Carta/AMEC/Presi n° 08 /2014

São Paulo, May 12th 2014.

To Ms.
Kerrie Waring
Managing Director
International Corporate Governance Network
Kerrie.waring@icgn.org

Dear Kerrie,

In the latest meeting of the Global Network of Investor Associations, you mentioned the importance of receiving comments from us regarding the draft ICGN Global Corporate Governance Principles – especially in light of the Brazilian experience with companies with a controlling shareholders.

We have discussed the matter internally and with some of our members. The conclusions were approved by our management board on May xx 2014.

We therefore bring to you the following suggestions:

1. Item 1.2.h – "*Ensure a formal and transparent board member appointment process*"

We believe the use of the term 'appointment' here may be too broad. Our members believe that the process should at least be divided in two parts: nomination and election.

The recommendation on the current draft certainly applies to both parts, but it is important to enter into more specific details, in our opinion.

The nomination process, in turn, also has at least two components. One is the process of internally selected candidates. These are the names that will be recommended by the board. The board should therefore have "a formal and transparent board member nomination process" for the candidates it will recommend. This process must be direct result of the evaluation process, mentioned on item 1.2.k of the Draft. The board will then analyze its needs in terms of expertise and other characteristics to arrive at the recommended names. This process should be as transparent as possible.

The other component of the nomination process is the receipt of independent candidates, as may be nominated by non-controlling shareholders. Here, the board must have a simple and fair process to receive these nominations – together with supporting materials and statements – and to broadcast them fairly to all shareholders. Fairness in this regards means the same level of publicity granted to candidates that have the board's support. Besides, timelines must also be fair and transparent, to ensure that it will not become a problem to the effective use of the faculty to nominate. Ideally, the board should also explain why these candidates are not entitled to their support.

Once the nomination process is established, fairness and transparency should also apply to the election process. It should empower investors to vote their shares to the best interests of the Company. In other words, investors will only be able to vote with diligence if they are provided with information on the actions of the board, its evaluation and gaps. Here a link must once more be established with the evaluation process mentioned on 1.2.k., as well as with the communication policies established on 1.3.

Investors that are present at the meeting as well as voting by proxy should have the same possibility of supporting their preferred candidates. This means the fair elaboration of proxy cards and voting mechanisms.

We insist that all these recommendations **may** already be implied from the existing language of 1.2.h. However, in light of our experience with board elections in our

jurisdiction, unless these details are clearly spelled out, companies will not comply with these needs. Lawyers will be able to state that they comply with the Principles, even though the election process may remain highly unfair to shareholders, especially dissenting ones.

The spirit of these comments is very well captured by Item 3 of the Draft. We therefore strongly suggest that Item 1.2.h be rewritten as follows: "*ensure a formal and transparent process for nomination, election and evaluation of directors, as per Item 3 of these Principles*'.

2. Item 1.2.i. "appoint, and if necessary remove, executive directors…"

We suggest that the term 'executive directors' is replaced by 'officers'. The term 'directors' may, in some translations and/or jurisdictions cause confusion between members of the board and members of management.

3. Item 3.3.

We recommend that the threshold mentioned here be reduced to 2%, since 5% may be too impractical for larger companies.

4. Item 3.5.

We suggest the inclusion of an additional item, ie, the candidate's relations with significant and/or controlling shareholders.

5. Item 3.6.

We suggest replacing "achieving the appropriate degree of diversity" for achieving appropriate representation from ehnic minorities and female directors". In our opinion, diversity is a goal to be achieved and it includes, but is not limited to, race and gender.

6. Item 3.7.

We suggest removing the direct recommendation to hire an external consultant. This may not be doable for smaller firms, and may be seen as the inappropriate attempt to create demand for services. One alternative is to say that the board "should consider" that route.

7. Item 4.7.

We suggest that these reviews and conclusions from independent directors be made public on the annual report.

8. Item 6

We believe that a specific mention should be added, that the disclosure of compensation must include non-cash items such as D&O insurance, fringe benefits and terms of severance packages, if any. All of these items should be clearly submitted annually for shareholder approval. No compensation must be paid to directors and officers that has not been clearly approved by shareholders.

9. Item 6.7.

We disagree with the recommendation that 'performance-based pay should not be granted to non-executive directors and chairs'. While we have not achieved a common view on whether these payments are desirable and, if so, on which terms, we clearly disagree with their prohibition under the terms of the Draft.

10. Item 7

We recommend that the Principles indicate an ideal time frame to change the audit firm, in order to ensure independence. This period should not exceed 10 years. If the board believes that there is reason to re-appoint the auditors after this period, it should submit the proposal to shareholders, and explain the reason for the exception.

11. Item 8

We suggest the inclusion of the following recommendation: “The board should ensure that conflicted shareholders are precluded from voting at shareholder meetings. This applies in particular to the approval of related party transactions that involve dominant or controlling shareholders”.

12. Item 8

We suggest the inclusion of the following recommendation: “The board should establish a clear ‘record date’ for shareholders to have voting rights. Share blocking or requirements of long tenure of shares should be prohibited.”

13. Other suggestions

We suggest the following additional recommendations, which are not specifically addressed on the draft:

- When legislation does not do so, the board should establish a clear record date to serve as a basis of voting power. Such date must be easy to check by both companies and investors.
- The practice of share blocking should be banned, as well as requirements of holding periods to vote on certain matters.
- Directors must not accept binding commitment to vote following shareholder instructions. They should keep their discretionary power on all matters that are under the board’s responsibilities.

Mauro Rodrigues da Cunha

Presidente Executivo