ibgc instituto brasileiro de governança corporativa

Code of Best Practices of Corporate Governance

6th edition

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Founded on November 27th, 1995, the Brazilian Institute of Corporate Governance (IBGC), a civil organization, is the Brazilian reference and one among the main reference organizations for corporate governance worldwide. Its purpose is to generate and disseminate knowledge on the best corporate governance practices and influence the most diverse agents in its adoption, contributing to the sustainable development of organizations and, consequently, to a better society.

Credits

This publication is the result of a project of reviewing the 5th edition of the Code of Best Practices of Corporate Governance, developed and executed by the 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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Contents

Presentation

Since its first edition in 1999, the IBGC's *Code of Best Practices of Corporate Governance* has been an important consultation and reference tool for organizations of different sizes, industries, legal natures, and levels of maturity. The document's review and updating processes over the years have placed it in the context of corporate governance trends. In this 6th edition, faced with a panorama of rapid transformations in society and the business environment, this premise has become as imperative as it is challenging.

As in previous editions, this Code update sought to actively include its stakeholders. To this end, the Institute's internal and external groups were heard in order to better capture the different demands, suggestions, and criticisms regarding the publication.

A structured stakeholder consultation process was carried out to better understand the document's user experience. A selected group of professionals who use the IBGC Code as a reference in their activities—to a lesser or greater extent—and also non-users of the document participated in open interviews. Among the proposals suggested in these meetings, one highlight was the need to broaden the scope of the document's practices to a greater variety of types of organizations.

In addition, we conducted detailed research on fifteen governance codes from other international or multilateral entities and organizations. This immersion enabled us to situate the Code in the external context and broaden the view on the points that could be improved or maintained in this current edition.

The contributions received from members of the thematic commissions, regional chapters, and IBGC instructors, as well as from various participants in the restricted and public hearings and in the discussion panels on the Code at the 23rd IBGC Congress 2022, were also essential to the content of this publication.

The review process relied on the essential support of a qualified group of volunteer experts with different experiences and professional profiles, who made up the working group that reviewed the Code.

The group looked at the existing recommendations in the previous edition with a critical and careful eye, in order to make the publication less prescriptive and more oriented to bringing principles that are comprehensive for different organizations, as well as placing them in a context of greater relevance of environmental and social aspects in their decision-making processes.

In this exercise, some practices and recommendations from the 5th edition were dropped from this Code because they were too specific for certain types of organizations and therefore not inclusive enough. Although some practices were removed from this edition, we also added new content in line with the expectations and demands of the Code's users, as well as the contributions received during the review process.

Why use the Code?

This document aims to promote good corporate governance through the dissemination of best practices. By adopting the recommendations of this Code, based on its principles, organizations show their commitment to align interests; prevent, mitigate, and address conflicts; and generate tangible and intangible value for all stakeholders, considering the impacts on the economy, society, and the environment. It is an intentional action aimed at improving the decision-making process, the performance, the reputation, the economic return, and the longevity of its operations.

Who is the Code for?

This publication is addressed to several types of organizations, such as: family-owned companies, state-owned companies, cooperatives, publicly- or privately-held companies, and non-profit entities, among others. Obviously, the set of practices adopted in each organization can be adapted according to its stage of maturity in relation to corporate governance, type of organization, and applicable regulatory framework, among other aspects.

Despite the broader scope and the attempt to avoid specificities, some practices typically recommended for publicly-traded companies were kept because they have proven to be good examples that can inspire other organizations.

How to navigate the Code?

Reading this Code and adopting the best practices contained herein should be accompanied by compliance with the laws and regulations applicable to each organization.

For a better use of the recommended practices in this 6th edition of the Code, it is essential to read “Chapter 1 — Foundation,” which is the basis for the subsequent sections’ content.

The Code contemplates the agents and the corporate governance structures in specific chapters: shareholders; board of directors; executive management; supervisory and control bodies. Also part of the publication’s structure is “Chapter 6 — Conduct,” which deals with the conduct and organizational policies.

For the best user experience, at the end of the Code there is a glossary with a more detailed explanation of some specific terms and an index in which you can find a selection of words and expressions as well as the indication of the pages in which they are found.

