions of the board of directors is also seen as an escalation tool.[33] From a legal standpoint, voting constitutes a shareholder's administrative right, and therefore its exercise does not generally entail legal risks. Risks are therefore only reputational in nature and also depend on the transparency obligations imposed by the national law of each issuer, particularly concerning the publication of shareholder meeting minutes on the websites of listed companies.

Regarding the EU, Directive 2007/36/EC (Shareholders' Rights Directive, SHDR) grants Member States significant discretion. It prescribes publication on the website only of aggregated data such as: (i) the number of shares for which valid votes have been cast; (ii) the proportion of capital represented by these votes; (iii) the total number of votes cast validly; (iv) the number of votes for and against the resolution; and (v) if applicable, the number of abstentions (Article 14, Directive 2007/36/EC). EU Member States can further streamline the publication content, allowing issuers to publish only the elements necessary to ensure that the determination has been approved validly, provided that no shareholder requests a full report.[34] Publication must occur within a deadline set by each State, in any case not exceeding fifteen days from the shareholder meeting. The majority of EU States have adopted the minimum publication obligations: only issuers headquartered in France, Germany, the Netherlands and Spain publish aggregated shareholder meeting results.[35]

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[32] See Appendix II for the Italian Takeover Bid Regulation.

[33] For example, the stewardship code of Assogestioni recommends that before voting against a significant management resolution of a company, the management company should consider the possibility of engaging with the issuer (Principle 5).

[34] Among the jurisdictions examined, only Germany has exercised this option (Paragraph 130 of the Aktiengesetz of September 6, 1965).

[35] France: Article R. 22-10-30 of the Commercial Code; Germany: Paragraph 130 of the Aktiengesetz of September 6, 1965 and Article 1, paragraph 19, Act Implementing the Shareholders' Rights Directive (ARUG); Netherlands: Article 120, paragraph 5, Civil Code; Spain: Article 525 of the Capital Companies Law.

The transparency obligations for listed companies are greater in Italy: in addition to publishing the results of meetings in aggregated form within five days of the shareholder meeting, the full minutes must also be published within thirty days (Article 125-quater of the Consolidated Law on Finance and Article 85 of the Issuers Regulation). The minutes must include, among other things: (a) the list of participants by name or by proxy; (b) the names of those who voted for, against, abstained, or left before a vote and the number of shares held; and (c) a summary of interventions in the shareholders' meeting with the names of those who intervened, the responses provided, and any comment statements. In other words, in Italy, the votes cast by shareholders and the ways in which they have exercised their voting rights are made public by the listed company, while this detailed information cannot be inferred from corporate publications in other major EU jurisdictions.

From the investors' perspective, stewardship codes require adherents to make the stewardship policy public and with it, the criteria adopted ex ante for voting and the ways in which the vote has been exercised concretely. The provision of codes addresses the need to be accountable to the third parties on behalf of whom the assets are managed. The greater transparency imposed on Italian issuers, far from representing a reputational risk for the investor, can constitute an effective tool to show the public how commitment to sustainability issues is carried out, as well as the consistency between the voting policy published and the positions actually supported at the shareholders' meeting.

8. Open issues

Drawing on the previous analyses, this section explores the main issues of stewardship that deserve attention. Most of these issues concern both asset managers and central banks. One of them, however, is specific and prominent for central banks. It concerns the consistency between central banks' mandates and their involvement in potentially contentious decisions from a political standpoint. Stewardship activities may in fact be prone to opposite criticisms.

On climate change, in particular, some deem that is not for central banks to support policies mitigating it, while others, on the contrary, believe central banks should leverage more forcefully the significant financial resources they may deploy to pursue climate change mitigation and other goals worthy of the interest of the public.

