

# Code of Best Practices of Corporate Governance

5<sup>th</sup> Edition

**IBGC** | Instituto Brasileiro de  
Governança Corporativa

# Code of Best Practices of Corporate Governance

5<sup>th</sup> Edition



# **Brazilian Institute of Corporate Governance (IBGC)**

Established on November 27, 1995, the IBGC – a national nonprofit association – is an organization dedicated entirely to promoting corporate governance in Brazil and, as the main supporter of practices and discussions on the topic in the country, has achieved national and international recognition.

## **Purpose**

To be a reference in corporate governance, contributing to the sustainable performance of organizations and influencing our society's agents towards greater transparency, justice and responsibility.

## **Values**

### **Proactivity**

Commitment towards training of agents and the development and dissemination of best practices.

### **Diversity**

Valuing and encouraging a multiplicity of ideas and opinions.

### **Independence**

Sovereignty of principles, care for the image and impartiality when dealing with any interest groups.

### **Coherence**

Among corporate governance initiatives and principles, namely, Transparency, Fairness, Accountability and Corporate Responsibility.

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## **Credits**

This publication is the result of a project developed and implemented by the Code of Best Practices of Corporate Governance Review Commission. Its content does not reflect the individual views of those who participated in its preparation, but rather the understanding of the IBGC.

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Since the release of the 4th edition of the IBGC *Code of Best Practices of Corporate Governance* (Code) in 2009, several efforts aimed at the economic recovery and continuous improvement of the business environment – such as the Dodd-Frank Act, the new edition of the G-20/OECD Principles of Corporate Governance, and the development of integrated corporate reporting templates, which extends and integrates the dimension of economic, social and environmental information provided by companies – have led to more widespread reflection on governance standards of organizations around the world. In Brazil, this debate has been compounded by the scandals involving public and private actors.

The responsibility of the different governance actors<sup>1</sup> is increasingly evident in light of issues such as sustainability, corruption, fraud, abuse in short-term incentives for executives and investors, and the complexity and multiplicity of relationships that organizations established with a wide range of audiences.

In this sense, this 5th edition of the Code adopts an approach that encourages the conscious and effective use of governance tools, focusing on the essence of good practice. This approach is now less prescriptive, having expanded to encompass several company stakeholders<sup>2</sup> and to reinforce the rationale of good governance practices and explaining the importance of ethics in business.

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<sup>1</sup> The practices of this Code apply to governance actors, i.e., individuals and entities involved in the governance system, such as: shareholders, administrators, auditors, board of directors, fiscal council, etc.

<sup>2</sup> Any person, entity or system that affects or is affected by the activities of an organization.

In addition, more effort was devoted to address the Code's objectives and limitations. Before referring to the actual best practices, readers are strongly advised to read the IBGC's definition of corporate governance and its basic governance principles. The new section that addresses the premises of this Code is also essential to a proper understanding of the content related to the best practices themselves.

This edition is the result of a process that began in 2014 and that was based on suggestions received from the IBGC commissions on the previous edition. Later that year, it gathered steam as the Review Commission was established, with the participation of 41 individuals with experience in various types of businesses and organizations. The Commissions was divided into three subgroups for discussion of the chapters, and one for the introduction<sup>3</sup>.

This document was drafted after a series of discussions and public comments, divided into three stages – initial public comments (2014), restricted audience and final public hearing (2015), and a period of debate featuring the board of directors of the IBGC and the coordinators of the subgroups and managers of the IBGC. The result of these actions resulted in more than 900 contributions from different stakeholders in Brazil and abroad. IBGC would like to thank everyone who took the time to analyze the document and sent relevant and valuable comments and suggestions.

Thus, after a year and a half of intense work, the IBGC is proud to present this document to society, in the hope that its changes and innovations fulfill the role of making the Brazilian organizational and institutional environment stronger and fairer, as well as more accountable and transparent. We hope that the recommendations contained herein will contribute to the creation of better governance systems within organizations, with a view to improving their performance and longevity.

This Code was developed primarily to companies. However, the word “organization” appears frequently in the text, reflecting an effort to expand the document's scope and make it more adaptable to other types of organizations, such as the third sector, cooperatives, state-owned enterprises (both fully-owned by the state and mixed-capital enterprises), government agencies, and others. It must be noted that each type of organization has its own peculiarities when it comes to governance.

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<sup>3</sup> Foreword, premises, definitions and basic principles of corporate governance.

## I Premises of the Code

### 1. Changes to the Business Environment

In recent years, without diminishing the importance of shareholders and administrators, governance has expanded its focus to other stakeholders, demanding that corporate governance agents invest a greater level of care in their decision-making process. More and more, social and environmental challenges at the global, regional, and local levels are part of the context of organizations' activities, affecting their strategy and value chain, with impacts on their long-term reputation and economic value. Climate change, an increase in social inequality and technological innovations, among other factors, have imposed changes to the life of organizations.

These circumstances create the need for a broader perspective on the role of organizations and their impact on society and on the environment and vice versa. The concept of corporate citizenship depends on the premise that a company is a person who must act responsibly. The fact is that, in order to operate, a company needs more than just the licenses required by law – it needs the endorsement of a range of stakeholders that affect or are affected by its activities. Governance agents should therefore consider the aspirations and the way society in general understands and absorbs the positive



and negative effects – the externalities<sup>4</sup>– of how organizations conduct themselves, and respond accordingly.

In this new environment, ethics become increasingly indispensable. Honesty, integrity, responsibility, independence, long-term vision and genuine concern with the impacts caused by their activities are essential to the lasting success of organizations.

## 2. Decision-Making

In the exercise of corporate governance, the issues are often subjective and ambiguous. That means that governance actors must develop strong evaluation, reasoning, and judgment abilities. If organizations are to take more balanced, reflective and better informed decisions, it is imperative that they account for the risk profile<sup>5</sup>, comprehension of the roles of governance actors and use of ethical criteria.

The decision-making process must consider both the degree of exposure to risk, to be defined by the organization, and the prudence required, avoiding extremes for either factor.

Major decisions must be adequately substantiated, recorded, and subject to verification by the appropriate stakeholders.

The ethical criteria are based on principles and values that, in turn, are elements of the very identity of the organization. It is crucial that governance actors have a clear sense of their identity, so that they may adequately exercise their roles, aligning strategy with ethics.

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<sup>4</sup> Effects of a transaction involving third parties who have not consented to nor participated in said transactions, and which are not fully reflected in the prices. Externalities can be positive or negative.

<sup>5</sup> Risk appetite is associated with the level of risk that the organization may accept when carrying out its strategy (an activity related to prior risk analysis); as for risk tolerance, it refers to the acceptable level of variability in the achievement of established goals and objectives (an activity related to risk monitoring). The combination of these two components defines the organization's risk profile with regard to the risk exposure that it chooses to accept.

## **2.1 Organizational Identity and Ethical Deliberation**

The organizational identity can be understood as a combination of their reason for being, where it wants to go, its priorities, and how decisions are made<sup>6</sup>.

An ethical deliberation is that which considers, in any decision-making process, both the organizational identity and the impact of decisions on the various stakeholders, society in general and the environment, aimed at the common good.

The constant practice of ethical deliberation increases consistency between ideas, words and actions, and, as a consequence, strengthens the identity and reputation of the organization, ultimately reflecting on its culture. Good reputation helps to reduce both transaction and capital costs, helping to preserve and create economic value for the organization.

Careful consideration towards the organizational identity is fundamental to designing the organization's governance system, including drafting a code of conduct upon which the compliance system is based.

## **2.2 Role of Governance Actors**

Governance actors have an important role in strengthening and disseminating the organization's purpose, principles, and values. The leadership and commitment of administrators and other executives are determining factors for the formation of an ethical environment.

Each governance actor, before taking over one or more roles in the governance system, should look carefully at the rights, duties, and responsibilities that it entails, in order to act independently, diligently and proactively. The same care must be taken by those who appoint and elect these actors.

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<sup>6</sup> Also known as an organization's purpose, mission, vision, values, and principles.

It is paramount that governance actors implement communication strategies and training programs aimed at informing an organization's stakeholders of its policies, procedures, standards and practices that are based on the code of conduct. In addition to these measures, there should be formal processes and indicators in place, which will facilitate monitoring the standards of conduct adopted, contributing to an effective engagement of senior management in the organization's compliance mechanisms. This will enable deviations to be avoided or proactively identified, corrected, and, eventually, punished.

### 3. Use of the Code

This code is not intended as a strict model of good governance practices, but rather as a reference resource for reflection and application on a case-by-case basis, always taking into account the regulatory framework (compulsory and optional) to which the organization is submitted. It is not a set of practices to be adopted exhaustively and mechanically.

Dividing the text into "principles" and "practices" is aimed at encouraging reflection of the practices to be adopted, so that such practices can adapt to the organization's structure, reality and where it stands in its life cycle. The motivations to adopt or not a specific practice should be clear and well-reasoned by decision-makers, thus enabling stakeholders to evaluate them.

It is worth emphasizing the importance of the basic principles of good corporate governance, as they are the basis for the principles and practices of this Code, and apply to any type of organization, regardless of size, legal status or type of control. If best practices are not applicable to all cases, the principles are, and they comprise the foundation upon which good governance can be developed.

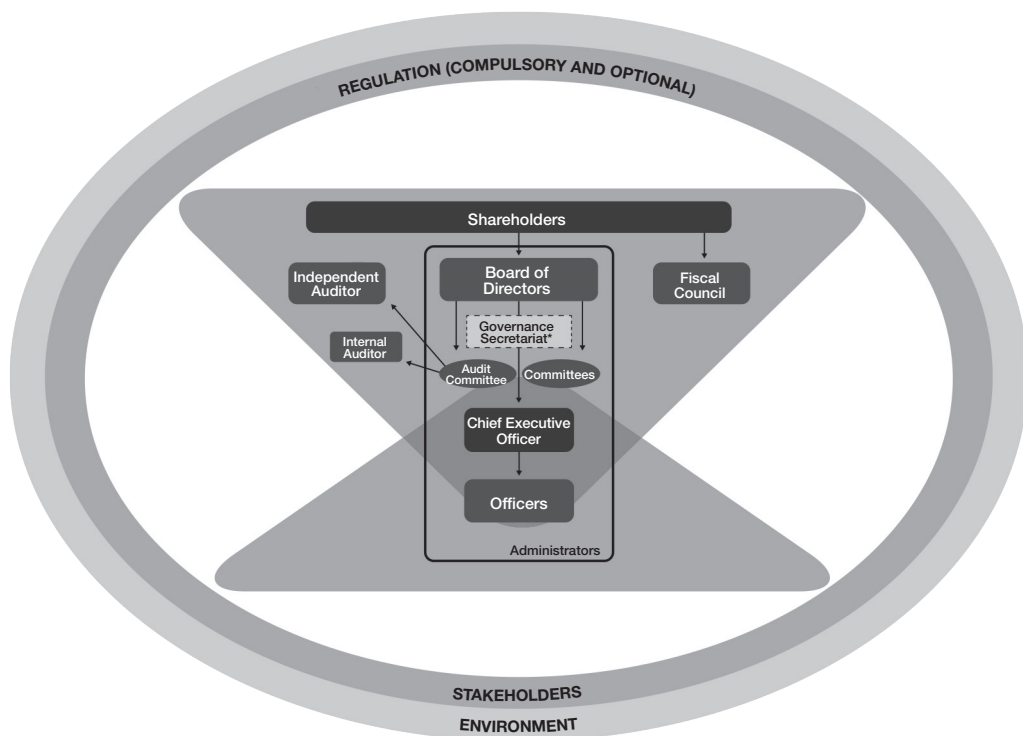
Without ethics, however, the set of good governance practices may not be sufficient to avoid improper behavior and its harmful consequences to the company, its shareholders, and society in general. Ethics are driven by the daily application of clear values and principles, consistently exercised by shareholders, administrators, officers, employees, and contractors.

Having its individuals engage in ethical behavior allows organizations to use best practices to achieve good governance, reducing their chances of failure and increasing those for success.

#### 4. Structure of the Code

In addition to the fundamental premises and the definitions of corporate governance and of their basic principles, the contents of this Code are distributed into five chapters: 1. Shareholders; 2. Board of Directors; 3. Executive Management; 4. Supervisory and Control Bodies; and 5. Conduct and Conflict of Interest.

Figure 1 – Context and structure of the corporate governance system



\* The professional in the governance secretariat is not an administrator, despite being placed at the same organizational level as the other administrative bodies

The first four chapters introduce the principles and practices for the bodies that comprise the governance system of organizations (Figure 1), while the last chapter deals with the standards of conduct and behavior applicable to one or more actors. It also proposes politics and practices aimed at avoiding and handling conflicts of interest and the improper use of assets and information concerning the organization.

## II Definition of Corporate Governance

Corporate governance is the system by which companies and other organizations are managed, monitored and encouraged. It involves the relationships between shareholders, the board of directors, the executive management, supervisory and control bodies and other stakeholders.

Good corporate governance practices convert basic principles into objective recommendations, aligning different interests with a view to preserving and optimizing the long-term economic value of the organization, facilitating its access to resources and contributing to the quality of management, its longevity and the common good.

## III Basic Principles of Corporate Governance

To a greater or lesser degree, basic corporate governance principles permeate all practices of the Code, and its proper adoption results in an environment of trust both internally and in its relations with third parties.

### Transparency

Consists in the desire to provide stakeholders with all the information that is valuable to them, rather than only information required by laws or regulations. Beyond the organization's financial performance, it should also contemplate other factors (including intangible factors) that guide managerial action and lead to the preservation and optimization of the organization's value.

## **Fairness**

It is characterized by fair and impartial treatment of all shareholders and other stakeholders, taking into account their rights, duties, needs, interests, and expectations.

## **Accountability**

The governance actors<sup>7</sup> must account for their actions in a clear, concise, comprehensible and timely manner, taking full responsibility for the consequences of their acts and omissions and acting diligently and responsibly within their roles.

## **Corporate Responsibility**

The governance actors should ensure the economic viability of the organizations, reduce the negative externalities<sup>8</sup> of their businesses and their operations while increase positive externalities, considering, for each specific business model, the various types of capital (financial, manufactured, intellectual, human, social, environmental, reputational, etc.) in the short-, medium- and long-term.

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<sup>7</sup> See p. 13, note 1.

<sup>8</sup> See p. 16, note 4.