1.

Foundation

1.1. Ethics as the foundation of corporate governance

Ethics is the set of values and principles that guides the conduct and enables the coexistence and evolution of human beings in increasingly complex societies. It derives from the sense of collectivity and interdependence that drives individuals to collaborate with the development of society, directing their actions towards the common good.[1]

At first, these ethical values and principles were translated into corporate practices with the primary goal of protecting shareholders against fraud, abuse by administrators (executive management members and board members), and conflicts of interest among and between governance agents. Today, however, ethics as applied to businesses and other organizations extends to the relationship of businesses and governance actors with a much broader and more complex range of stakeholders—including employees, suppliers, customers, communities—as well as with the environment and society at large.

In this broader perspective, ethics underpins the five principles of corporate governance— integrity, transparency, equity, accountability, and sustainability— and the best practices for achieving them recommended throughout this publication.

1.2. Purpose of the organizations

In this 6th edition, the Code reinforces the importance of organizations defining their purpose, that is, their reason for existing. This definition delimits the opportunities that the organization will pursue and the needs it will seek to meet through products, services, or causes. The purpose guides the strategy and grounds the organization's culture, serving as a compass for a strategic decision-making process anchored in ethical principles.

Thus, the purpose must be clear and consistent, standing out as an inspirational and engagement value, which directs and connects businesses, causes, strategies, people, and the environment.

The definition, wide dissemination, and daily experiencing of a purpose favor the generation and protection of tangible and intangible value, contributing positively to the organization's reputation, trust, and the engagement of all stakeholders.

1 For the purposes of this publication and in line with its purpose, we have opted for this simplified definition of ethics, due to the fact that this concept is very broad and discussed in several theories and fields of knowledge.

1.3. Definition of corporate governance

Corporate governance has evolved significantly in recent years, expanding its focus from the optimization of economic value exclusively to shareholders to the goal of generating shared value among shareholders and other stakeholders. This contemporary perspective recognizes the interdependence between organizations and the economic, social, and environmental realities in which they operate.

Figure 1 | Organization's interdependence with its stakeholders, society, and the environment

Aware of this evolution, the IBGC has updated its definition of corporate governance:

Corporate governance is a system formed by principles, rules, structures, and processes by which organizations are directed and monitored, with a view to generating sustainable value for the organization, its shareholders, and society in general. This system guides the actions of governance agents and other individuals within an organization in the search for balance among the interests of all parties, contributing positively to society and the environment.

1.4. Principles of corporate governance

The principles of corporate governance permeate all the practices in this Code and give meaning to the recommendations presented herein, assisting in their interpretation and application, filling gaps, and guiding solutions for situations in which the recommendations are not fully or partially applicable, due to incompatibility with the organization's characteristics or level of maturity.

The principles apply to any type of organization, regardless of size, legal nature or capital structure, forming the foundation on which good governance is developed.

Thus, in addition to acting in compliance with laws and regulations, governance agents should guide their actions in line with governance principles:

1 Integrity

Practice and promote the continuous improvement of the ethical culture in the organization, avoiding decisions under the influence of conflicts of interest, maintaining coherence between speech and action, and preserving loyalty to the organization and care for its stakeholders, society in general, and the environment.

2 Transparency

Give stakeholders true, timely, coherent, clear, and relevant information, whether positive or negative, beyond what is required by laws or regulations. This information should not be restricted to economic/financial performance, but should also include environmental, social, and governance factors. The promotion of transparency favors business development and encourages an environment of trust in the relationships of all stakeholders.

Equity 3

Treating all shareholders and other stakeholders fairly, taking into account their rights, duties, needs, interests, and expectations, as individuals or collectively. Fairness presupposes a unique approach according to the relations and demands of each stakeholder with the organization, motivated by a sense of justice, respect, diversity, inclusion, pluralism, and equality of rights and opportunities.

Accountability 4

To perform one's functions with diligence, independence, and a view to generating sustainable value in the long term, taking full responsibility for the consequences of one's actions and omissions. In addition, they are accountable for their actions in a clear, concise, understandable, and timely manner, aware that their decisions may not only hold them individually responsible, but also impact the organization, its stakeholders, and the environment.