On the one hand, critics of an involvement of central banks in policies contrasting climate change, including through stewardship, argue that these institutions risk to undermine their credibility and legitimacy by stepping beyond their core mandates of price and financial stability (McPhilemy and Moschella, *op. cit.*). Trust in central banks depends on credibility and competence in their core tasks, especially in periods of economic uncertainty. Broadening mandates to address socially worthy goals may not only dilute policy focus and compromise effectiveness, but also erode public trust by exposing central banks to political interference and perceptions of partiality (Ehrmann, 2024). Central bank operations that are actively geared towards supporting policies that resist climate change could create market distortionary effects and run counter to the principles of proportionality, objectivity, and non-discrimination (Tamez et al., 2024).

On the other hand, proponents of a proactive stance of central banks in climate change policies, argue that climate-related physical and transition risks fall squarely within the existing responsibilities of central banks, particularly because these risks have the potential of producing severe disruptions to price and financial stability (NGFS, 2019). Well-designed legal frameworks can allow central banks to act on climate issues without exceeding their mandates, provided actions are grounded in maintaining financial and price stability (Dikau and Volz, 2021).

Several other issues are worth considering for all institutional investors. As for the wide range of activities that a stewardship strategy may encompass, as outlined in Table 1, its primary focus is on defining voting and engagement policies aimed at ensuring the transparency, objectivity and predictability of the actions taken, delivering value to the investor. While such policies can act to limit reputational risks linked to their involvement in the affairs of companies whose securities they hold, somehow their disclosure might lead to external criticisms regarding the approach and adequacy of the level of engagement.

As regards the voting practice, assessing meeting resolutions requires analytical skills and operational activities that entail significant costs, especially for large and geographically diversified portfolios. Investors may opt to reduce such expenses by turning to proxy advisors. Voting may also pose concerns on controversies stemming from the positions taken in shareholders' meetings, particularly in jurisdictions requiring the publication of detailed voting reports. Such concerns can arise from: (i) involvement in disputes among shareholders; (ii) public debates on votes cast; and (iii) any vote that conflicts with the voting policy. A safeguard against such concerns might be the publication of a voting policy, making the voting stance predictable to the management and clarifying to the public that the vote is based on objective and predetermined criteria. Moreover, setting up a voting policy can underline the investor's independence in defining its own criteria and voting guidelines, facilitating their implementation through directly cast votes or via proxy advisors. Furthermore, if an investor perceives specific concerns from participating in a specific meeting, it may opt not to attend.

However, the publication of a voting policy could raise expectations from various stakeholders regarding the investor's commitment to systematically implement such voting practice, which have to be carefully managed. Each voting decision can entail the consideration of different corporate-specific features, such as jurisdictional requirements, sector specificities, technological and customer constraints as well as corporate strategy. Institutional investors need to take these complexities into account when making their voting decisions, which may challenge their ability to adhere to the voting behaviour outlined in the voting policy. Less criticism could be raised for a formal engagement policy, given the less prescriptive nature of the guidelines and the confidentiality of the dialogue.

A critical aspect is the legal risk associated with acquiring inside information and the potential for abuse or unlawful communication of this information, which demands careful management (Section 7). Another relevant aspect pertains to the costs, in terms of time, resources and skills. Indeed, an effective dialogue requires an adequate mastery of both the engagement topics and the enterprise involved. When faced with resource constraints, alternative approaches may be considered, such as focusing on a narrower scope of companies, delegating the activity to an external consultant, or participating in collective engagement initiatives.

Proxy advisors offering engagement services typically maintain ongoing dialogue initiatives and provide investors with the opportunity to participate. In cases of intermediated engagement, investors have limited influence over the selection of companies, topics and overall engagement strategy, including interaction channels, exerting pressure, and escalation measures. Typically, companies are identified based on: (a) the aggregate shareholdings held by all client investors and (b) the exposure to ESG issues subject to engagement. Alternatively, investors can request customized engagement services at a higher cost. Provided that the proxy advisor meets the investor needs in terms of resources and knowledge, the main drawback is the lack of control over the engagement strategy, unless a full customization is demanded.