## 1 SHAREHOLDERS

### 1.1 “One share, one vote” concept

#### Principle

The structure adhering to the principle of “one share equals one vote” is the one that best promotes the alignment of interests between all shareholders<sup>9</sup>. Within these structures, the political power, represented by the right to vote, is always proportional to the economic rights arising from the ownership of shares. Exceptions should be avoided, but some flexibility may be accepted, considering the potential benefit of the presence of shareholders that can serve as benchmarks for a company’s performance and long-term vision. It is important to avoid undue asymmetries and to include safeguards that mitigate or compensate for any misalignment.

In cases in which the principle of “one share, one vote” is not observed, it is essential that the by-laws/articles of incorporation contain a sunset clause for the extinction of such asymmetries, especially in publicly traded companies.

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<sup>9</sup> Shareholders or partners are individuals or legal entities who contribute to the composition of the organization and who, in the case of companies, retain ownership of their share capital.



In companies where shareholders choose to adopt structures that do not provide symmetry between political and economic rights, fair treatment must be guaranteed to all shareholders. That is, proportional to their interest in the share capital, with regards to their economic rights, and in any significant event, such as a transfer of control or corporate reorganizations.

## Practices

- a) Each share or quota must entitle its owner to one vote.
- b) When choosing to adopt structures that do not support this principle, i.e., in which the right to vote is not proportional to the shareholders' interest in the capital, the organization must:
  - i. ensure that the decision is taken by all the shareholders (including those who hold shares or quotas without voting rights), evaluating whether this possible misalignment of interests can negatively affect the organization's performance or its access to capital;
  - ii. be transparent as to the reasons and possible impacts of this choice, thus allowing shareholders to evaluate the advantages and disadvantages of this structure, and to make an informed decision about it;
  - iii. disclose full and clear information concerning the political and economic rights associated with each type or class of shares or quotas, as well as the way in which control will be exercised in the organization;
  - iv. create adequate structures at the board of directors and the general meeting levels, throughout the duration of these special rights, ensuring that decisions in which there is a conflict of interest regarding the key shareholders can be taken without his/her participation, and rather by independent administrators or the remaining shareholders.

## 1.2 By-laws/Articles of incorporation

### Principle

It is the contract that, as a complement to the legislation in force, governs and defines how the organization operates, including the organizational level and responsibilities of each governance actor. It contributes towards transparency to the organization's governance system, and to promote trust in its relations with all relevant stakeholders.

## Practices

- a)** Whenever applicable, the by-laws/articles of incorporation must contemplate:
- i.** situations in which the owners of non-voting shares acquire this voting right;
  - ii.** termination clauses for any potentially differentiated political or economic rights, due to the non-observance of the “one share, one vote” principle (sunset clause);
  - iii.** anti-takeover mechanisms (poison pills);
  - iv.** clauses on the dynamics of the general meeting, regarding how it must be convened, the documentation required, the conduction of its activities and the participation of shareholders;
  - v.** mechanisms to identify and solve any conflict of interest at the meetings and with the board of directors;
  - vi.** provisions on the number of directors, their terms of office, renewal and removal, independence and technical qualifications, as well as cases of replacement and vacancy of offices, performance evaluation and the adoption of internal regulations;
  - vii.** the existence and powers of committees of the board, including, but not limited to the audit committee;
  - viii.** provisions on the number of officers, their terms of office, technical qualifications, duties of individual members and of the executive management as a group, and rules for the replacement of officers in case of temporary or definitive removal;
  - ix.** rules for the preparation of the appraisal report and a tag along provision for the sale of interest, accompanied by the definition of controlling shareholder and rules governing the takeover bid;
  - x.** arbitration clauses and/or other forms of conflict resolution (see 1.4);
  - xi.** existence of relevant policies, such as: dividend payments, establishing a mandatory minimum dividend; communication; stock trading and disclosure of information; contributions and donations; detection and prevention of unlawful acts;
  - xii.** information on the filing and access to shareholders’ agreements;
  - xiii.** adoption of a code of conduct (see 5.1);
  - xiv.** rules for election, establishment, and operation of the fiscal council, on a permanent or temporary basis (see 4.2);
  - xv.** maximum period after which the renewal of auditors’ contract must be submitted by the board of directors for approval at the general meeting (see 4.3.2);
  - xvi.** disciplinary mechanisms for transactions between related parties;

- xvii. prohibition of loans and guarantees in the name of the controlling shareholders and of the administrators (see 5.5);
  - xviii. situations in which the shareholders are entitled to withdraw from the organization and the conditions for this to occur (preferably with prices that reflect the organizations' economic value).
- b) It is recommended that the mixed-capital companies' public interest<sup>10</sup> be clearly identified in its corporate purpose, in a specific chapter of the by-laws, and be widely publicized.

## 1.3 Anti-takeover mechanisms (poison pills)<sup>11</sup>

### Principle

The main objective of the poison pills should be to prevent a publicly-held company from being taken over due to a sudden and temporary change in the stock price, as this could jeopardize its long-term projects and the current shareholders' interests.

When adopted, these mechanisms aim to enable company administrators to negotiate better terms and conditions and seek alternative offers for the company that would be beneficial to all of its shareholders.

### Practices

- a) Companies with a defined controlling shareholder should not use these mechanisms since they are not compatible with its specific purpose. In no event should any of the poison pills extend beyond their legitimate objective as a result of inefficiencies arising from the improper perpetuation of the controlling shareholder in power.

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<sup>10</sup> The IBGC understands that the term "public interest" is what justifies the purpose of a mixed-capital company; it must be reconciled with the intrinsic attributes to a publicly held company, namely: responsible and transparent administration, fair treatment of all stakeholders, and long-term planning.

<sup>11</sup> In Brazil, this mechanism has taken the form of statutory provisions, which sets out that the buyer of a significant amount of shares, even when it does not constitute a majority of the company shares, must conduct a public tender offer for the acquisition of shares owned by all other shareholders. However, several distortions have been observed, such as: rigid price-setting criteria in the by-laws, prices set far above market levels, and, above all, the elimination of any power of decision for shareholders regarding the change of conditions or even the removal of the above obligation.

- b)** The decision to adopt anti-takeover mechanisms, if deemed necessary, must be taken with the utmost care to ensure that it does not prevent a non-hostile takeover or preclude the accumulation of significant amounts of stock.
- c)** A critical and detailed analysis of the advantages and disadvantages of the adoption of the mechanism and its characteristics, especially its triggers and price parameters. The by-laws/articles of incorporation should not impose definitive price criteria, especially those that establish prices substantially above the company's financial value or stock market quotes.
- d)** The by-laws/articles of incorporation should not contain any clauses that remove this mechanism, i.e., "entrenched clauses". Rather, the recommendation is that the by-laws/articles of incorporation provide the shareholders, through a general meeting, with the power to accept changes in the public tender offer, or to waive the requirement to make such offer.

## **1.4 Mediation and arbitration**

### **Principle**

It is essential that companies contemplate agile and effective forms of solving conflicts and differences between shareholders and administrators (comprised of directors and officers), and between the latter and the organization itself, so as to avoid negative impacts to the organization's performance or a loss of value.

### **Practices**

- a)** As a general rule, conflicts between shareholders, administrators and between the latter and the organization should be resolved through negotiation between the parties. If this resolution cannot be reached, they should be resolved through mediation and/or arbitration. It is advised that these mechanisms be included in the by-laws/articles of incorporation, or a specific commitment to be signed between the parties.
- b)** The company must disclose to the market its major decisions and actions related to arbitration proceedings that may influence the price of securities issued by the company, or the shareholders' investment decisions.

## 1.5 Shareholders' agreements

### Principle

Shareholders' agreements govern issues such as: purchase and sale of shares by the signatories; preference to acquire shares owned by other shareholders; exercising the right to vote and controlling power at the general meetings. The interest of the organization cannot be placed at risk by an agreement between shareholders. As a result, this agreement cannot contain limitation or restrictions to the powers and duties of the board of directors.

### Practices

- a)** Agreements between shareholders must:
  - i. be available and accessible to all the other shareholders;
  - ii. contemplate mechanisms for the resolution of conflict of interest situations (see 5.4) and conditions for the withdrawal of shareholders.
- b)** On the other hand, the shareholders' agreements must not:
  - i. bind or restrict the voting rights of any members of the board of directors;
  - ii. deal with matters that are to be decided by the board of directors, the executive management or the fiscal council, especially by binding the right to vote or by nominating any of the organization's directors (see 2.3 and 3.2).
- c)** Board members elected by the terms of shareholders' agreement must deliver their votes with diligence and loyalty to the organization, as do the other board members.

## 1.6 General meeting<sup>12</sup>

### Principle

It is the body within the organization that allows for direct participation, and through which the shareholders deal with the organization's major decisions. It is also an important opportunity for

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<sup>12</sup> All references to the "general meeting" in this Code extend to "shareholders' meeting" and/or "associate members' meeting".

the administration to provide accountability and to exercise transparency, as well as a valuable opportunity for shareholders to contribute to the organization, suggesting ideas and opinions.

## Practices

- a)** Shareholders must participate in the general meeting in a diligent and informed manner. They have a responsibility to the organization, and must exercise their right to vote in its best interest.
- b)** Administrators should use the general meeting to provide effective accountability, thus allowing the shareholders to assess the performance of the organization.
- c)** Those who administer third-party resources (investment funds, institutional investments, etc.) have a duty to participate in the meetings, exercising their vote in the best interests of the organization.
- d)** Some of the main powers<sup>13</sup> of the general meeting include:
  - i.** to increase or decrease the share capital, and to restructure the by-laws/articles of incorporation;
  - ii.** to elect or to remove, at any time, members of the board of directors or of the fiscal council (see 1.6.3.2);
  - iii.** once a year, to receive the financial information from the administrators, and to approve the financial statements;
  - iv.** to approve any changes, mergers, spin-offs, dissolutions or liquidation of the organization;
  - v.** to approve the appraisal of assets which may be integrated into the organization's share capital;
  - vi.** approve the compensation of administrators and members of the fiscal council (see 2.16, 3.7 and 4.2.5).

### 1.6.1 Calling and conducting the general meeting

#### Practices

- a)** The rules for convening the general meeting (e.g., type of meeting and information on the agenda, place, date, and time) should encourage the presence of the largest possible number of shareholders and provide adequate notice for them to prepare for the voting.

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<sup>13</sup> For corporations, the powers of the general meeting are set out in Law 6.404/76 (Brazilian Corporate Law), while Law 10.406/02, the Civil Code, sets out the rules for other types of companies and organizations. Some types of organizations might also be subject to specific laws and regulations.

This notice must be provided at least thirty days in advance. The notice period should be extended in accordance with the complexity of the subjects and the ownership dispersion.

- b)** The organization should facilitate participation in the general meeting. The documents required to prove the condition of partner or shareholder must be described in the by-laws/articles of incorporation (see 1.2) and in the manual (see 1.6.2.1), and in all cases must be analyzed in good faith, avoiding any unnecessary requirements. The interaction between shareholders must also be granted, including access to the list of partners and the number of quotas or shares held by each one. In addition, instruments such as online broadcasting, electronic voting or proxy voting must be made available (see 1.6.4).
- c)** In addition to the shareholders, it is recommended that members of the governing bodies (e.g., board of directors, executive management, fiscal council, and audit committee) be present at the general meeting, to provide clarification whenever necessary.
- d)** As the head of the organization's administration, the chairman of the board of directors must preside over the general meeting. If the chairman has a conflict of interest with the organization concerning the matters on the agenda, he/she should declare such conflict, and another member of the board of directors (that is not conflicted) must preside over the general meeting.
- e)** Upon justification, any shareholder may request that the organization's administration suspend or interrupt the convening of the general meeting to deal with more complex matters. The administrators may then analyze the request and justify their decision in any case.

## 1.6.2 Agenda and documentation

### Practices

- a)** The agenda of the general meeting and the relevant documentation must be made widely available to the shareholders on the date of the first convening notice, including by electronic means. To prevent the administration from disclosing important topics without the required advance notice, generic terms such as "other matters" should not be included in the notice.
- b)** The by-laws/articles of incorporation must contain a provision stating that matters that were not expressly presented in the convening notice can only be presented at the meeting if all shareholders are present and agree to such subject being discussed.
- c)** The convening notice, with the agenda and the documentation, must, even in the case of privately held companies, be made public to all shareholders simultaneously. The

organization must keep a channel to answer any questions that members may have concerning the documentation pertaining to the general meeting.

- d) The minutes of the general meetings of publicly held companies must be sent in their entirety to the Brazilian Securities Commission (Comissão de Valores Mobiliários, CVM) and to the stock exchange in which the securities issued by the company are listed, regardless of whether such minutes are published in summary form. The minutes must contain the dissenting votes, and its writing must enable the full understanding of the decisions and discussions at the meeting, even if it has been written as a summary of the facts.

### **1.6.2.1 Proxy statement**

#### **Practice**

- a) It is recommended that companies, especially those with a dispersed ownership, prepare handbooks aimed at facilitating and encouraging participation at the meetings. The manual for participation in the general meeting must provide: detailed information of about each subject to be discussed, including the administration's position on such topic; contain proxy templates with voting options; and be made available to the shareholders – in the case of publicly held companies, it must be sent to the CVM and to the stock exchange on which the securities issued by the company are listed, and published on its website.

### **1.6.3 Shareholders' proposals**

#### **Practice**

- a) the organization must provide mechanisms that allow the shareholders to submit reasoned proposals for items to be included in the agenda before the general meeting is convened.

#### **1.6.3.1 Questions in advance from shareholders**

##### **Practice**

- a) The organization must provide mechanisms for the shareholders to make previous request for information from administrators, ensuring that they receive them in a timely manner in order to formulate their opinions on the agenda items, as well as have access to the administration's responses to questions made by other members. The questions must be related to the general meeting affairs and be made in writing to the



chief executive officer, the investor relations officer or to the governance secretariat, as determined by by-laws/articles of incorporation (see 1.2) or the proxy statement (see 1.6.2.1).

## 1.6.3.2 Nomination of board and fiscal council members

### Practice

- a) The shareholders must appoint candidates to the board of directors and fiscal council who not only are aligned with the organization's values and principles, but also have the technical skills, experience and a spotless reputation, as well as the ability to act diligently and independently from the person who appointed them. To allow other partners to assess these attributes, it is essential that this information about the candidates be submitted beforehand, including their current professional activities, such as: positions in company boards and consultancy services provided.

## 1.6.4 Rules for voting and shareholder register

### Practices

- a) The voting rules must be clear, objective and defined with the purpose of facilitating the voting, including by proxy or other means (see 1.6.4), in addition to being made available since the publication of the first convening notice.
- b) It is good practice that the organization seek to facilitate interaction between shareholders. The shareholder register, with an indication of the respective amounts of shares/quotas and other securities issued by the company, must be made available by the company to any of its shareholders.