Sustainability 5

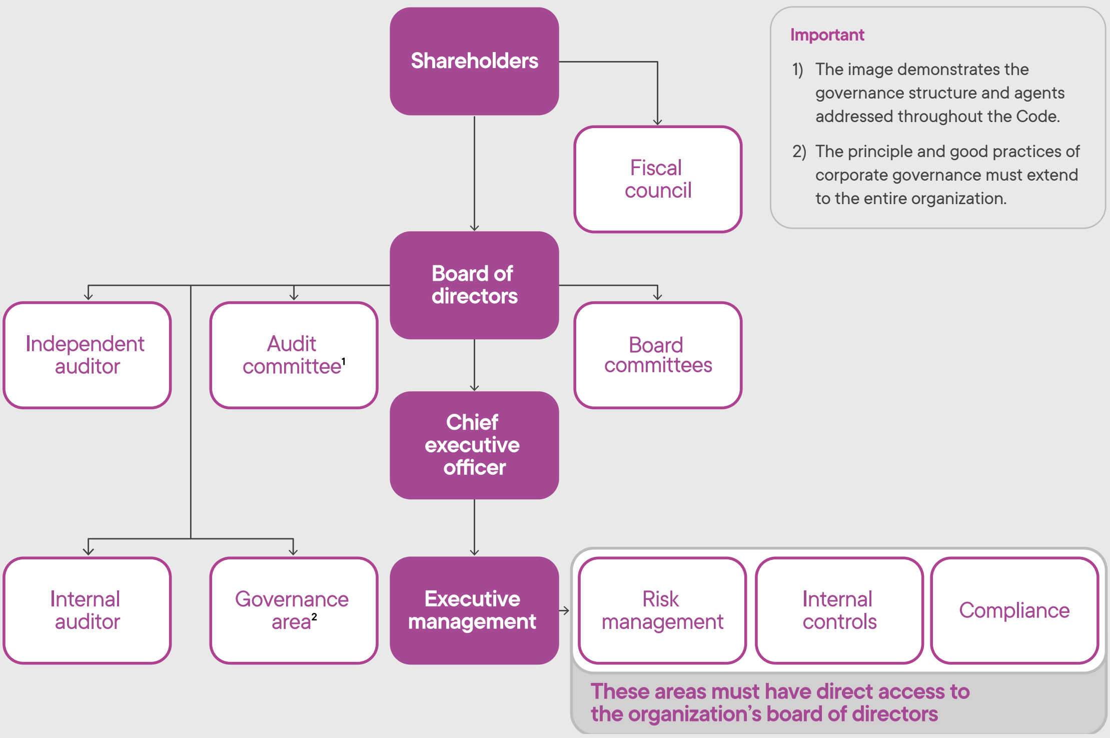
Ensure the organization's economic and financial viability, reduce the negative externalities of its business and operations, and increase the positive ones, taking into consideration, in its business model, the various capitals (financial, manufactured, intellectual, human, social, natural, reputational) in the short, medium, and long terms. From this perspective, understand that organizations act in a relationship of interdependence with the social, economic, and environmental ecosystems, strengthening their leading role and their responsibilities to society.

1.5. Governance agents and structure

Governance agents are the individuals that make up the governance system, such as shareholders, board members, members of the fiscal council, auditors, executive management members, governance officers, and members of board committees. Thus, governance agents are the guardians of corporate governance principles and protagonists in the exercise of best practices and should guide their decisions by the governance principles and the purpose of the organization.

The governance structure, on the other hand, represents the set of agents, bodies, and inter-relationships that make up the corporate governance system. Not all organizations will have the complete corporate governance structure, due to their stage of maturity, size, nature of operation or regulatory framework, as well as the investments required for its implementation. In this sense, flexibilities and adaptations can be alternative ways to incorporate the principles of corporate governance into their reality, building a journey of continuous evolution.