Collaborative engagement initiatives pursue predefined objectives, such as stimulating companies to improve disclosure on climate risks or commitments toward decarbonisation targets, gathering investors with similar interest and concerns. Typically, for each target company, an investor takes on a leading role in the dialogue, allowing other participants to adjust their level of involvement based on available resources and expertise. The main challenges of such initiatives include: (i) the need to share interests and targets (i.e. topics and issuers); (ii) coordination difficulties; (iii) opportunistic behaviour (free riding) by investors who do not actively contribute to engagement and maintain passive participation; (iv) reputational risks if the initiative gains media visibility; and (v) legal risks, e.g. if the collaboration is classified as a concerted action, or if it leads to a conflict with government policies.

9. Conclusions

This work surveys the use of stewardship practices by asset managers and central banks. Our analysis of a sample of asset managers, including through interviews with their stewardship managers, and central banks, based on their public disclosures, reveals heterogeneous adoption and implementation of stewardship policies.

Asset managers universally regard voting as the single strongest expression of stewardship. Typically, they draw their own voting policy, complemented by specific criteria tailored to local regulations. Based on asset managers' data, more than 90 per cent of votes conform to predetermined voting policies. As to engagement, they deem it essential that the various tools available are used in an integrated way to enhance its impact.

As to central banks, voting is the stewardship instrument more frequently used. While it is considered to provide clear feedback on the corporate strategy, including drawing attention to sustainability, and to align with best corporate governance practices, it is costly, since assessing meetings' resolutions requires specific skills and activities. Engagement is less used by central banks. It is expensive in terms of resource requirements and implementation. Most importantly, the disclosure of this activity may lead to external scrutiny and possible criticism, and it entails significant legal risks associated with confidential information gathered within engagement activities, which can only attenuated by specific mitigation measures.

Overall, this study underscores the importance of clearly articulating the objectives that an institutional investor may pursue through a stewardship policy, and of carefully assessing both the expected benefits and costs from its implementation. A 'one size fits all' approach to stewardship appears inadequate to meet the diverse goals of individual investors, given the potentially different evaluations of the trade-offs involved. For a central bank in particular, it is essential to ensure that stewardship activities align with its mandate and to avoid engagement in politically sensitive issues.

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Appendix 1. Self-regulation codes and engagement protocols in Italy

In Italy, the transposition of SRD II required an update of the Corporate Governance Code for issuers. The Corporate Governance Code adopted by Borsa Italiana in 2020 emphasizes the role of dialogue not only with shareholders, but also with the relevant stakeholders of the company, not included in the 2018 version. The introduction of the recommendation regarding the adoption of the dialogue policy by issuers is also new (Article 1, Recommendation no. 3):[36] the task of adopting a policy for managing dialogue with shareholders 'also taking into account the engagement policies adopted by institutional investors and asset managers' is attributed to the administrative body. Another novelty compared with the previous version lies in the lessening of the centrality of the general meeting as the privileged venue for dialogue with shareholders (see Commentary on Article 9, CGC, 2018).[37] The 2020 Corporate Governance Code merely recommends that the administrative body promote dialogue in the most appropriate forms, including extra-meeting ones.

Regarding institutional investors, the Assogestioni Stewardship Code (Italian Stewardship Principles for the exercise of administrative and voting rights in listed companies), developed in 2016 and inspired by the EFAMA Code (EFAMA, 2011), is particularly important. It is primarily addressed to portfolio managers, although the potential application of the Code is also open to institutional investors who entrust asset management to third parties and to issuers, who are encouraged to establish dialogue.[38]

Regarding Italy, the I-SDX Protocol (Italian Shareholder-Director Exchange, I-SDX) adopted in 2022 by Assogestioni (Assogestioni, 2022) and the Principles for the dialogue of listed companies with investors of Assonime (Assonime, 2021) are the pillars of self-regulation on this topic.