### 1.6.4.1 Proxy Voting

#### Practice

- a) The organization must always facilitate the participation of shareholders at the general meeting, even if this is done by proxy or online. In this case, the administration should consider providing the shareholders with mechanisms such as digital broadcasting, use of electronic signatures, certification and digital voting bulletins, as well as nominate voting agents to receive the proxies granted by the shareholders and vote in accordance with the instructions received.

## 1.6.5 Conflict of interest at the general meeting

### Practices

- a) The by-laws/articles of incorporation and the agreement between the shareholders, if any, must contain mechanisms for the identification and resolution of conflicts of interest at the general meetings (see 5.4).
- b) The shareholder who, for whatever reason, may have a conflict of interest with that of the organization in a particular debate:
  - i. must immediately report the fact and refrain from participating in the discussion and voting on this matter;
  - ii. if representing a third party, the shareholder should only be allowed to vote if the instrument conferring voting powers was granted by a non-conflicted shareholder, and explicitly states what the vote must be; in any case, such shareholder must refrain from participating in the discussion;
  - iii. If the legal representative also has a conflict or the instrument of proxy is not explicit with regard to the vote, he/she should not be allowed to participate and vote, even if as a representative of the third party.

## 1.7 Transfer of control

### Principle

Transactions that result in the sale or acquisition of control tend to be complex. Regardless of the legal framework and the terms and conditions negotiated for the transaction that gives rise to the transfer of control, all members of the organization that is the object of the transaction must be given fair and impartial treatment<sup>14</sup>.

### 1.7.1 Sale of control

#### Practice

- a) Transactions that directly or indirectly result in the sale of a controlling interest must be accompanied by public tender offer addressed to all shareholders, at the same price and

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<sup>14</sup> The code adopted by the Brazilian Takeover Panel (Comitê de Aquisições e Fusões, CAF) is also guided by the principle of fairness and can be a good reference on how to observe this principle in specific transactions.

conditions obtained by the selling shareholder. Although the immediate interpretation of article 254-A of Law 6.404, of 1976 (Brazilian Corporate Law) refers exclusively to the sale of controlling power, understood as the interest held by an identified controlling shareholder, to a buyer from outside the company, it is advised that the tender offer take place anytime there is a financially motivated transfer of the power to control a company's corporate activities or its governing bodies. These situations may occur, for example, in transfers between shareholders belonging to the same controlling group.

## 1.7.2 Acquisition<sup>15</sup>

### Practice

- a) it is advised that a public tender offer be held, in order to ensure the fair treatment of all shareholders. The public tender offer is particularly recommended whenever a shareholder or group of shareholders achieve, directly or indirectly, a significant stake in the voting capital (30% or more), which, in companies with a dispersed ownership, is enough for its holder to exercise controlling power. This recommendation does not apply to cases where the company has a clearly defined controlling shareholder, nor to cases where such ownership has been achieved through corporate restructuring, such as incorporation, merger of shares, or capital increase. The tender offer must be addressed to all shareholders, who shall be free to exempt the offeror from acquiring all of the shares.

### 1.7.2.1 Administration's decision and opinion on public tender offers for acquisition of control

#### Practices

- a) The shareholders must have enough time in order to form a grounded, thoughtful and independent decision about the tender offer, receiving all the information needed in a timely and fair manner.

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<sup>15</sup>The "original acquisition of control" occurs when a new shareholder obtains, through private or public acquisitions, a sufficient amount of shares that confers power to control a company's corporate activities or its governing bodies, and when this power has not been transferred by a preexisting controlling shareholder. This situation can occur in cases in which the power of control is dispersed in the market, i.e., when no shareholder or group of shareholders has a sufficient amount of voting shares to achieve a controlling position.

- b)** The board of directors must issue its opinion, which must contain, among other relevant information:
  - i.** the opinion of the administration concerning both the possible acceptance of the tender offer and the company's economic value;
  - ii.** the trading price of the shares;
  - iii.** the estimated impact of the transaction on stakeholders and on the company's long-term strategy;
  - iv.** the offeror's background and its potential alignment with the company's interests.

## **1.8 Liquidity of securities**

### **Principle**

Publicly traded companies must strive to promote and preserve the liquidity of their securities, maintaining an appropriate number floating stocks<sup>16</sup> through the active management of the shareholder base.

In limited liability companies, it is important to create liquidity mechanisms for dissenting shareholders or situations of equity succession.

### **Practice**

- a)** An efficient investor relations program is recommended to ensure the proper treatment of information and the proper communication to the stakeholders. A market-making service may also be hired<sup>17</sup> to promote the trading of the company's shares in the market.

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<sup>16</sup> The so-called "free float", which refer to company shares available on the capital market.

<sup>17</sup> Institution hired by publicly traded companies, its shareholders or subsidiaries to provide liquidity for stocks. This is accomplished through a firm offer for purchase and sale of shares traded in the market. Market-maker activities are regulated by the CVM and the stock exchange.

## 1.9 Dividend policy

### Principle

It is important to have a dividend policy that respects the company's economic characteristics – cash flow generation and need for investments – and that are well known to all stakeholders, shareholders and investors.

### Practice

- a) Companies must develop and disclose their dividend distribution policy defined by the board of directors and approved at the general meeting. Among other aspects, this policy must regulate:
  - i. the frequency of payments;
  - ii. the reference parameter for definition of the amounts paid (percentage of adjusted net income and free cash flow, among others);
  - iii. the circumstances and factors that can affect the distribution of dividends;
  - iv. the frequency with which the policy should be reviewed.

## 1.10 Family council

### Principle

It is the organ responsible for maintaining family-related matters separate from those of the organization, in order to prevent matters of exclusive interest to the family from interfering in the organization. The objectives of the family council must not be mistaken for those of the board of directors (see 2.1), which are meant to strictly serve the organization.

### Practices

- a) Family-controlled organizations should consider creating a family council, a group formed to discuss family matters and the alignment of its members' expectations in relation to the organization.

- b)** The family council is responsible for:
- i.** defining the limits between family and organizations' interests;
  - ii.** preserving family values (e.g. history, culture and shared vision) and treating the organization as a promoter of unity and continuity in the family;
  - iii.** defining criteria for the protection of assets, growth, diversification, and administration of the family's property;
  - iv.** creating mechanisms (e.g., holding fund) to acquire ownership interest from shareholders who wish to leave the company;
  - v.** defining succession, transmission of property and inheritance plans;
  - vi.** monitoring the preparation of the family members for succession within the organization, with regards to the vocational aspects, the career future and continuing education;
  - vii.** the definition of criteria for appointment of family members to act as employees or administrators, if appropriate (see 2.2.2).



## 2 BOARD OF DIRECTORS

### 2.1 Duties

#### Principle

The board of directors is the collective body in charge of the decision-making process of an organization with regards to its strategic direction. It serves as the guardian of the principles, values, purpose and system of governance of the organization, being its main component.

In addition to deciding on the strategic direction of the business, the board of directors is also responsible for monitoring the executive management, acting as a link between this body and the shareholders, always with the best interests of the organization in mind.

The members of the board of directors are elected by the shareholders. As administrators, the directors have fiduciary duties to the organization, and must be accountable to the shareholders at the general meeting. In a broader and periodic manner, they must also be accountable to shareholders and other stakeholders by presenting the financial statements.



Board members have duties to the organization. The concept of a board member representing any stakeholder is inadequate.

## Practices

- a)** Every organization should consider the implementation of a board of directors. The board should always decide in favor of the best interests of the organization as a whole, regardless of who nominated or elected its members. It must exercise its duties with consideration for the organization's social purpose, its long-term viability and impacts resulting from its activities, products and services on society and its stakeholders (externalities).
- b)** The board of directors is responsible for identifying, discussing and ensuring the dissemination of the organization's values and principles. It should define strategies and make decisions that protect and raise the organization's value, optimize the return on long-term investment, and seek to balance the expectations of all stakeholders. It should promote an organizational culture focused on the organization's values and principles, and promote an environment where people can express dissenting thoughts and discuss ethical dilemmas.
- c)** The board of directors should establish mechanisms to permanently monitor whether the business decisions and actions (and their results, as well as direct and indirect impacts) are aligned with its principles and values. In case of deviations, it should propose the application of corrective and, ultimately, punitive measures, as provided by the code of conduct.
- d)** The board of directors must work to ensure that each stakeholder receives a benefit deemed appropriate and proportional to its respective bond with the organization, and the risk to which the stakeholder is exposed.
- e)** To fulfill its mission, the board of directors must:
  - i.** discuss, format, and clearly define the purpose, principles, and values of the organization, and work to protect them;
  - ii.** preserve and reinforce the organization's identity, or, if necessary, promote the appropriate changes;
  - iii.** provide the strategic direction as well as monitor and support the executive management on the implementation of strategic actions;

- iv.** encourage a constant strategic reflection, being alert to changes in the business environment, with a view to ensure the organization's adaptability;
- v.** continuously strengthen organizational skills, adding new ones that may prove necessary to face strategic challenges, or redesigning them to adapt the organization to external changes;
- vi.** select the chief executive officer (CEO) and approve the appointment of other executive management members;
- vii.** plan the succession process of its members, the chief executive officer and the executive management;
- viii.** approve policies and guidelines that affect the organization as a whole;
- ix.** define the executive management's compensation and incentives policy, the objectives and the goals of the chief executive officer, and evaluate his/her performance. Participate, along with the CEO, in the definition of objectives, targets, and evaluation of executive management members;
- x.** ensure that the executive management develops a policy for attracting, developing and retaining talents that are aligned with the organization's strategic needs;
- xi.** monitor the financial and operational performance of the executive management;
- xii.** ensure that the executive management identifies, mitigates and monitors the risks faced by the organization, as well as the integrity of the system of internal controls (see 4.5);
- xiii.** ensure that sustainability issues are linked to the strategic choices, the decision-making processes, the impact on the value chain, and the periodic reports;
- xiv.** be permanently aware of the externalities generated by the organization's activities, and make sure to listen (and guarantee that the executive management and other employees do the same) carefully to the stakeholders in order to adjust the company's activities;
- xv.** ensure the search and implementation of innovative technologies and processes that keep the organization competitive and up to date with market and governance practices;
- xvi.** participate in the decisions concerning capital investment projects that have a significant impact on the organization's value;
- xvii.** approve mergers and acquisitions;
- xviii.** ensure that the financial statements clearly and accurately reflect the organization's economic, financial, and accounting position;
- xix.** choose and evaluate the independent auditors;
- xx.** periodically review the organization's governance practices.

- f) In order to ensure that the interest of the organization prevails at all times, the board must prevent and manage conflicts of interest (see 5.4), administering differences of opinion and being accountable to the shareholders. It must seek all the information necessary to the fulfilment of its duties, including from external experts. On the other hand, it should not interfere with operational affairs.

## 2.2 Composition of the board of directors

### Principle

The board of directors is a collective body, and its performance depends on the respect and understanding of the characteristics of each of its members, which should not imply the absence of debates. This diversity of personalities is crucial, because it allows the organization to take advantage of a plurality of arguments and of a richer and more reliable decision-making process.

### Practice

- a) The composition of the board of directors must consider diversity of knowledge, experiences, behaviors, cultural aspects, age and gender. The directors must ensure that the executive management defines and promotes policies that provide equal opportunities for women to access high leadership positions within the organization.

### 2.2.1 Selection

#### Practices

- a) The selection process for directors must observe the organization's principles and values, as well as the strategy, its level of maturity, and expectations regarding the board's performance. The selection process may include the participation of independent third parties.
- b) The board itself, when renewing its term, must define the desired candidate profile in advance and disclose the desirable qualifications and expectations regarding the position, in order to guide the shareholders in their choice and election of its members.

## 2.2.2 Qualifications of board members

### Practices

- a) Some of the characteristics and skills required of board members include:
  - i. alignment and commitment to the organization's principles, values, and code of conduct;
  - ii. strategic vision;
  - iii. willingness to defend their point of view, based on their own judgment;
  - iv. ability to communicate;
  - v. time availability (see 2.7);
  - vi. ability to work as part of a team;
  - vii. knowledge of the best practices for corporate governance;
  - viii. ability to interpret management, accounting, and financial or non-financial<sup>18</sup> reports;
  - ix. knowledge of corporate legislation and regulation;
  - x. knowledge of risk management.
- b) Board members must be free of unmanageable conflicts of interest (which cannot be managed, or is not situational, that is, expected to be permanent) and constantly aware of the organization's matters. They must be capable of acting proactively, in order to make informed and thoughtful decisions, in addition to understanding that their duties and responsibilities are extensive and not restricted to board meetings.
- c) Once these requirements are met, age becomes a relative factor. The member's effective contribution to the board, the organization, and the shareholders should prevail.

## 2.2.3 Number of members

### Practice

- a) An odd number of members between five and eleven is recommended. This number may vary according to the organization's industry, size, complexity, as well as where it is in its life cycle, and whether committees need to be created.

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<sup>18</sup> Information that is not defined by an accounting standard or by calculation resulting from a measurement based on an accounting standard (also called extra-financial information).

## 2.3 Independence of board members

### Principle

Once elected, all board members have a responsibility to the organization, regardless of the shareholders, shareholder group, administrator or stakeholder who appointed them to the position.

Board members must perform their duties based on technical knowledge, with emotional and financial detachment and without the influence of any personal or professional relationships. They must create and preserve value for the organization as a whole, within the appropriate legal and ethical guidelines.

### Practices

- a)** The board should use all means available to assess the independence of directors. Ultimately, each board member is responsible for engaging in a systematic reflection on their ability to make an independent judgment on the issues discussed by the board.
- b)** Board members who are conflicted on a particular matter must refrain from participating in the discussion and the decision on that specific issue.
- c)** A possible recommendation to cast a specific vote, provided in a shareholders' agreement, does not exempt board members to vote always in the interest of the organization, in accordance with their duty of loyalty. Board members must examine the shareholders' voting recommendation critically, and should only follow such recommendation if it is in the organization's best interests (see 1.5).
- d)** Board members who identify any improper pressure or feel coerced and cannot maintain their autonomy must resign, if all other efforts to resist such pressure or coercion fail, without prejudice to filing a possible complaint at the general meeting and/or the regulatory agency.
- e)** Board members should not serve as paid consultants or advisors to the organization.

## 2.4 Categories of board members

### Principle

There are three categories of board members:

- **internal:** members who are also members of the executive management or who are employees of the organization;
- **external:** members who do not currently have an employment or commercial relationship with the organization, but who are not independent, such as former officers and former employees, lawyers and consultants who provide services to the company, shareholders or employees of the controlling group, or of subsidiaries or companies in the same group and their close relatives, and fund managers with a significant ownership interest;
- **independent:** external members who do not have familial, business, or any other kind of relationship with shareholders that own a significant ownership interest, controlling groups, executives, service providers or non-profit entities that influence or may influence, in a significant manner, their judgments, opinions or decision or compromise their actions in the best interest of the organization.