Figure 2 | Governance agents and structures



1 The audit committee, when there is one, should supervise the performance of the internal audit and independent audit.

2 Area preferably under the leadership of a professional with the role of governance officer.

1.6. Corporate governance and conflicts of interest

The corporate governance agenda encompasses several issues, some of them being the prevention, mitigation, and treatment of conflicts of interest. Given the importance and cross-cutting nature of the topic, it will be addressed throughout the Code.

Conflicts of interest come about when a governance agent either has or may have interests—personal, commercial, professional, or of any other nature—actually or potentially conflicting with those of the organization.

Conflicts can occur in the scope of collective decisions—such as in shareholders' meetings, board or executive management meetings—or in the day-to-day activities of the organizations, such as, for instance, when managers have the authority to make individual decisions.

Governance agents should ensure that the organization has clear, effective, implemented, and properly disseminated policies and processes both to identify and address these conflicts—based on the principles of integrity, transparency, equity, accountability, and sustainability—and to guide decision-making in an impartial, fair, and transparent manner. This should always be done in the best interests of the organization and be free from the influence of personal, commercial or other interests, whether of individuals, organizations or groups.

The policies and procedures must include, at a minimum, the obligations for the governance agent in a situation of conflict to declare in a timely manner the existence or perception of conflicting interest or private benefit; to abstain from exercising influence on the decision-making process; not to participate in the decision, deliberation or vote, depending on the instance in which it will be evaluated. They must also foresee mechanisms so that any governance agent can manifest the conflict of another agent, in case they are aware of it. It is also recommended that the removal of the conflicted party be duly documented and justified.

Conflicts of interest can occur in all organizations and are not always questioned from a legal point of view. The mitigation and handling of these conflicts are related to the protection of the organization's interest, which, in the context of this Code, must be grounded on its purpose and on its corporate governance principles. The specifics of conflict situations will be addressed in detail throughout the Code.

2.

Shareholders

In the corporate governance structure, the shareholder[2] is committed to watching over the organization's interests and deliberating on essential guidelines for the organization to functional well and deliver performance. Among their attributions, one can cite: appoint, elect, and remove directors (and, depending on the type of organization, officers); approve the compensation of administrators (board members and officers); deliberate on the accounts of administrators, the management report, the financial statements, and changes to the bylaws or articles of incorporation; and change the shareholder or corporate structure itself.

The shareholder must make informed, thoughtful, responsible decisions that are aligned with the purpose of the organization, with a view to generating sustainable value for the organization itself, the company, the environment, the stakeholders, and society in general, in the short, medium, and long term.

2.1. Right to vote

Voting is the instrument of political participation through which the shareholder must express their social interest in the organization, considering the impacts of his or her decision on stakeholders, the environment, and society in general. Although universal in various types of organizations, the right to vote can be differentiated in third sector entities, in publicly-traded companies, and in limited liability companies, among others.

Regardless of the particularities of each of these organizational structures, it is recommended that the right to vote in general meeting resolutions, whenever possible, respects the principle of proportionality between economic and political powers: the larger the share capital under one ownership, the greater their voting power.

2.1.1. One share, one vote

The practice of "one share, one vote"[3] is that which most promotes the alignment of interests among all shareholders. 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.

Structures that concentrate political power disproportionately to share ownership, such as preferred shares, plural voting, pyramid structures, voting caps, golden shares, and poison pills should be avoided. When members are evaluating whether these structures are appropriate, they should consider the potential benefit and possible risks of the presence of a member or group with political power that is disproportionate to the ownership interest for the performance and long-term vision of the organization.

It is essential that the bylaws or articles of incorporation provide for rules and conditions for the extinction of these asymmetries within a certain time horizon. In addition, it is necessary to adopt measures that ensure the equitable treatment of all shareholders; include safeguards that mitigate or offset any misalignment; and ensure that governance principles are observed.

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2 The term "shareholder" in this Code is generically referring to the person or company that owns shares of companies, owns a quota of a limited society, is associated to third sector or cooperative organizations.

3 The expression "one share, one vote" is being used because it is the most widespread and recognized in the governance literature, but its application is also extended to companies/organizations whose capital is divided into quotas ("one quota, one vote")..