The Assogestioni I-SDX Protocol addresses investors and issuing companies; its adoption - on a voluntary basis - is inspired by the principles of flexibility and proportionality.[39] The Protocol

[36] In 2022, 32 companies with ordinary shares listed on the FTSE MIB ('FTSE MIB companies') adopted a shareholder engagement policy (Consob, 2022).

[37]The Commentary on Article 9 of the 2018 Corporate Governance Code states: "The Committee believes that it is in the interest of issuers to establish an ongoing dialogue with the majority of shareholders and, in particular, with institutional investors, in compliance with the rules and procedures governing the disclosure of privileged information. In this context, the shareholders' meeting remains an important opportunity for dialogue between shareholders and directors". The centrality of the shareholders' meeting in the 2018 Corporate Governance Code is also evident from the detailed recommendations on the methods of convening and conducting shareholder meetings contained therein (CGC, 2018).

[38] Compared with the EFAMA Code, a novelty lies in the recommendation regarding monitoring activity, which, in certain circumstances, can be considered ensured solely by the presence of an adequate number of independent members in corporate bodies. Another peculiarity of the Assogestioni Code compared with the others examined lies in the call for caution in collaborating with other institutional investors; this orientation aims to prevent such synergy from being qualified as concerted action. Equally unique is the centrality attributed to the balance between the interest in disclosing information on external governance and confidentiality, considered fundamental for achieving a positive result.

[39]Adherents may deviate from the Principles based on the size and organizational characteristics of the involved parties, as well as on their governance model and previous experience in various forms of engagement.

envisages the two different modes of engagement (one-way and two-way). The one-way type is recommended in three circumstances, namely when: (a) investors intend to inform issuers about their view on strategic operations or any relevant issues still under evaluation by the board of directors (for example, the adoption of an industrial plan);[40] (b) directors intend to gather market feedback to provide any feedback; and (c) a blackout period is in place. The two-way mode is considered preferable 'when the main objective of the meeting is an effective and immediate exchange of opinions between investors and directors'.

It is essential in both cases that no sensitive information is disclosed, i.e. information: (i) that is price-sensitive; (ii) for which a relevant information list has been compiled;[41] (iii) that is inside or potentially qualifyies as such; and (iv) that is confidential by nature or due to contractual agreements.

The Protocol recommends that issuers and investors adopt a dialogue policy that regulates: (i) the themes to be discussed; (ii) how requests can be transmitted (and the subject or office responsible for receiving them, or 'contact point'); (iii) the criteria for identifying the subjects to be involved; (iv) internal reporting; (v) meeting preparation methods; and (vi) the engagement modes that they are willing to accept.[42] The most frequently considered issues in the dialogue are: (i) policies on transparency and corporate communication to the market and their implementation; (ii) the issuer's corporate governance system; (iii) nomination processes and the remuneration policy of corporate bodies; (iv) the content of any published industrial plan and the issuer's strategies, also from the perspective of sustainability; (v) the internal control system and risk management; (vi) ESG policies; (vii) transactions with related parties; (viii) dividend policies and buy-back programmes; (ix) proposals for statutory changes; (x) defences in the event of public takeover bids; and (xi) proposals for statutory changes (Principle 2).

The Protocol considers engagement between shareholders and one or more members of the administrative body as a complementary and not a substitutive measure for other forms of dialogue conducted by the function normally responsible for managing investor relations.[43] It follows the need

[40] This hypothesis has been criticized by Assonime, which has emphasized the delicacy of a meeting - even in a one-way mode - on important issues not yet deliberated by the Board of Directors and, as such, at least potentially price sensitive (Assonime, 2022).

[41] Issuers are required to identify and include in the relevant information list any information concerning them and the names of the individuals who have become aware of it. Information that may become inside information at a later date is considered relevant (Consob, 2017).