The role of independent directors is especially important in companies with dispersed ownership, without a clearly defined controlling shareholder, in which the predominant role of the executive management must be counterbalanced.

### Practices

- a) To promote independent judgment by all board members and the integrity of the governance system, the appointment of internal members to compose the board should be avoided. The board must feature external and independent directors only. There should be a significant representation of independent directors in comparison with the number of total members.
- b) As with all other members, employees elected to the board must act in the best interests of the organization, in accordance with the law, and possess the qualification needed for the performance of their duties.
- c) The board should disclose the names of independent directors, and report and justify any circumstances that may compromise their independence, such as:
  - i. having served as an administrator or employee of the organization, the controlling group or a shareholder with a significant ownership interest, the independent auditor

that has audited the organization, or even a non-profit entity that receives significant financial resources from the organization or its related parties;

- ii. having served, either directly or as a partner, shareholder, board member or officer, in a relevant trading partner of the organization;
  - iii. having close family ties or personal relationships with shareholders, directors or officers of the organization; or
  - iv. having served an excessive number of consecutive terms as a board member in the organization.
- d) The possible hindrance to their independence at any given time will not prevent a professional from being classified as an independent director in the future. In order to reestablish this condition, it must be assessed whether there has been an effective change in the aspects that previously compromised the member's independence.

## **2.5 Role of independent directors in potential conflict situations in the absence of separation between chief executive officer and chairman of the board**

### **Principle**

Independent directors should have a major role in the discussions whenever the same individual occupies both positions of chief executive officer and chairman of the board of directors.

### **Practice**

- a) If the positions of chairman of the board and chief executive officer are held by the same person and the separation of duties is not temporarily possible (see 2.8.2), or if there is a familial relationship among them, it is recommended that one of the independent directors assume the responsibility of leading the discussions concerning the conflicts between the roles of chief executive officer and chairman.

## 2.6 Term of office

### Principle

Once the term of office has expired, a reflection should ensue on the contributions of the board members and the desired attributes required for the composition of the board. Reelection may be desirable to compose a productive and experienced board of directors, provided that it is based on evaluation results.

### Practices

- a) The term of office of board members should not exceed two years. Reelection should be allowed in order to compose a productive and experienced board of directors, provided that it does not occur automatically. All board members must be elected at the same general meeting. Third-sector organizations may choose to adopt a partial or staggered renewal of its board members.
- b) The annual evaluation results (see 2.10) must be taken into account in the decision of whether or not to renew a board member's term or to confirm their independent status, regardless of how long they have served on the board. The criteria for renewal must be expressly stated in the by-laws/articles of incorporation or in the board's internal regulations. To avoid life-long tenures, the by-laws/articles of incorporation may specify a maximum number of years of continuous service on the board.

## 2.7 Time availability

### Principle

The participation of board members goes beyond their presence at board meetings and reading the documentation. By taking on a board member position, the individual must comply with the fiduciary duties established by legislation, concerning the diligence requirements, the disclosure of information, and the loyalty to the organization. Members should bear in mind their responsibility to the stakeholders, of commitment, preparation, and active participation at the meetings.

### Practices

- a) Board members must consider their prior personal and professional commitments, and assess whether they can devote the time required for each activity. They should inform the organization of any other activities or positions, boards and committees that they currently



hold or are a part of, especially when serving as chairman of the board or top executive in another organization. This information should be made available to stakeholders, in order to allow the board and the general meeting to assess their potential availability.

- b)** In this assessment, both the board member and the organization should consider the time that the professional will be able to dedicate to his/her role.
- c)** The internal regulations of the board must determine the maximum number of other boards, committees and/or executive positions that could be occupied by its directors, taking into account the complexity of the organization and the dedication required by the position.

## 2.8 Chairman of the board

### Principle

The chairman of the board has a responsibility to seek an efficient and satisfactory performance from the board and from each of its members. The chairman's guidance, combined with a diversified composition of the board and continuous training and evaluation are tools that can contribute to a positive dynamic for the board.

### Practice

- a)** The chairman of the board of directors is responsible for:
  - i.** defining the board's objectives and programs;
  - ii.** ensuring that the board members receive all the information required, in a timely manner, for the proper exercise of their duties;
  - iii.** organizing and coordinating the agenda;
  - iv.** chairing the meetings;
  - v.** coordinating and supervising the activities of other board members;
  - vi.** assigning responsibilities and deadlines;
  - vii.** monitoring the board's evaluation process (see 2.10);
  - viii.** the relationship with the chief executive, including the communication of resolutions adopted by the board of directors.

### **2.8.1 Absence of the chairman of the board**

#### **Practice**

- a) The by-laws/articles of incorporation or the by-laws of the board may determine that the vice-chairman, if any, replace the chairman. Alternatively, in the absence of the chairman, he/she should designate a board member as a replacement.

### **2.8.2 Segregation of duties between the chairman of the board and the chief executive officer**

#### **Practice**

- a) To avoid the concentration of power and hindrance to the board's duties to provide oversight of the executive management, it is not recommended that the same individual occupy both positions of chief executive officer and chairman of the board. The chief executive officer should not be a member of the board of directors, but should participate in the meetings when invited.

## **2.9 Alternate board members**

### **Principle**

Since the responsibilities of board members cannot be delegated, having alternate board members should be avoided.

### **Practices**

- a) With the existence of an annual calendar of meetings agreed upon between the directors and technologies that allow remote participation at meetings, the directors must participate in all the meetings, eliminating the need for substitutes.
- b) If vacant, the position of board members should be filled in the next general meeting.

## 2.10 Evaluation of the board and of its members

### Principle

The evaluation of the board and board members contributes to the effectiveness of the body, is part of its accountability duties, and allows a greater level of governance in the organization.

### Practices

- a) In order to properly evaluate the board, its members must be committed to identifying the strengths and improvements of each board member individually and of the board as a collective body.
- b) The board is responsible for disclosing information on the evaluation process and a summary of the main points of improvement identified for the body and the corrective actions implemented, allowing shareholders and other stakeholders to have a proper understanding of its operations.
- c) The by-laws/articles of incorporation must define the specific number of tolerated absences in meetings before the board member is removed from office.

### 2.10.1 Approach and scope

#### Practices

- a) The evaluation of the board may be carried out by board members, who may be aided by executives, other stakeholders and/or external advisors. The board of directors and its members must also undergo a self-evaluation (respectively, as a body and as members), as well as evaluate all other bodies that report to the board of directors. At more advanced stages of maturity, the board may also be evaluated by the executives.
- b) The scope of the evaluation should include:
  - i. the board itself, as a collective body;
  - ii. committees, if any;
  - iii. the chairman of the board;
  - iv. board members, individually;
  - v. the governance secretariat, if any.

- c) The evaluation criteria for the board should include its duties, structure and operating processes. As with the board itself, its evaluation process evolves as the organization's governance system matures.

## 2.11 Evaluation of the CEO and the executive management

### Principle

The purpose of the evaluation of the chief executive officer and the executive management is to review and analyze the contributions by the organization's executives, with a view to achieving the strategic goals defined by the board of directors.

### Practices

- a) The board of directors is responsible for:
  - i. defining performance, financial and non-financial targets (including social, environmental and governance aspects) for the chief executive officer at the beginning of the financial year, in line with the organization's values and purpose;
  - ii. conducting, on an annual basis, a formal evaluation of the chief executive officer;
  - iii. approving and monitoring the individual development program for the chief executive officer;
  - iv. acknowledging, reviewing and approving the results of the evaluation of the executive management members held by the chief executive officer, with reference to the agreed targets as well as other subjective elements of evaluation, and to debate on the proposal of the chief executive officer concerning whether or not the executives should remain in their offices.
- b) In the evaluation of the chief executive officer and the executive management, the board of directors may rely on assistance from the human resources committee, if any.

## 2.12 Succession planning

### Principle

The purpose of the preparation of a succession plan is to ensure that, when replacing its executives, management may choose to hire and/or promote professionals whose professional

experience and skills would contribute to the continued good performance of the organization. Succession planning is essential to mitigate risks, guarantee management continuity and preserve the organization's value.

## Practices

- a) The board of directors should periodically reassess the desired profile for the main leadership positions, taking into account the challenges listed in its strategic plan. It could rely on assistance from the human resources committee, if any.
- b) The board of directors must have an up-to-date succession plan for the chief executive officer. Leadership of the succession planning is responsibility of the chairman of the board, who should also ensure that the chief executive officer has an up-to-date succession plan for all the key people within the organization.
- c) The chief executive officer should work to develop a close relationship between the board of directors and the organization's executives, so that possible candidates for his/her succession can be assessed.

## 2.13 Introduction of new members

### Principle

Integration programs can facilitate the adaptation of board members to the organization's culture, people and business environment.

### Practice

- a) All board members must undergo an integration program, in which they:
  - i. receive the information needed to exercise their roles;
  - ii. are introduced to key people within the organization;
  - iii. have the opportunity to become familiar with the organization's main businesses, activities and premises.

## 2.14 Continuing education of members

### Principle

Providing effective leadership to the organization must be a constant concern to board members. To that end, these members must learn about industry dynamics, the generation of value to the company and the ongoing changes in business environment. It is paramount that members seek to constantly improve their skills in order to enhance their performance and to act with a long-term focus on the best interests of the organization.

### Practice

- a) Leadership of the continuing education process for board of directors' members is the responsibility of the chairman of the board. Members must participate in recycling programs, congresses, fairs and other events that can enhance their ability to contribute to the organization.

## 2.15 Board interlocking

### Principles

Organizations must be duly informed of possible or potential conflicts of interest resulting from the participation of board members in other companies, whether as a member of the board or of a committee, or as an executive.

### Practices

- a) When taking office, board members must sign a consent form and a statement on the absence of conflict of interest. Members must inform the other board members about any other governing bodies (executive, fiscal and/or advisory) of which they are part, as well as any consultancy which they provide, regardless of the nature of the organization. In the event of any changes to the board member's main occupation, he/she must report it to the board.
- b) If the board detects a conflict of interest involving any of its members, the other members must evaluate whether it would be convenient to have this member remain on the board,

and submit the subject to the general meeting. This information, along with those relative to the board member's main activity, should be disclosed and made available in the organization's periodic informational reports and other means of communication.

## 2.16 Compensation of board members

### Principle

The board members must be adequately compensated, considering the market conditions, the qualifications, the value generated to the organization and the risks concerning the activity. Proper compensation furthers the alignment of objectives and prevents conflicts of interest.

### Practices

- a) Organizations must have a formal and transparent procedure for approval, by the general meeting, of board members' compensation.
- b) The board members should not be compensated based on the number of meetings attended. Equal, fixed monthly compensation for all members is recommended. In consideration of the duties concerned and the amount of time dedicated, the chairman of the board may receive additional compensation, but not overly greater than that of other board members<sup>19</sup>. Similarly, participation in committees may be used as justification for additional compensation of board members.
- c) Compensation criteria for the board of directors should be different (incentives, metrics and terms) than that of the executive management, due to the distinct nature and roles of these bodies within the organization.
- d) If the organization adopts variable compensation for board members, it should not be bound to short-term results. Instead, this plan should be linked with medium- and long-term strategic objectives, focused on generating long-term economic value, and the organization should take the appropriate care to avoid encouraging conflicts of interest.

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<sup>19</sup> In exceptional situations, particularly in family businesses or in early stages of governance, the chairman of the board of directors – who is not a member of the family and/or a shareholder – may devote more time than expected in the performance of his duties, due to the leadership role in the implementation of the organization's governance system. In this case, compensation for the chairman position may be temporarily greater than that of other members.

- e) If the organization has a variable compensation structure in place for board members, its criteria and details should be disclosed, following the same transparency recommendations concerning the disclosure of compensation for the executive management (see 3.7).
- f) The annual compensation of board members should be disclosed individually. Otherwise, it should be disclosed in total considering the corporate body or committee as a whole, along with information on the maximum, minimum and average compensation received by its respective members. Both forms of disclosure should contain separate information concerning compensation received by board members who are controlling shareholders or associated with the latter, as well as a breakdown of compensation and benefits.

## 2.17 Budget of the board and external consulting

### Principle

The organization benefits from a board of directors that can act in an independent and well-informed manner, which may require the assistance of third-party advisory services. As a result, the board should have sufficient financial resources for this purpose.

### Practices

- a) The organization's chart of accounts should include a specific item for the board of directors, approved by shareholders. When necessary, the board must be able to seek advice from external experts (e.g., lawyers, auditors, tax and human resources specialists), paid by the organization, to receive adequate input on relevant matters. Travel expenses incurred by the board member to attend the meetings must be reimbursed by the organization.
- b) The board of directors' budget may include, among others:
  - i. compensation of board and committee members;
  - ii. travel, food and accommodation, whenever the meetings or visits take place in a different city from the place of residence of the board member;
  - iii. training and development expenses;
  - iv. expenses with the governance secretariat (see 2.22) and board of directors' events;



- v. directors and officers liability insurance (D&O)<sup>20</sup>;
- vi. funds for specialized consultancies and fees for external experts;
- vii. trips to represent the organization.

## 2.18 Advisory board

### Principle

The advisory board, with the presence of internal and independent members, may be the first step taken by privately held companies to encourage the adoption of best practices of corporate governance. It is a temporary alternative to the board of directors, particularly for organizations in the early stages of adopting good practices of corporate governance. The advisory board differs from the board of directors in that it does not have the power to make decisions, nor is it part of the administration. It's not deliberative, it only advises and proposes recommendations that may or may not be accepted by the administrators.

If provided in the by-laws/articles of incorporation and/or if it acts in a deliberative manner, it functions as a board of directors, consequently assuming the corresponding legal duties and responsibilities.

### Practices

- a) Regardless of its inclusion in the by-laws/articles of incorporation, the role, composition, responsibilities and scope of authority of the advisory board should be well defined.
- b) The advisory board must operate according to the same practices set out for the board of directors.

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<sup>20</sup> The civil liability insurance for administrators, known as D&O – Directors and Officers Liability Insurance –, is a collective policy, and its coverage can include administrators who work in the organization and its subsidiaries, as well as those who may join them during the term of the policy, and those who occupied this position before the policy became effective. The D&O coverage concerns the acts of management in the exercise of its powers, which is divided into two stages: (i) costs for defense against lawsuits and attorney fees and (ii) financial penalties.