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, all shareholders, including holders of non-voting shares or quotas, must:

   i. assess whether such structures might impair 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. establish a term for these structures that depart from the "one share, one vote" principle;

   v. recommend the creation of appropriate processes or mechanisms at the board of directors and general meeting level, throughout the duration of these special rights, ensuring that decisions in which there are conflicts of interest regarding the shareholder or group with disproportionate political power are made without its participation, only by independent directors or by the other shareholders; and

   vi. provide for possible mechanisms to mitigate the asymmetry of political and economic rights, especially in cases of transfer of control or corporate reorganizations.

2.2. Bylaws and articles of incorporation

In general, these two corporate documents are distinguished by the fact that the bylaws are applicable to companies and third sector entities, while the articles of incorporation are directed to other privately-held companies. Despite this distinction and some particularities of each of these documents, both serve the purpose of establishing the main rules by which the organization must function, as well as its corporate governance.

These corporate documents are complementary to the legislation applicable to each organization and should guide the relationship between shareholders, the mitigation of possible conflicts of interest, and the organization's corporate purpose.

Practice

a. The bylaws or articles of incorporation should clearly state the attributions, jurisdictions, and terms of office for each agent and governance body, as well as shareholders rights and obligations. This contributes to the transparency of the organization's governance system and fosters trust in the relationships with all stakeholders.

2.3. Solving conflicts and controversy between shareholders

It is essential to observe possible situations of conflicts among shareholders and provide for agile and effective ways to resolve controversies and disagreements among them, investors, and administrators, as well as between them and the organization itself.

The alignment between shareholders and other governance agents is key for better organizational performance, as well as for the generation and protection of value. By mitigating conflicts, risks that may compromise the organization's sustainability are reduced.

Practices

a. Conflicts between shareholders, investors, administrators, and between these and the organization should preferably be resolved through negotiation between the parties.

b. If negotiation between the parties is not possible or does not have the expected effect, it is recommended that conflicts be resolved through mediation and/or arbitration mechanisms or other appropriate systems. It is recommended that these mechanisms be included in the bylaws or articles of incorporation, or in a commitment to be signed by those involved.

c. Whenever there is no legal prohibition, the organization must equally inform all interested parties of the main decisions and acts referring to arbitration and conflict mediation procedures.

2.4. Shareholders' agreement

The shareholders' agreement is an important instrument to formalize the understanding among a group of shareholders about relevant or sensitive issues, such as the exercise of voting rights and control power; the purchase and sale of quotas or shares by the signatories; the preference in the acquisition of shares of other shareholders; the admission or exclusion of shareholders; the protection of the organization's assets, among others.

It is important to emphasize that the organization's interests should not be put at risk by the agreement among shareholders.

Practices

a. The shareholders' agreement should be available and accessible to all members and provide mechanisms for resolving situations of conflict of interest.

b. The shareholders' agreement should not bind or restrict the exercise of voting rights of any directors (board members and executive management members). Members elected under a shareholders' agreement must cast their votes with diligence and loyalty to the organization in the same manner as other board members.

c. The shareholders' agreement must not deal with matters within the competence of the board of directors, the executive management or the supervisory board; in particular it must not bind votes of directors or provide for the appointment of any directors of the organization.

2.5. General meeting or shareholders' meeting

The general meeting is the direct participation body through which the shareholders deal with and ratify the relevant decisions of the organization, as well as exercise their supervisory prerogative. It is also the moment of accountability and transparency by the administration, which can occur in person or remotely through digital tools. It represents an opportunity for members to contribute to the best interests of the organization by expressing their vote, ideas, and opinions.

The goals of the shareholders' meeting are the same as those of the general meeting, but it differs in that it is aimed at organizations with a smaller corporate structure. Despite this difference, it is recommended—as applicable—to adopt the same practices as for the general meeting and the alignment with corporate governance principles for the best operation and use of these meetings.

Although the engagement of shareholders is expected, it is important that the organization, through its administrators (directors and executive management members), enable and encourage the participation of shareholders in general meetings and shareholders' meetings, regardless of the percentage of their interest in the share capital or the number of quotas or shares they own.