[42] Individual or collective; one-way or two-way (Principle 5). Twenty FTSE MIB companies have included both individual and collective engagement in their dialogue policy (Consob, 2022).

[43] Among other forms of engagement, the I-SDX Protocol explicitly mentions engagement through shareholder meetings, video conferences with analysts and investors managed by the investor relations function, and direct communication channels via websites, emails, or phone contacts.

- highlighted by the Protocol - for adequate coordination between the different engagement channels, as well as for congruent information flows between all corporate figures involved.[44]

Compared with the Assogestioni Protocol, the Assonime Principles feature the following distinctive aspects. First, the dialogue policy may provide for different procedures depending on the different types of shareholders (current and potential) and for the possible involvement of proxy advisors and other categories of stakeholders (including bondholders, financial analysts, rating agencies and press bodies), provided that no discrimination is perpetrated among shareholders. Secondly, the system recommended by Assonime provides for the centralization of the concrete management of the dialogue to the administrators with the power of representation and assigns a monitoring role to the Board of Directors; in line with this choice, the dialogue cannot be activated by individual directors, nor can shareholders advance engagement requests to subjects other than those identified in the issuer's policy (competent administrators and the contact point). As part of the Assonime Principles, dialogue is conceived as an exchange of opinions between the issuer and shareholders, therefore in a bilateral sense (two-way); it is considered possible for the issuer to also find other ways to acquire the shareholders' viewpoint; therefore, there may also be room for unilateral dialogue.[45]

[44] Coordination is often ensured by assigning the role of contact point directly to the investor relations office: this choice is found in the engagement policies of twenty-eight FTSE MIB companies.
[45] This has been acknowledged by Assonime itself (see Assonime's Observatory on Investor Dialogue Policies, 7/2022).

Appendix 2: The takeover bid rule in Italy

Italian legislation defines ‘persons acting in concert’ as ‘subjects who cooperate with each other based on an agreement, express or implied, verbal or written, even if invalid or ineffective, aimed at acquiring, maintaining or strengthening control of the issuing company or countering the objectives of a public takeover bid or exchange offer’ (Article 101-bis, paragraph 4, Consolidated Law on Finance). Some cases where concerted action is presumed are outlined, including participation in a shareholder agreement, even if it is null (Article 101-bis, paragraph 4-bis, Consolidated Law on Finance).[46]

The risk that certain forms of collective engagement are classified as concerted action seems tempered by the secondary legislation issued by Consob, implementing Article 101-bis of the Consolidated Law on Finance. This legislation provides a detailed list of cooperation cases among multiple parties that do not constitute concerted actions per se; these include:

- coordination among shareholders to (i) request the convocation of a shareholders’ meeting; (ii) challenge invalid resolutions at the shareholders’ meeting and by the board of directors; (iii) exercise liability actions against the company’s administrators and the parent company; (iv) report suspicions of serious irregularities to the audit committee and the court; and (v) for listed companies, the right to request agenda integration, ask questions at the shareholders’ meeting, and challenge the approval resolution for the financial statements;

- agreements for the presentation of lists for the election of corporate bodies under certain conditions;

- cooperation among shareholders to oppose the approval of an extraordinary shareholder meeting resolution or an ordinary shareholder meeting resolution in the interests of one or more board members (e.g. those relating to remuneration policies, and to authorizations required for transactions with related parties and for directors to engage in activities competing with those of the company);

- cooperation among shareholders to: (i) promote the approval of a shareholder meeting resolution concerning the liability of corporate body members or a proposal on the shareholders’ agenda; and (ii) consolidate votes on a minority list.

[46] The risk that collective engagement may be classified as an act of concert party stems from the possibility that investors could be regarded as participants in a ‘null and void’ shareholders' agreement.

By leveraging these provisions, it has been argued that ‘in Italy at least, it does not seem that the concert discipline poses a serious obstacle to institutional investors fulfilling their engagement duties’ (Alvaro *et al.*, 2019).

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