## 2.19 Internal regulation<sup>21</sup>

### Principle

Its purpose is to regulate the functioning of the board of directors, in order to ensure that it operates in accordance with the principles defined in the by-laws/articles of incorporation. It is an instrument used to formalize the operational processes of the body and contributes to strengthening governance practices.

### Practices

- a) The activities of the board of directors and of its committees should standardize on an internal regulation that clearly establishes the responsibilities, powers and operating rules of each of the corporate bodies, as well as the measures to be adopted in situations of conflict of interest.
- b) Publicly traded companies must file the internal regulations of the board of directors and of its committees with the CVM and the stock exchanges on which its securities are listed, and make these regulations available on its website. All other types of organizations must make the board's (and its committees') internal regulation available to shareholders and administrators upon request.

## 2.20 Committees of the board of directors

### Principle

Committees are accessory bodies to the board of directors, and may or may not be statutory in nature. Their existence does not imply the delegation of responsibilities that belong to the board of directors as a whole. The committees have no power of decision, and their recommendations are not binding on the decisions of the board of directors.

Several of the board's activities that demand a lengthy amount of time – not always available during its meetings – may be carried out by specific committees. The committees study

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<sup>21</sup> This document can also be adopted for other bodies within the organization.

matters which belong to its sphere and prepare proposals for the board. Board committees may include:

- audit (see 2.21 and 4.1);
- finance;
- human resources;
- risks;
- sustainability.

Working groups or commissions, which are not necessarily committees, can also be created for specific issues in support of the board of directors.

## Practices

- a) The number and type of committees should be defined according to the size of the organization. An excessive amount of committees may lead to undesired interference in the executive management. The board of director's internal regulation should provide guidelines for the formation and coordination of committees as well as for their composition, ensuring that its members have the proper skills and abilities required for their specific purpose.
- b) The scope and existence of each committee should be reassessed periodically to ensure that each one of them has an effective role.
- c) The material prepared by the committees for the board should be provided with adequate advance to be reviewed, along with the voting recommendation. This material should include the minutes of the committees' meetings, as well as all relevant materials (e.g., reports issued by consultants, lawyers, and other experts) that support the recommendation to the board. All committee members should have access to the same information.
- d) Similarly to the board's evaluation process, the committees should be evaluated on an annual basis.

### 2.20.1 Composition of the committees

#### Practices

- a) Committee members should possess knowledge and experience, as well as be able to act independently on the issue at hand.

- b)** Each committee should have a coordinator, who preferably do not hold the same position in other committees.
- c)** Committees should preferably be formed by members of the board of directors only. When this is not possible, there should be an effort to appoint a board member as its coordinator, and the majority of its members should also consist of board members. If there is no specialist among board members on the subject to be studied, the committee should be able to invite external experts.
- d)** Each committee must be composed of at least three members who are knowledgeable on the subject at hand, and must have at least one expert on their respective subjects.
- e)** The committees should not comprise the organization's executives. However, the latter may be invited by committee members to participate in meetings in order to provide clarifications about a particular matter.

### **2.20.2 Qualifications and commitment**

#### **Practices**

- a)** The board of directors must prepare a formal description of qualifications, engagement and time commitment it expects from committees.
- b)** The organization should disclose a list containing the names of each committee member, along with their qualifications.
- c)** Each committee should adopt its own internal regulation, which establishes its structure, composition, activities, responsibilities and scope of its work. The committees' internal regulations must be approved by the board of directors.
- d)** Committee members should have the same terms of office as members of the board of directors. The by-laws or internal regulation may establish a maximum number of committees in which a board member is allowed to participate.

### **2.21 Audit committee**

#### **Principle**

Having an audit committee is a good practice for any type of organization, regardless of where it may find itself in its life cycle; however, the audit committee does not exempt the board of

directors from full responsibility on the subjects discussed by this body, which should serve as a support to the board.

In the absence of an audit committee, its functions should be carried out by the board of directors.

The audit committee should not be confounded with the fiscal council. While the audit committee is an advisory body to the board of directors, the purpose of the fiscal council is to provide oversight and control of the administration. Thus, the existence of the audit committee does not exclude the possibility of creating a fiscal council (see 4.2).

## Practices

- a)** The existence and responsibilities of the audit committee should be provided for in the by-laws/articles of incorporation. It should preferably be composed entirely of board members, and it is important that the coordinator be an independent director. When this is not possible, there should be an effort to appoint a board member as its coordinator, and the majority of its members should also consist of board members.
- b)** At least one member of the audit committee must have proven experience in accounting, internal controls, financial information and operations, and independent audits.
- c)** The frequency of audit committee's meetings should be determined in accordance with the organization's characteristics. Its budget – approved by the board of directors – should include provisions for hiring legal, accounting or other consultants, whose expert opinion the committee may deem necessary for the performance of its activities.

## 2.22 Governance secretariat

### Principle

To improve the governance system, the board of directors may rely on a governance secretariat to support it in the performance of its activities.

## Practices

- a) The governance secretariat function must be carried out by a corporate body or a professional who should report directly to the board of directors. If accumulated by an executive, he/she must report to the chief executive officer with regards to management issues, and to the chairman of the board in relation to the governance secretariat's affairs.
- b) The activities of the professional responsible for the governance secretariat must be defined according to the characteristics of the organization and the complexity of its governance system.
- c) The duties of the governance secretariat should include:
  - i. supporting the organization's governance processes, and keeping members of the board of directors, the fiscal council and the committees informed with regards to best practices, as well as promote their continuous improvement;
  - ii. supporting the members of the board of directors, fiscal council, and the committees in the performance of their duties, assisting them with their integration into the organization and with educational activities;
  - iii. assisting the chairman of the board of directors with the definition of relevant issues to be included in the agenda of the meetings and in the convening notice of the general meeting;
  - iv. forwarding the agenda and supporting material to the meetings of the board and interacting with the members of the executive management, in order to ensure the quality and timeliness of the information;
  - v. drafting, registering, and publishing the minutes of the board of directors' and general meetings with the competent authorities, in accordance with the applicable law;
  - vi. administering the organization's governance portal (if any), and working to protect its information flow, maintaining it updated and secure, as well as ensuring impartial and permanent access of its users.
- d) Requests for inclusion or exclusion of items on the agenda or the convening notice of meetings, by board members or the chief executive officer, should be made in writing to the governance secretariat. It must submit the proposals received to the chairman of the board and inform the directors or the chief executive officer, as the case may be, of its decision.

## 2.23 Board of directors' meetings

### Principle

The structure and organization of the board of directors' activities are essential to ensure its effectiveness, and the proper functioning of the board's meetings depends on a group of actions aimed at promoting a productive participation by its members, raising the level of the debates and contributing to a more adequate and competent decision-making process. Similarly, the preparation of board members depends on their own prior planning, as well as the quality and timely distribution of supporting material.

### 2.23.1 Schedule and agendas

#### Practices

- a) The chairman of the board is responsible for proposing an annual schedule with the dates of the ordinary meetings, in addition to calling extraordinary meetings whenever necessary.
- b) The frequency of the ordinary meetings must ensure the effective functioning of the board. The frequency should not be greater than once a month, at the risk of interfering with the organization's management affairs, which are the responsibility of the executive management.
- c) In addition to an annual calendar with the dates of the regular meetings, the chairman of the board, with assistance from the governance secretariat (see 2.22), should propose an annual thematic agenda, with relevant issues to be discussed and the dates for their respective debates. The chairman of the board should consult other board members and the chief executive officer when setting the meeting schedule. Creating an annual calendar and a thematic agenda enables the board to act proactively and examine strategic topics, and allows management time to prepare in advance. The agenda should provide for an adequate period of time for the discussion of each subject, including unresolved topics, and contain the topics requiring a vote, a description of previously approved items, the progress report, the expected dates for completion, as well as any other relevant aspects.

### 2.23.2 Material and preparation for meetings

#### Practices

- a) The governance secretariat or, in its absence, the professional appointed by the board of directors, should ensure that the directors receive the materials at least seven days

prior to the date of the meetings. The documentation should be clear and provided in a sufficient amount. The proposals submitted to vote must be duly substantiated by the executive management and reviewed by the directors. Prior to the meeting, the executive management should clarify any possible questions.

- b)** The board members must be able to identify, with clarity and objectivity, the subject to be deliberated and possible points of attention. As a general rule, the material for each topic submitted to vote by the board must be preceded by a summary, as well as a reasoned voting recommendation made by the executive management.
- c)** Board members must have access to the corporate documents that are relevant to the vote, such as the by-laws/articles of incorporation, minutes of previous meetings of the board and of general meetings, statements issued by committees or the fiscal council. The organization's administrators and members of its fiscal council must be available to attend and provide clarification on any issues that are submitted to vote by the board.

### **2.23.3 Dynamics of the meetings**

#### **Practices**

- a)** The board's regular meetings must be attended in person. Participation by teleconference or videoconference should be provided for in the by-laws/articles of incorporation and occur on an exceptional basis only. In all cases, the board members should take special care with the information security.
- b)** The chairman of the board is responsible for ensuring the orderly progress of the meetings, following the agenda, allocating the time required for each item, and encouraging the effective participation of all board members. The use of communication devices during meetings or parallel conversations should be avoided.
- c)** The directors should devote full attention to the meeting, objectively manifest their views and listen carefully to their peers' opinions. Each concluded vote must be summarized and confirmed by the other board members, which, during meetings, should prioritize the strategic issues of the agenda.

#### **2.23.3.1 Behavioral aspects**

##### **Practices**

- a)** Within a group setting, it is not unusual to witness behaviors that reduce the productivity of the collective body as a whole. Therefore, each board member must objectively assess



their individual behavior and the dynamic among the participants during the board meetings, with a view to contributing to a mature and constructive environment that is conducive to a decision-making process. These behaviors include groupthink, overtly predominant participation of one member, omissions, lack of preparation, improper influence, manipulation, prejudice, mistrust between the participants and the spread of excessively optimistic or pessimistic views.

- b)** In addition to having the technical knowledge and experience required, board members must have a deep understanding of themselves, that is, their motivations, feelings, strengths and weaknesses, as well as their beliefs. They must constantly reassess their conduct and their contribution during the meetings with other directors and officers.

### **2.23.3.2 Guests to board meetings**

#### **Practices**

- a)** Executives, advisors, technicians, independent auditors and consultants may be requested to attend board of directors' meetings, to provide information, describe their activities or expose their opinions on subjects on which they specialize.
- b)** The guests should not be in attendance during the voting. Rather, their presence at the meeting should be restricted to the period in which their participation is required or as the board deems convenient. The minutes should contain a record of the entrance and exit of these guests.

### **2.23.3.3 Executive sessions**

#### **Practice**

- a)** The agenda of board meetings should provide for regular sessions for external and independent members without the presence of executives and other guests. These sessions should allow board members to align their opinions and discuss potentially sensitive matters.

### **2.23.4 Preparation and disclosure of minutes**

#### **Practices**

- a)** Board meeting minutes should be worded clearly, contain all decisions taken, the names of those in attendance, voting abstentions, the responsibilities assigned and the deadlines established at the meeting. It is recommended that all available evidence to support decisions be properly registered.

- b)** At the end of the meeting, the minutes must be read, approved and signed by all attending board members. When this is not possible, the person in charge of the minutes, as defined by the board of directors, must ensure that all of its members are given access to the minutes, preferably within two days, for comments, suggestions, and approval. After being approved and signed by all board members, the governance secretariat is responsible for disclosing the minutes.
- c)** In addition, the governance secretariat must ensure that the minutes are filed with the competent authorities in a timely manner, as well as submitting the decisions to the chief executive officer and monitoring the board's requests. It is recommended that the minutes be published on the organization's website, except for any passages that deal with sensitive subjects (see 2.24).
- d)** Dissenting votes and any relevant information should be included in the minutes. The integrity of the minutes in relation to the facts occurring at the board meetings formalizes the decisions made by this body and demonstrates the diligence of each of the directors.

## **2.24 Confidentiality**

### **Principle**

Some of the board's decisions must be kept confidential, especially when they concern strategic issues that require further discussion or that may put the legitimate interests of the organization at risk.

### **Practices**

- a)** Administrators can justifiably keep confidential any relevant information about the organization, provided that, when disclosed, either through communication channels or a particular publication, all shareholders be granted equal and fair access to such information.
- b)** In the event of decisions involving issues that should be kept confidential at the time of the decision, and which therefore are not recorded in the published minutes, organizations are advised to keep records indicating the reasons for such confidentiality, and the elements available to support the decisions made. These records must be read

and signed by the participants and archived at the organization's headquarters with due caution, and should be accessible only to board members and other authorized personnel, provided they have agreed to a confidentiality commitment concerning the document.

## 2.25 Board of directors' relationships

### Principle

The board of directors is the central body of the governance system. As such, it should ensure that its relationships (with shareholders, chief executive officer, other executives, committees, fiscal council and auditors) are effective and transparent, avoiding information asymmetries, and abiding by all regulation concerning confidentiality and fairness.

### 2.25.1 Relationship with shareholders and stakeholders

#### Practices

- a) The board of directors must maintain a close relationship with the organization's employees, for the purpose of publicizing its activities and promoting the organization's identity and culture. It should maintain communication with all stakeholders, including shareholders, and provide relevant information on its activities. In the case of shareholders, the main vehicles for communication and accountability of the board of directors are the annual report, the general meeting (see 1.6), the organization's website, and the proxy statement (see 1.6.2.1).
- b) The board may create additional relationship channels for its shareholders and other stakeholders. One such channel may be to convene specific meetings for these parties; in this case, special attention should be paid to the election of the board's spokesperson. The communications must observe the duty of confidentiality for certain information (see 2.24), avoiding information asymmetries and preserving fairness among shareholders.

## **2.25.2 Relationship with the chief executive officer and subordinates**

### **Practices**

- a)** For the benefit of the organization, the board of directors and the executive management should strive to build a transparent and cooperative relationship between each other, regarding both the definition of the organization's strategy and their frequent interactions.
- b)** The chief executive officer is the liaison between the board of directors and the rest of the organization. It is vital that the chief executive officer and the board of directors engage in clear and continuous communications, promoting adequate conditions for effective decision-making. All relevant communication among them should preferably be formalized, allowing for the arrangements and responsibilities established to be properly monitored.
- c)** The board should ensure that the information is received on a periodic basis, with enough advance, and in an adequate amount, form and depth.
- d)** The chairman is the preferred link between the chief executive officer and the board. A clear separation of roles between these two positions and establishing limits to their power and activities are paramount to the integrity of the governance system (see 2.8.2).
- e)** To preserve hierarchy and ensure fairness in the distribution of information, the chief executive officer and/or the chairman should be advised/consulted whenever board members wish to contact executives for any clarifications.