2.5.1. Participation of shareholders and administrators

Practices

a. Shareholders should attend the general meeting or shareholders' meeting in a diligent and informed manner. They have responsibilities to the organization and should exercise their right to vote to best serve its interest.

b. Shareholders should actively participate in the general meeting and use it for effective accountability to allow other shareholders to evaluate the organization's performance.

c. Those who manage third-party resources, such as investment funds and institutional investors, should have a policy to guide the exercise of voting in the assemblies, considering the organization's best interest.

d. In addition to shareholders, it is recommended that other governance agents participate in the general meeting or shareholders' meeting to provide any clarifications necessary.

2.5.2. Duties

Practice

a. The main powers of the general meeting or shareholders' meeting are defined in the applicable legislation and must be reflected in the bylaws or articles of incorporation. In these corporate documents, at least the following attributions must be included:

i. increase or reduce the share capital;

ii. reform the bylaws or articles of incorporation;

iii. elect and dismiss the administration and fiscal councilors;

iv. examine, on an annual basis, the management accounts and deliberate on the financial statements and allocation of the fiscal year's results;

v. deliberate about the transformation, merger, incorporation, split-up, dissolution, and liquidation of the organization;

vi. approve the compensation of the administrators and fiscal councilors.

2.5.3. Convening notice, documentation, and dynamics

Practices

a. The convening notice should preferably occur thirty days in advance in order to favor participation and give everyone time to prepare. The greater the complexity of the issues and the dispersion of the organization's membership base, the more advance notice should be given.

b. The agenda and pertinent documentation should be provided to the members on the same date of the call, including electronically, without the inclusion of any generic items ("other matters"), to prevent important topics from not being disclosed sufficiently in advance.

c. The organization must provide mechanisms that allow members to submit justified proposals for items to be included on the agenda, prior to the convening of the general meeting or shareholders' meeting. It is the members' responsibility to review the request and always justify their decision to include or not include the item on the agenda.

d. In order to encourage and enable members' participation, management may provide mechanisms such as virtual transmission, electronic signature, certification, and voting slips in digital format, as well as appoint voting agents to receive proxies granted by members and vote as directed.

e. As the main leader of the organization's management, the chairman of the board of directors should preside over the general meeting or shareholders' meeting. If he or she has an interest that conflicts with that of the organization as a result of the matters on the agenda, he or she must declare himself conflicted. In this situation, he or she should be replaced by another member of the board who is not conflicted.

f. Any member may request to the organization's administration, through justification, the suspension or interruption of the term for convening a general meeting or shareholders' meeting that deals with matters of greater complexity. It is up to the administrators to analyze the request and justify the reason for accepting it or not.

2.5.4. Nomination of board and fiscal council members

Practices

a. If the shareholders nominate candidates for the board of directors and fiscal council, the nominees must be aligned with the organization's purpose, have technical competence, experience, and an unblemished reputation, as well as the ability to act diligently and independently from the person who nominated them. In addition, they must respect the competency matrix and the diversity and inclusion guidelines established by the organization, as well as consider the demands of its stakeholders.

b. In order for the other shareholders to be able to assess these attributes, it is essential that detailed information about the candidates be submitted in advance, following the deadlines defined by the organization, including their current professional activities, such as board positions, consulting services, or management positions.

2.5.5. Rules for voting and shareholder register

Practices

a. Voting rules should be clear, objective, and defined in a way that facilitates voting, including by proxy or other channels. They must be available from the moment the first convening notice is published. Among the specifications, it must be clearly stated whether the vote will be individual, by ticket, on paper or by electronic ballot, among other details.

b. It is recommended that the organization try to facilitate interaction among members. The record of all shareholders, indicating the respective amounts of shares or quotas and other securities issued by the company, must be made available to any of its shareholders who request it, under the commitment of confidentiality and restricted use for the meeting's matters.

2.5.6. Conflict of interest in the general meeting or shareholders' meeting

Practices

a. The bylaws or articles of incorporation, the shareholders' agreement, corporate policies, and the management manual for the meeting should contain mechanisms for identifying and handling cases of conflicts of interest at the shareholders' meeting or general meeting.

b. The shareholders that, for any reason, has a conflict of interest with the organization in a given resolution must immediately communicate the fact and abstain from participating in the discussion and voting on this matter, without prejudice to the existence of mechanisms for any agent to manifest another agent's conflict, in case he/she is aware of it.