## **2.25.3 Relationship with independent auditors**

### **Practice**

- a)** It is a right and inalienable duty of the board – which is responsible for selecting these professionals – approving their compensation, ratifying a work plan and evaluating their performance. In fulfilling these duties, it can rely on the support of the audit committee.

## **2.25.4 Relationship with internal auditors**

### **Practices**

- a)** Internal auditors should report to the board of directors directly or through the audit committee, if any. In organizations where there is no board of directors, the internal auditors should report directly to the shareholders, thus ensuring independence from management and avoiding a conflict of interest.

- b)** The board of directors, with the support of the audit committee, should be an active participant in the internal audit's work planning, approving the annual chart of accounts, analyzing the results, and monitoring the implementation of the recommendations presented by the internal auditors. The reports should be forwarded to the executive management, based on the information provided to the audit committee and to the board of directors.

## **2.25.5 Relationship with the fiscal council**

### **Practices**

- a)** The board of directors should meet periodically with the fiscal council, if any, to address matters of common interest and develop a work agenda.
- b)** The fiscal council has the right and duty to participate in meetings of the board of directors concerning subjects on which it should give an opinion.
- c)** The board of directors must provide a full copy of the minutes of all its meetings to the members of the fiscal council.

## 3 EXECUTIVE MANAGEMENT

### 3.1 Duties

#### Principle

The executive management is the body responsible for the organization's management, and its main objective is to ensure that the organization fulfill its corporate purpose and mission. It executes the strategy and the general guidelines approved by the board of directors, manages the organization's assets and conducts its business. Through formalized policies and procedures, the executive management facilitates and disseminates the organization's purposes, principles and values.

This body is responsible for developing and implementing all operational and financial processes, including those related to risk management and communications with the market and other interested parties.

The executive management ensures that the organization is in full compliance with the legal regulations and other internal policies to which it is subject. If there are any subsidiaries, the executive management is responsible for ensuring that other companies of the group are also in compliance.

Monitoring, reporting, and correcting any deviations, whether arising from non-compliance and/or internal and external regulations, risk management, internal controls, or auditing are also functions of the executive management.

As administrators, the members of the executive management have fiduciary duties to the organization, and are accountable for their actions and omissions to the organization itself, the board of directors and the stakeholders.

## Practices

- a)** The executive management must plan, organize, and control the resources provided by the board of directors in order to responsibly generate value for the organization and its stakeholders. It is responsible for establishing processes, policies, and indicators that allow itself and the board of directors to objectively evaluate the standard of conduct observed in the organization's operation.
- b)** The chief executive officer is responsible for the leadership of the executive management. His duty is to serve as a liaison between the executive management and the board of directors. He must be guided and supervised by the board of directors or, in the absence of such body, directly by the shareholders.
- c)** The executive management should promote the organizational culture, strengthening its values and principles, applying them in formal policies, practices and procedures. In addition, it should devise ways for it to permanently monitor whether its decisions, actions and impacts are aligned with such values and principles. In case of deviations, it should propose the application of corrective and, ultimately, punitive measures, as provided by the code of conduct.
- d)** Each member of the executive management responds individually for their specific responsibilities in management, and collectively for the decisions taken by the executive management as a whole. Furthermore, members of the executive management are accountable to the chief executive officer, to the other officers and, whenever requested, to the board of directors or, in the absence of this body, directly to the shareholders.
- e)** The responsibilities, authorities and duties of the executive management must be clearly and objectively defined in the by-laws/articles of incorporation, and the executive management should have an internal regulation (approved by the board of directors) that establishes its structure, operation, roles and responsibilities. The organization's documents must establish

a formal structure of competences and distinguish between what is due to the officers, to the executive management as a body, or to the board of directors.

## 3.2 Nomination of executive management members

### Principle

The process of appointing the members of the executive management is of paramount importance to a successful implementation of the organization's strategy.

### Practices

- a)** The executive management must be aligned with the principles and values of the organization, in addition to being a diligent and cohesive unit composed of qualified professionals with complementary skills, who together can meet the challenges faced by the organization. The chief executive officer must submit to the board of directors the nomination of officers. The board of directors is then responsible for electing the executive management members or, in the absence of this body, the election is held directly by the shareholders, based on objective criteria to determine the appointee's qualification, such as experience in the market, training, and reputation.
- b)** When electing executive management members, the board of directors should also consider diversity, including gender. Similarly, the executive management should also consider diversity when filling its managerial positions, and should create and disseminate plans and formal policies to ensure equal opportunities for men and women, in order to balance the number of positions held by both in organizational leadership positions, including management and directors, taking into account the specific needs of the business.
- c)** The board of directors should advise the chief executive officer, through the compensation or human resources committees, if any, with the description of the basic requirements and the compensation for each position within the executive management.
- d)** The direct nomination of officers by a particular shareholder or related party should not be allowed.
- e)** The rules for the replacement of executive management members, whether due to temporary leave or resignation, must be set out in the bylaws/articles of incorporation or in the internal regulations – in the latter case, it must be approved by the board of directors.



## 3.3 Relationship with stakeholders

### Principle

The executive management should take into consideration the legitimate interests of all the shareholders, as well as those of other stakeholders, in its mission to fulfil the organization's corporate object and social role.

### Practices

- a) With guidance and supervision from the board of directors, the chief executive officer and the members of the executive management should ensure a transparent and long-term relationship with the stakeholders, in addition to defining the relationship strategy with the organization's various audiences.
- b) The executive management must propose a strategy and enact a continuous program that sets out the guidelines for relationship, consultation and systematic communication with the organization's various stakeholders. This program should be periodically evaluated and adjusted in order to reflect the challenges faced by the organization, and its progress must be monitored by the executive management, which then reports to the board of directors on this matter.
- c) In publicly held companies, the relationship with the market, investors, and creditors is a duty of the investor relations officer – in the absence of this professional, it should be led by the chief executive officer –, who then reports the results of this activity to the board of directors.
- d) The investor relations officer must be involved, including through participation in the board of directors' meetings, in matters that affect how the market perceives the organization.

## 3.4 Transparency

### Principle

Proper evaluation of the performance and value of an organization depends on the clear, timely, and accessible disclosure of information on its strategy, policies, activities and results. Enabling a high level of transparency of information about the organization contributes positively to its reputation and that of its administrators.

This positive reputation can minimize transaction costs by increasing trust in the organization and thus reducing the cost of capital.

Reputation has an economic value and may lead to competitive advantages. It is also a factor in attracting and retaining talents. Building a good reputation based on transparency is not only a deference or concession to the market and society, but a financially rewarding benefit that the organization can grant to itself.

### Practices

- a)** In addition to the reports required by law or internal regulation, the executive management must ensure that it discloses all information deemed relevant to its stakeholders, financial or non-financial, positive or negative, as soon as it becomes available. All information that may contribute to a correct assessment of the organization and influence investment decisions should be disclosed, including the major policies adopted by the organization.
- b)** This information must be provided in a clear and concise manner, in language that is accessible to its target audience, respecting the “substance over form” principle. It should also be made available immediately and simultaneously to all stakeholders, regardless of their geographic location. Websites and other technologies should be used to spread this information as quickly and widely as possible.

### 3.4.1 Communication policy and periodic reports

#### Practices

- a)** The organization must have an appropriate communication system, through formal mechanisms, in order to avoid asymmetry of information with stakeholders.
- b)** The executive management should implement a clear communication policy, approved by the board of directors, defining the organization’s spokespersons for each subject, in order to eliminate contradictions between the statements of different executives within the organization. The reports should contribute towards a better assessment of the organization’s managerial quality and the risks that it is willing to take.

- c) The annual report, which is the responsibility of the administration, should be the most comprehensive form of providing information to stakeholders. It should not preclude other occasional communications that ensure timeliness and regular frequency of information. It must provide duly audited financial, and externally assured non-financial information.
- d) Both the annual report and the other reports issued by the organization must be prepared in accordance with current legislation and with internationally accepted models, with a view to providing a coherent perspective and report the activities of the organization. Based on the organization's business model, it should identify the factors of production, products/services and the impact of activities both on society and on the environment. By clearly stating the organization's commitments, policies, and ethical principles, this approach allows a wide range of stakeholders, especially investors, to compare different reports.

## 3.5 Role of the executive management in the code of conduct

### Principle

Organizations should base their operation on socially responsible and ethical principles, reflected in its code of conduct (see 5.1).

### Practice

- a) The executive management should work to ensure compliance with the organization's code of conduct, by disseminating the code and periodically training all audiences subject to it: administrators, employees, and also suppliers and providers of services with whom it maintains a relationship. Continuing education programs may be an appropriate tool to achieve this objective.

### **3.6 Evaluation of the executive management**

#### **Principle**

A systematic and structured process for evaluating the officers helps to promote superior and consistent performance for the organization. The regular evaluation of officers and other organization leaders is a way of recognizing talents and efforts, rewarding those responsible for the results, and correcting any flaws or weaknesses identified.

#### **Practices**

- a)** An effective evaluation of the executive management should enable adjustments to be made to the personality and posture of executives in order to meet the organization's strategic needs, in addition to considering financial and non-financial performance (see 2.11).
- b)** The chief executive officer is directly responsible for the evaluation of the executive management members, and should implement a process for their systematic and annual performance appraisal. He must ensure that all managers, or at least the organization's senior management, undergoes periodic evaluation. The evaluation process can be supported by the human resources committee, if any. The results of the officer's evaluation must be shared with the board of directors (see 2.11).
- c)** The board of directors is responsible for evaluating the chief executive officer (see 2.11).

### **3.7 Compensation of the executive management**

#### **Principle**

The compensation of the executive management should serve as an effective tool for the attraction, motivation, and retention of its members, and provide the alignment of their interests with those of the organization.

#### **Practices**

- a)** The compensation of the executive management should be linked to results, with short- and long-term goals clearly and objectively related to the generation of economic value

for the organization. Compensation must be fair and consistent with the responsibilities and the risks inherent to each position, and duly accounted for.

- b)** The organizations should have a formal and transparent procedure for approval of their compensation policies for executive management members, including possible benefits and long-term incentives paid in or tied to shares. The goals and premises of any variable compensation should be measurable and auditable.
- c)** When establishing the compensation policy, the board of directors, through the compensation or human resources committees, if any, should consider the costs and the risks involved with these programs, including occasional dilution of equity interest with the adoption of long-term benefits paid in shares.
- d)** The compensation policy should not encourage actions that induce the officers to adopt short-term measures that are unsustainable, or that may have a negative long-term impact in the organization. Short-term targets related to variable compensation or the creation of unattainable or inconsistent challenges should be avoided, as they induce the executive management to expose the organization to extreme or unnecessary risks.
- e)** The incentive structure should include a system of checks and balances that indicates the limits to the responsibilities of those involved and ensure that the same person do not control the decision-making process and its respective supervision. No one should be involved in any decision about his own compensation. The chief executive officer must submit the proposals for compensation of executive management members to the board of directors.
- f)** The board of directors must submit its proposal for the compensation policy of executive management members for approval at the general meeting.
- g)** The annual compensation of officers should be disclosed individually. Otherwise, it should be disclosed in total considering the whole body of the executive management, with an indication of the maximum, minimum, and average compensation received by members of the governing body. Both forms of disclosure should contain separate information concerning compensation received by administrators who are controlling shareholders or associated with the latter.
- h)** The disclosure of the compensation should also break down all types of compensation, including fixed or variable and benefits. While taking the proper care not to disclose sensitive information to competitors, the compensation and benefits policies of administrators,

including any long-term incentives and, when available, the rules for retention, exit and/or non-compete bonus. Similarly, the values concerning to any business dealings between the organization, its subsidiaries and affiliates, and companies controlled by executives must be disclosed.

### **3.8 Access to facilities, information and files**

#### **Principle**

The executive management's records' full transparency to the board of directors, to the fiscal council or, in their absence, to the shareholders, is essential to create the atmosphere of mutual trust that is necessary within the organization. In all cases, however, all parties must maintain their duty of confidentiality with respect to information that must be kept within the organization.

#### **Practice**

- a)** The executive management should facilitate the access of members of the board of directors, its committees, the fiscal council, as well as other oversight or control bodies, to the organization's facilities. Similarly, the governance actors should have access to all information, files and documents necessary for the performance of their duties.



## 4 SUPERVISORY AND CONTROL BODIES

### 4.1 Audit committee

#### Principle

This important accessory body to the board of directors assists the latter in the control over the quality of financial statements and internal controls, aiming at the reliability and integrity of the information to protect the organization and all stakeholders.

#### Practices

- a)** It should preferably be composed entirely (or at least by a majority) of independent directors and coordinated by an independent director. Given the high probability of conflicts of interest, it should not have any internal directors or executives as members – they may, however, be invited as guests when needed.
- b)** At least one of its members must have proven experience in accounting, auditing or finance.
- c)** The audit committee should support the board of directors in the following activities:
  - i.** monitoring the effectiveness and quality of the organization's internal controls;



- ii. monitoring the organization's compliance with laws, regulations and compliance systems;
- iii. supervising the structure and risk management activities by the organization's management, including operational, financial, strategic, and reputational risks, in line with the guidelines and policies set forth by the board of directors;
- iv. monitoring ethics and conduct, including the effectiveness of the code of conduct and the reporting channel (see 5.1 and 5.2) (comprising the handling of complaints received), and possible fraud;
- v. monitoring the quality of the accounting processes and their practices, the preparation of the financial statements, and other information disclosed to third parties;
- vi. supervising the internal audit activities, including the quality of its work, existing structure, work plan, and results of its activities;
- vii. supporting the board of directors in hiring or replacing the independent auditor and supervising its activities, structure, independence from the organization, quality, and results of its activities;
- viii. evaluating and monitoring the existing controls for the organization's transactions with related parties, as well as for their disclosure.

## **4.1.1 Relationship with the board of directors, the chief executive officer, and the executive management**

### **Practices**

- a) The audit committee should meet regularly with the board of directors, the fiscal council (if any), and the other committees of the board. Like other committees, it should, at every meeting of the board of directors, report on its activities. The coordinator of the audit committee, along with the board of directors, is responsible for defining how this report will be presented.
- b) The chief executive officer and the other executives and professionals in the organization should participate in the audit committee whenever requested, for the purpose of providing clarifications, information and/or documents that are needed for the committee's activities.

#### **4.1.2 Relationship with independent auditors**

##### **Practice**

- a)** The audit committee should, along with the independent auditors, address the following topics:
  - i.** organization's accounting practices;
  - ii.** relevant estimates and judgements used in the preparation of financial statements;
  - iii.** main risk factors, including those related to social, environmental and governance aspects;
  - iv.** changes in the scope of the independent audits;
  - v.** relevant deficiencies and/or significant shortcomings in internal controls;
  - vi.** fraud and illegal acts;
  - vii.** independence and quality of the work team;
  - viii.** work plan;
  - ix.** possible disagreements with the executive management;
  - x.** main points of the audit report and their effect on the financial statements and audit report.