2.6. Transfer of control

In business organizations, transactions that result in the sale or acquisition of corporate control require the attention of shareholders. Regardless of the legal form and the terms and conditions negotiated for the transaction that give rise to the transfer of control, all shareholders in the organization that is the subject of the transaction should be treated fairly and equitably, with the same conditions extended to them as those offered to the majority shareholder, when applicable. In addition, they should receive clear, consistent, timely, complete, and transparent information, including considerations regarding the prospects in light of the transaction.

Practice

a. Shareholders should have sufficient time to make an informed, thoughtful, and independent decision about the offer, receiving all necessary information in a timely and fair manner, including input from the board of directors of the target organization.

2.7. Policy for the distribution of profits

In business organizations, it is important to have a policy for distributing results among the shareholders' that respects the organization's economic and financial characteristics—cash generation and investment needs—and is known by all shareholders.

Practice

a. Organizations must prepare and disclose the policy for distribution of results among members, as defined by the board of directors (or by the executive management in its absence). It must foresee, among other aspects:

   i. the frequency of payments;

   ii. the reference parameter to be used to define the amount;

   iii. the circumstances and factors that may affect the distribution of results; and

   iv. the frequency with which the policy should be reviewed.

3.

Board of directors

The board of directors plays the role of guardian of the organization's purpose, values, social object, as well as of its governance system. It is the collective body in charge of defining the corporate strategy, monitoring its compliance by the executive management, and liaising between the executive management and the shareholders in defense of the organization's interests.

As administrators, board members have fiduciary duties to the organization, which include guiding and monitoring the executive management, acting as a link between it and the shareholders, with a view to generating sustainable value in the short, medium, and long terms for the organization, its shareholders, and other stakeholders.

3.1. Duties

Every organization should consider implementing a board of directors. The board members should always decide in favor of the organization's best interest, regardless of the parties that nominated or elected their members. They should perform their duties considering the organization's corporate purpose, its mission, its long-term viability, and the impacts of its activities, products, and services on society, the environment, and its stakeholders.

Practices

a. The board of directors should create relationship and engagement channels with shareholders and other stakeholders, for example, by means of specific meetings with these audiences, with an adequate definition of the board's spokesperson and compliance with the need for secrecy on certain matters to avoid information asymmetries.

b. It is up to the board of directors to identify, discuss, and ensure the dissemination and promotion of an ethical culture centered on organizational purpose, principles, and values. It should define strategies and make purpose-aligned decisions that protect and enhance the organization, optimize sustainable long-term value creation, and balance stakeholder demands. It must also provide an environment of trust and psychological safety, where people can express dissenting thoughts, report errors, and discuss ethical dilemmas, at all hierarchical levels of the organization.

c. The board of directors should establish ways to permanently monitor whether the organization's decisions and actions, as well as their direct and indirect results and impacts, are aligned with its purpose. In case of deviations, it should propose corrective and, ultimately, punitive measures, provided for in the code of conductducta.

d. The board of directors must see to it that each stakeholder receives a benefit that is appropriate and proportional to the bond they have with the organization and the risk to which they are exposed.

e. In order for the interest of the organization to always prevail, the board must seek to prevent, identify, and deal with situations of conflicts of interest, manage differences of opinion, and be accountable to the shareholders. It should ask for all information necessary to fulfill its duties, including from outside experts.

f. To fulfill the purpose of the organization, the board of directors should focus on the following issues:

   i. Long-term sustainable value creation: the board's strategic choices must contemplate, in an integrated manner, the sustainability agenda (economic, social, and environmental aspects) and innovation. From this perspective, in addition to financial gains, the board must consider the positive and negative impacts of its decisions on stakeholders, society, and the environment, and be able to adapt to changes in society and the business environment.