#### **4.1.3 Relationship with subsidiaries, affiliates and third parties**

##### **Practice**

- a)** The audit committee must ensure the quality of information derived from subsidiaries and affiliates, as well as that generated by third parties, such as experts, as they are reflected on the financial statements of the economic group. Likewise, it should periodically evaluate relevant aspects such as professional competence and independence concerning the organization's relationship with third parties who generate accounting information. When necessary, it should resort to additional opinions on the work of third parties.

## 4.2 Fiscal council

### Principle

The fiscal council is part of the Brazilian organizations' governance system. It may be temporary or permanent, as defined in the by-laws. It represents a supervisory mechanism that reports to the shareholders, independent from the administrators, and is established by decision of the general meeting with the purpose of preserving the organization's value. Members of the fiscal council have the power to act individually, despite the collective nature of the body.

As provided for in the legislation<sup>22</sup>, its main duties are:

- to supervise, through any of its members, the acts of administrators and to verify compliance with its legal and statutory duties;
- to express an opinion on the annual management report, including any additional information it may deem necessary or useful to the voting at the general meeting (see 1.6);
- to express an opinion about the proposals from different management bodies that are submitted to the general meeting, concerning changes in social capital, the issuance of debentures or subscription warrants, investment plans or capital budgets, dividend distribution, transformation, merger or split-up (see 1.6);
- through any of its members, denounce to the corporate bodies errors, frauds or crimes they may find out; if no necessary measures is taken to protect the interests of the organization, the fiscal council should appeal to the general meeting. This body is also responsible for suggesting useful measures to the organization;
- to review, at least on a quarterly basis, the balance sheet and other financial statements prepared periodically by the organization; and
- to review the financial statements for the fiscal year and express a corresponding opinion.

The fiscal council is not a replacement for the audit committee. While the latter is a control body with functions delegated by the board of directors, the former is a supervisory instrument elected by the shareholders and, by law, is not subordinate to the board of directors. Establishing a fiscal

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<sup>22</sup> Article 163 of Law 6.404/76 and Article 1.069 of Law 10.406/2002.

council does not exclude the possibility of establishing an audit committee. In order to work more effectively, the priorities of the fiscal council must be established by its members, considering the shareholders' expectations and the organization's interests.

#### **4.2.1 Composition**

##### **Practices**

- a)** Before the election of the fiscal council members, organizations should encourage a debate among all shareholders regarding the composition of this body, seeking to ensure that it has the desirable diversity of professional backgrounds relevant to their duties and to the activities of the organization.
- b)** All shareholders in the process of nominating fiscal council members must be entitled to participate, even in organizations without a clearly defined controlling shareholder.
- c)** The organization should facilitate the establishment of the fiscal council, when requested by a group of shareholders, especially when there is no clearly defined controlling shareholder or if there is only one class of shares.
- d)** In organizations with a clearly defined ownership, the controlling shareholders must waive their prerogative to elect a majority of fiscal council members and allow the majority to be composed of members elected by the non-controlling shareholders.

#### **4.2.2 Work agenda**

##### **Practices**

- a)** The fiscal council should establish a work agenda that defines the focus of its activities over the course of the year. This agenda should include a list of regular meetings, as well as the information to be periodically sent to members of the fiscal council. In addition, the council must adopt an internal regulation that does not inhibit its members' freedom of acting individually. It should also have the right to consult external experts (e.g., lawyers, auditors, tax specialists, human resources, among others), paid by the organization, to receive assistance on significant matters.
- b)** Documents produced by the fiscal council should not restrict individual initiatives established by law. In turn, the council member should, whenever possible, seek to work in harmony with other members.

## 4.2.3 Fiscal council's statements

### Practice

- a) The company's information disclosure policy (see 5.8) should include disclosure of the fiscal council's opinion. This disclosure should include the votes of fiscal council members, dissenting or not, justifications of members' votes and other documents drawn up.

## 4.2.4 Fiscal council's relationships

### Principle

Fiscal council members have a duty to the organization, regardless of who may have nominated them. Thus, their performance should be guided by fairness, transparency, independence, and confidentiality. When exercising its duties, the fiscal council should engage with the various bodies and agents that make up the organization's governance system.

### 4.2.4.1 Relationship with shareholders

#### Practice

- a) At least one of the fiscal council members should attend the organization's important events, regardless of any legal or regulatory requirement to do so. This recommendation includes the organization's events with analysts and investors.

### 4.2.4.2 Relationship with the audit committee

#### Practice

- a) When organizations have a fiscal council and an audit committee in place, some of their activities may overlap. In this case, the two bodies should coordinate some of their activities, and may hold joint meetings for that purpose.

### 4.2.4.3 Relationship with independent auditors

#### Practices

- a) The fiscal council should monitor the work of independent auditors (see 4.3) and the relationship of these professionals with the administration. The auditors must attend fiscal council meetings, whenever called upon, to provide information related to their work.

- b)** The administration should not obstruct or impede communication between any fiscal council members and the independent auditors. In fact, it should provide fiscal council members with reports and recommendations issued by independent auditors or other experts.

#### **4.2.4.4 Relationship with internal auditors**

##### **Practices**

- a)** The fiscal council must monitor the work of the internal auditors, in cooperation with the board of directors and/or the audit committee, if any (see 4.4). The board of directors may establish communication channels between the internal auditors and the fiscal council, as a means of guaranteeing the independent monitoring of all of the organization's activities.
- b)** The internal auditor must attend fiscal council meetings, whenever requested, to provide information related to the audit process. The administration should not obstruct or impede communication between any members of the fiscal council and internal auditors.

#### **4.2.5 Compensation of the fiscal council**

##### **Principle**

Fiscal council members must receive adequate compensation, proportional to the amount of time the professional is expected to dedicate, the complexity of the business, and the experience and the qualifications necessary for the position.

##### **Practices**

- a)** There should be no variable compensation for fiscal council members.
- b)** Its members should be reimbursed for any expenses related to the exercise of their duties. The amount of compensation for the fiscal council should be fixed and based on the total compensation paid to executives, including that received from other organizations in the same group.
- c)** The compensation of fiscal council members should be disclosed individually, or otherwise, it should be disclosed in total considering the whole body, separately from

the compensation of administrators. Fiscal members should receive no additional compensation from anyone who may have nominated them.

## 4.3 Independent auditors

### Principle

Supported by the work of the independent auditors, the board of directors and the executive management are responsible for ensuring the integrity of the organization's financial statements, prepared in accordance with the accounting practices in place for the jurisdictions in which the organization maintains its activities.

The primary responsibility of the independent auditor is to issue an opinion on whether the financial statements prepared by management accurately represent, in all relevant aspects, the organization's financial position.

### Practices

- a)** The board of directors and the executive management must ensure that the financial statements are audited by an independent auditor with proper qualification and experience – a crucial tool to the reliability of this information –; they must guarantee as well the assurance of non-financial information.
- b)** The independent audit team should report directly to the board of directors or through the audit committee, if any. It must endeavor to keep the executive management informed of all aspects concerning the progress of its work, whenever appropriate.
- c)** In organizations without a board of directors, the independent auditors must be hired and report to the shareholders, in order to ensure their independence.
- d)** Auditors should evaluate whether the internal controls used by management are appropriate and sufficient to enable the preparation of financial statements that do not show any significantly inaccurate information, due to error or fraud.

### **4.3.1 Relationship with the board of directors and/or the audit committee**

#### **Practices**

- a)** The audit committee should be the body responsible for recommending to the board of directors the hiring or replacement of an independent auditor. When there is no audit committee, this responsibility rests with the board of directors.
- b)** Before hiring the independent auditor, the audit committee should assess, among other things, the following aspects:
  - i.** structure and governance of the audit firm;
  - ii.** internal quality control processes of the audit firm;
  - iii.** independence of the audit firm, its partners and the team that will carry out the work;
  - iv.** training and dedication of the team assigned to the work;
  - v.** experience in industry and segment;
  - vi.** fees consistent with the size and complexity of the organization being audited.
- c)** During the term of the contract with the audit firm, the audit committee should monitor the effectiveness of the work of external auditors as well as their independence. It should also assess and discuss the annual work plan of the external auditor and submit it to the appraisal of the board.
- d)** The independent auditors must attend at least the meetings of the board of directors and the general meetings in which the financial statements are presented for consideration.

### **4.3.2 Independence**

#### **Principle**

Ensuring the independence of the auditors is essential. This allows them to conduct an impartial assessment of the financial statements and contributes to creating an atmosphere of trust between administrators, shareholders and other stakeholders. The main beneficiaries of the auditors' independence and the effective exercise of their duties are the organization itself and its stakeholders. As a rule, the auditor should not provide other services to the organization being audited.



The independence of auditors can be threatened when they:

- audit the product of their own work;
- promote or defend the interests of the audited entity;
- perform managerial functions to the audited entity.

## Practices

- a)** For the benefit of their independence, auditors should be hired for a predetermined period. Any decision to rehire independent auditors must be preceded by a formal and documented evaluation of their independence and performance. This evaluation should be conducted by the board of directors, with support from the audit committee, if any.
- b)** It is recommended that the by-laws/articles of incorporation establish a time limit, after which the decision to rehire the auditor should be subject to ratification by the majority of members in attendance at a general meeting. The vote must include all classes of shares (see 1.1). If rehired after this period, the board of directors/audit committee should confirm that the independent auditor promotes the rotation of the team's key personnel, as required by the professional standards. In any case, the organization must disclose its policy for hiring the independent audit firm.
- c)** With support from the audit committee, if any, the board of directors should ensure that the independent auditors comply with professional rules of independence, including financial independence of its audit contract.
- d)** The audit committee and independent auditors must meet at least annually, in order to discuss all aspects relating to the auditors' independence. On that occasion, the auditors must submit a formal document in which they attest their independence.
- e)** The organization should avoid recruiting new employees that are part of the audit team responsible for the evaluation of its financial statements. Should the organization nonetheless be interested in hiring such professional for a position involved in the preparation of financial statements, this state of affairs must be brought to the board of directors, which, with support from the audit committee, if any, will assess the impact of this potential hiring on the person's independence.

### 4.3.3 Non-audit services

#### Practices

- a) The organization should establish a policy to discipline the execution, by the same independent audit firm, of non-audit services related to financial statements. This policy should:
  - i. be approved by the board of directors (or, in its absence, by the general meeting);
  - ii. provide that no other service contracted can jeopardize the objectivity and independence required of the independent auditor;
  - iii. ensure that the hiring of other services be compulsorily approved by the board of directors (or, in its absence, by the general meeting).
- b) Annually, or on a quarterly basis for publicly traded companies, the proportionality between the fees paid for auditing services concerning the financial statements and those paid for other services should be disclosed in the organization's annual report.

### 4.3.4 Report on the financial statements and recommendations from the independent auditors

#### Principle

Independent auditors express their conclusion on the organization's financial statements through a report issued in accordance with auditing standards and regulations applicable to Brazil. In addition, auditors issue a report with recommendations resulting from its evaluation of internal controls, conducted during the audit process.

#### Practices

- a) Independent auditors must address their reports to the person or corporate body responsible for hiring their services (audit committee, board of directors or shareholders). They should report any disagreements with the executive management to the audit committee or, in its absence, to the board of directors. In addition, any discussions with the executive management about critical accounting policies, changes in the scope of the work, relevant shortcomings and significant failures in controls and alternative accounting treatments, risk assessment and analysis of possibility of fraud also must be reported.
- b) The auditor must consider issues of significant inconsistency between financial and non-financial information.

- c) With support from the audit committee, if any, the board of directors should assess the responses and actions of the executive management on the internal control recommendations made by independent auditors.

## 4.4 Internal auditors

### Principle

Internal auditors are responsible for monitoring, evaluating and carrying out recommendations aiming at improving internal controls, standards and procedures established by administrators. Organizations should have an internal audit program, carried out by its own employees or outsourced. The executive management and, particularly, the chief executive officer are also directly benefited by the improvement of the control environment resulting from a diligent internal audit.

### Practices

- a) The activities conducted by internal auditors should be aligned with the organization's strategy and based on a risk matrix.
- b) Internal auditors are responsible for proactively monitoring compliance of governance agents with applicable standards and for recommending improvement of controls, rules, and procedures, in line with best market practices. They should report to the board of directors, with support from the audit committee, if any (see 4.1).
- c) If this activity is outsourced, the internal audit services should not be executed by the same firm that provides the independent audit services. However, internal auditors may, to the extent necessary, cooperate with the external auditors, especially in identifying and implementing proposed improvements to the organization's internal controls.

## 4.5 Risk management, internal controls and compliance

### Principle

Businesses are subject to risks, the source of which can be operational, financial, regulatory, technological, strategic, systemic, social, and environmental. The risks to which the organization is subjected must be managed in order to support management in its decision-making process.

The governance agents are responsible for ensuring that the entire organization operates according to its principles and values, as reflected in its policies, procedures and standards, and that it is in compliance with the laws and regulations to which it is subject. The effectiveness of this process constitutes the organization's compliance system.

### Practices

- a) Actions related to risk management, internal controls, and the compliance system should be based on the use of ethical criteria reflected in the organization's code of conduct.
- b) The board of directors is responsible for adopting specific policies that establish acceptable limits for the organization's exposure to those risks. It should also ensure that the executive management is equipped with the mechanisms and internal controls to identify, assess, and control risks, with a view to keeping them at levels compatible with the established limits.
- c) Compliance with laws, regulations, and external and internal standards must be guaranteed through a process that monitors the level of compliance in all of the organization's activities.
- d) The executive management, in conjunction with the board of directors, should devise a schedule to discuss strategic risks, and follow it strictly throughout the year in order to overcome internal paradigms and biases.
- e) In addition to identifying risks, the executive management must be able to assess the likelihood of their occurrence and the consolidated financial exposure to these risks, including intangibles aspects, and to implement measures to prevent or mitigate the main risks to which the organization is subject.

- f)** The audit committee, through the work plan defined by the internal audit, should assess and confirm the executive management's adherence to the risk and compliance policy adopted by the board of directors.
- g)** The executive management, assisted by the control bodies associated with the board of directors (audit committee, see 4.1) and by internal audit (see 4.4), must establish and operate an effective internal control system to monitor the operational and financial processes, including those related to risk and compliance management. In addition, it should assess, at least annually, the effectiveness of the internal control system and report its findings to the board of directors.
- h)** The internal control system should not focus exclusively on monitoring past occurrences, but rather include a forward-looking perspective in an attempt to anticipate potential risks. The executive management must ensure that the internal control system encourages the organization's corporate bodies to adopt preventive, forward-looking, and proactive attitudes to minimize and anticipate potential risks.

## 5 CONDUCT AND CONFLICT OF INTEREST

### 5.1 Code of conduct

#### Principle

The main purpose of the code of conduct is to promote ethical principles and to reflect the organization's identity and culture. It is based on responsibility, respect, ethics, and social and environmental considerations.

The creation and enforcement of a code of conduct raise the level of confidence inside and outside the organization and, as a result, increase the value of two of its most important assets: its image and its reputation.

The administration is responsible for setting an example by complying with the code of conduct. The board of directors is the guardian of the organization's principles and values. Its responsibilities include disseminating and monitoring, with support from the executive management, the incorporation of standards of conduct at all levels of the organization.

## Practices

- a)** The code of conduct should be drafted according to the values and ethical principles of the organization. It should promote transparency, discipline the internal and external relations of the organization, manage conflicts of interest, protect the physical and intellectual property, and consolidate good corporate governance practices. It should complement the legal and regulatory obligations, with a view to ensuring that the ethical considerations relative to the identity and culture of the organization influence its management. The ethical principles should guide the negotiation of contracts, agreements and by-laws/articles of incorporation, as well as the policies that guide the executive management.
- b)** The scope of the code of conduct should be defined jointly by the board of directors and by the executive management, based on the organization's characteristics and stage of governance. Each organization should have its own code of conduct, which ought to reflect its identity and culture. The code of conduct applies to administrators, shareholders, employees, suppliers and other stakeholders and comprehends the relationship between them. It should express the commitment of the organization, its directors, officers, shareholders, employees, suppliers, and stakeholders with the adoption of proper standards of conduct.
- c)** This code of conduct should also establish a maximum financial amount for goods or services that administrators and employees can accept from third parties for free or at special prices.
- d)** The board of directors should demand that the executive management create and promote an organizational culture and values that inspire its stakeholders to adhere to ethical and responsible behavior.
- e)** The executive management must lead the process of drafting the code of conduct, according to principles and policies defined by the board of directors. This process should rely on the participation of stakeholders' representatives. The board of directors is responsible for approving the final version of the code of conduct. The participation of stakeholders in the process of drafting the code of conduct contributes to its acceptance and legitimacy.
- f)** The executive management should ensure compliance with the code of conduct (see 3.5) approved by the board of directors. It should report to the board of directors in a timely manner to provide clarifications on any violation of the code, as well as the

ensuing corrective or punitive measures taken. In addition, the executive management should ensure the effectiveness of the code of conduct, promoting its disclosure, reading, comprehension, understanding, and training at all levels of the organization, by all those who should adhere to it (administrators, members of the fiscal council and of the committees, employees, suppliers, and service providers).

- g)** The code of conduct should be disclosed on the organization's website, in an easily accessible location. Continuing education programs for all levels of the organization are a suitable tool to ensure the effectiveness of the code of conduct.

## 5.2 Reporting channel

### Principle

The reporting channel provided for and regulated in the organization's code of conduct is a relevant tool for stakeholders to voice their opinions, criticism, and complaints and to report any wrongdoing. The channel contributes to the fight against fraud and corruption and to the effectiveness and transparency in the organization's communications and its relationship with stakeholders.

### Practices

- a)** Organizations must have resources such as formal communication channels where stakeholders can voice their opinions, criticisms, and complaints and report any wrongdoing.
- b)** This channel must be independent and, in all cases, ensure the confidentiality of their users and promote speedy investigations and timely adoption of required measures.
- c)** The reporting channel, specifically, should have its operating guidelines established by the executive management and approved by the board of directors. It must be operated in an independent and impartial manner, guaranteeing the secrecy and confidentiality of the author of the message/whistleblower. This service may be outsourced to a service provider with renowned capacity.
- d)** The board of directors, the audit committee, and/or the conduct committee, if any, should monitor the handling of complaints, in the manner and periodicity set out in its regulations or the code of conduct (see 5.1), approve the findings, and communicate the results of the investigation to the author of the message/whistleblower.



- e) In all cases, the regulation or code of conduct must provide for the abstention of any member of the board of directors, the audit committee, and/or conduct committee who has a conflict of interest.

## 5.3 Conduct committee<sup>23</sup>

### Principle

The conduct committee is the executive body responsible for the implementation, disclosure, update, and training for the code of conduct and communication channels. The committee reports directly to the board of directors or to the body assigned by the board.

### Practices

- a) The conduct committee must be given full independence and autonomy and be composed of members with complementary skills, abilities, and experiences. The members of the conduct committee should be appointed by the chief executive officer and ratified by the board of directors. The members are to be selected based on their reputation and credibility among professionals of the organization (the predominance of officers should be avoided). The committee should communicate and maintain a close and permanent relationship with the board of directors and with the audit committee and the fiscal council, if any.
- b) It is essential that stakeholders recognize the legitimacy of the composition and of the role of the conduct committee. The conduct committee representatives should elect a coordinator and a secretary. Its members must prepare and submit an internal regulation, an annual meeting schedule, and agendas and minutes of meetings for the approval of the board of directors.
- c) Members of the conduct committee who are directly or indirectly involved in any internal enquiry must refrain from participating in the investigation of any violation of the code of conduct.

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<sup>23</sup> In some organizations, this body is known as the "ethics committee", "conduct commission" or "ethics commission".

- d) The board of directors should establish, in its own code of conduct or in the committee regulation, that this body must propose recommendations to be approved by the board of directors and/or the executive management. The committee's characteristics should reflect the organizational identity and culture, and its operation must be based on the values and ethical principles of the organization.

## 5.4 Conflict of interest

### Principle

The directors and executives have duty of loyalty to the organization, and not just with the shareholder or group of shareholders that nominated or elected them. A conflict of interest occurs when someone is not independent in relation to the matter under discussion, and may influence or make decisions motivated by interests other than those of the organization.

### Practices

- a) The organization must ensure the separation and clear definition of functions, roles, and responsibilities associated with the duty of each governance agent. The authorities of each organizational level must also be clearly defined, so as to minimize potential sources of conflicts of interest.
- b) This code proposes definitions of independence for members of the board of directors (see 2.4), shareholders (see 1.6.5) and independent auditors (see 4.3.2). Similar criteria apply to assessing the independence of officers, as well as any employee or representative of the organization.
- c) Anyone who is not independent in relation to the matter under discussion or submitted to a vote should, in a timely manner, express its conflict of interest or private interest. If the person fails to do so, it may be done by someone else who is aware of the conflict. As soon as a conflict of interest is identified in relation to a specific matter, the person involved should withdraw from discussions and votings, and remove themselves from the premises. This temporary leave should be registered in the minutes.

## 5.5 Related parties transactions

### Principle

The board of directors has a duty to manage and monitor transactions with potential conflicts of interest, or those which, directly or indirectly, involve related parties (members of the board of directors and of the executive management and/or shareholders)<sup>24</sup>.

### Practices

- a) The board of directors must ensure that transactions between related parties are conducted according to market practices in all aspects (e.g. price, term, guarantees, and general conditions). As part of its duties, the board of directors must request that the executive management seek market alternatives to the transaction between the related parties in question, with regards to the risk factors involved. It must also ensure that transactions between related parties are duly stated in the organization's reports.
- b) The by-laws/articles of incorporation may require that transactions between related parties be approved by the board of directors (with the exclusion of any members with potentially conflicting interests). Whenever necessary, transactions between related parties must be sustained by independent reports, prepared based on realistic assumptions and information supported by external sources. The parties involved in the transaction in question cannot participate in the development of the report, be they banks, lawyers, specialized consulting companies, among others<sup>25</sup>.
- c) Any types of compensation, paid to advisors, consultants or intermediaries, that may create conflicts of interest with the organization, administrators, shareholders or groups of shareholders should be avoided. Loans and guarantees in name of the controlling shareholders and of the administrators should be prohibited. The organization's by-laws/articles of incorporation should prohibit these transactions and set out policies for transactions between related parties. Loans between companies of the same group

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<sup>24</sup> Please refer to Carta Diretriz 04 (Guideline Letter 04), Transactions between Related Parties, IBGC, 2014.

<sup>25</sup> Please refer to Carta Diretriz 02 (Guideline Letter 02), Appraisal Reports, IBGC, 2011.

should be avoided, with exception of those in which there is no difference in shareholding structure of the different parties involved.

- d) Equal and fair treatment to all shareholders must be assured<sup>26</sup> in the case corporate reorganizations involving related parties.

## 5.6 Use of insider information

### Principle

The use of insider information for one's own benefit or that of others is illegal, unethical and violates the principle of fairness. Such practice undermines not only the integrity of the market but also the organization involved and its shareholders. The person engaging in unlawful conduct becomes liable to civil, criminal or administrative penalties.

### Practices

- a) Regarding the use of insider information, the code of conduct should clearly define the scope and the breadth of specific situations (e.g.: use of insider information for commercial purposes or to obtain advantages in the trading of securities). In addition to the fairness that is fundamental in any transactions involving securities, the code of conduct should clearly state the duty of loyalty to the organization.
- b) The organization must have a specific document, containing the procedures to be observed to inhibit and penalize the improper use of information. In the case of executives, the code of conduct should be particularly thorough and provide for a specific procedure for the trading of securities.

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<sup>26</sup> If a publicly traded company is involved in such transactions, the scrutiny of the Brazilian Takeover Panel (Comitê de Aquisições e Fusões, CAF) should ensure adequate protection to minority shareholders.

## 5.7 Stock trading policy

### Principle

The trading of shares or other securities issued by the organization itself, conducted by controlling shareholders, members of the board of directors, the executive management, and the fiscal council, or other statutory and executive bodies with access to information, should be guided by principles of transparency, fairness and ethics.

### Practices

- a) Publicly traded companies must adopt a stock trading policy for its own securities, through a resolution of the board of directors. The trading policy should cover any certificates linked to securities issued by the company itself or by third parties with whom the organization maintains a significant relationship (e.g., corporate, commercial), or with whom it is engaging in negotiation.
- b) The organization should develop and monitor controlling mechanisms that enable the enforcement of its stock trading policy, as well as investigate and punish anyone failing to comply with it.
- c) The investor relations department, with the support of the internal auditors, should monitor negotiations involving the organization's shares conducted by members of the board of directors and fiscal council who may have used insider information (see 5.6). The investor relations department should listen to demands for improvement of the control policies coming from the executive management.

## 5.8 Information disclosure policy

### Principle

The shareholders and investors should be treated fairly. As such, they must have access to the organization's information simultaneously (see 3.4).

### Practices

- a) Publicly traded companies must adopt an information disclosure policy, through a resolution of the board of directors.

- b)** This policy should:
- i.** establish that information be disclosed in a clear, objective and thorough manner, including all relevant information, whether positive or negative (see 3.4.1);
  - ii.** list all responsibilities of the board of directors and the executive management, in particular those of the officer in charge of shareholder and investor relations (and his/her direct interaction with strategic stakeholders of the organization and with the board of directors); and those of the disclosure committee (which may provide assistance to investor relations department with the creation and monitoring of the organization's communications with stakeholders);
  - iii.** define the person in charge for ensuring that the organization complies with the disclosure requirements; and the person in charge of deciding when an information should be disclosed;
  - iv.** prevent information from being disclosed prematurely and safeguard confidential information (2.24), in order to prevent information asymmetries and the leakage or use of relevant or privileged information (see 5.6, 5.7 and 5.8);
  - v.** define the spokespeople for each subject to be disclosed.
- c)** The investor relations officer can serve as the organization's spokesperson in communications with investors. Discussions taking place at the board of directors' meetings should not be disclosed in blogs, social networks, interviews and other unofficial means of communication of the organization, in order to avoid information asymmetries.

## **5.9 Contributions and donations policy**

### **Principle**

It is important that administrators and employees understand, in a clear and objective manner, the principles governing donations of financial resources or assets.

### **Practices**

- a)** The board of directors should be the entity responsible for approving all expenditures related with political activities.

- b)** In order to ensure greater transparency on the use of the organization's resources, the board should draft a policy on its voluntary contributions, including those related to political activities.
- c)** This policy should:
  - i.** make it clear that the promotion and funding of charitable, cultural, social, and environmental projects must include an explicit relationship with the organization's business, or provide a clear contribution to its value;
  - ii.** establish, in a clear and objective manner, the conditions and limits for donations, gifts and contributions provided to third parties, including – and especially – political parties and candidates for public office.
- d)** State-owned organizations should not provide contributions or donations to political parties or to individuals and companies associated thereto<sup>27</sup>.
- e)** The organization should disclose, on an annual basis and in a transparent manner, all the costs arising from their volunteer activities.

## 5.10 Prevention and detection of illicit acts policy

### Principle

In addition to violating ethical standards, illegal conduct may compromise the image and reputation of the organization and of its employees, as well as negatively impact its economic value, sustainability and longevity. Engaging in illegal activity may result in civil, administrative and criminal liability for the organization and its leaders.

### Practices

- a)** The board of directors, with support from the executive management, is responsible for developing a policy for the prevention and detection of illegal activity.
- b)** The organization must ensure strict compliance with the legal instruments and adopt guidelines and mechanisms to defend its integrity with a view to preventing and detecting illegal acts, such as engagement in corruption, fraud or bribery.

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<sup>27</sup> Please refer to Carta Diretriz 05 (Guideline Letter 05), Mixed-Capital Companies, IBGC, 2015.

- c)** Such guidelines should consider all levels of the organization and include the possible situations in which people associated with it can become involved, either as active or passive agents. They must also provide for the operation of the reporting channel with respect to illegal activities and ensure the privacy and confidentiality of the whistleblower (vide 5.2).
- d)** The organization's guidelines should include programs and measures, in the form of policies concerning ethics, internal controls and compliance, including questions related to processes and monitoring (see 4.5).
- e)** Private-sector organizations also must include clear and objectives mechanisms in its guidelines concerning the prevention and detection of illegal conduct in their relationships with other companies in the private and public sectors. Organizations in the financial sector, in particular, due to the nature and regulation of their activities, must pay special attention to the prevention of illegal acts, such as money laundering.
- f)** Suppliers should be encouraged not only to adhere to the organization's code of conduct, but also to implement their own compliance system/mechanisms.







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This document is also an inspiration and an invitation to reflect and act towards building a new mentality for entrepreneurs and leaders, as well as different business models and, above all, about the kind of future we want for our country. It is imperative that we begin building this future today.

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