   ii. Culture and people: the board must be responsible for selecting the chief executive officer and ratifying the nominations of the other members of the executive management made by him or her, as well as for planning the succession process of the chief executive officer, the executive management members, and the members of the board of directors itself. The board is responsible for discussing, defining, and ensuring the organization's purpose, as well as preserving, reinforcing or, if necessary, promoting changes in the organization's culture and identity. In line with these guidelines, it must ensure that the management executive board develops a broader strategy to maintain and monitor culture and talent. It is also important that the board ensure the management executive board establishes and disseminate the policies that provide representativeness and equal opportunities for underrepresented groups to access senior leadership positions in the organization.

   iii. Strategy: board members must encourage constant reflection and strategic thinking, seeking to ensure the organization's capacity for innovation and adaptation in cases of relevant transformations in the operating environment, as well as continuously strengthen the organizational competencies. In this sense, they should provide the strategic direction, as well as monitor and support the executive management in the development and implementation of the strategy.

   iv. Corporate governance: the board must periodically evaluate corporate governance practices and their evolution, as well as approve policies and guidelines that affect the organization as a whole. Within this scope, it must define the compensation and incentive policy for the executive management and the objectives and goals of the CEO. The collective must also ensure the flow of information and communication with shareholders and stakeholders.

   v. Supervision: the board must monitor the performance and actions of the executive management; choose, evaluate, and interact with the independent auditors; and ensure that the financial statements faithfully and clearly express the organization's economic, financial, and equity position. Supervision must not be restricted to financial-economic performance, also contemplating other environmental, social, and governance factors. The collective must also define the risk appetite and ensure risk identification, analysis, mitigation, and monitoring, as well as the integrity of internal controls.

3.2. Composition of the board of directors

The board of directors is a collective body, and its performance depends on the capacities, respect, and understanding of the characteristics of each of its members, within an environment that enables the debate. This diversity is crucial, because it allows the organization to make the decision-making process better through the existence of a plurality of arguments.

The size and composition of the board must reflect the reality and demands of each organization.

Practice

a. The composition of the board of directors should consider the creation of a competency matrix and contemplate the diversity of knowledge, experience, age, gender, color or race, ethnicity, sexual orientation, among other aspects that reflect the reality in which the organization and its stakeholders are inserted.

b. It should be noted that in addition to diversity within the collective body, it is important that the board creates an environment of trust and psychological safety that allows all its members to take part in discussions in an inclusive and collaborative manner for the best interest of the organization and its stakeholders.

c. The number of members that comprise the board may vary depending on the industry, size, complexity of activities, stage of the organization's life cycle, and the need to create committees. A sufficient number is recommended to ensure the diversity of perspectives in the decision-making process and not hinder the productivity and effectiveness of the dynamic, with an odd number between five and nine members being a possible reference.

3.2.1. Selection and qualification of board members

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.

Practice

a. When renewing its board, the collective itself must lead the process by nominating profiles, qualifications, and expectations about the candidates. It is recommended to create a competency matrix for the composition of the body, considering the specifics of the organization, such as industry, governance maturity stage, strategy, and market trends in the segment. The practice aims to support the shareholders in choosing and electing the new board.

b. Respecting the particularities of each organization, in general, board members should possess at least the following competencies:

4 According to the classification system adopted by the Brazilian Institute of Geography and Statistics (IBGE, in the Portuguese acronym) since 1872, a person can declare their color or race according to the following possibilities: white, black, yellow, brown, or indigenous.

i. Behavioral: active listening; empathy; willingness to defend points of view based on their own judgment; adaptability; communication and teamwork skills; commitment to the organization's purpose and code of conduct; ability to think strategically.

ii. Technical-functional: knowledge of best practices in corporate governance; ability to interpret managerial, accounting, financial, and non-financial reports; knowledge of corporate legislation, regulation, risk management, internal controls, and compliance.

c. Although the competencies are individual, they must be observed collectively. It is worth pointing out that the mere collection of qualifications does not guarantee an effective board. Synergy is needed among members with these competencies, as well as, among other things, an ethical and safe environment for board members to use their competencies for the benefit of the organization.

d. In order to perform their duties, board members must have the availability of time, be free of conflicts of interest, and be constantly aware of the organization's and the industry's issues.

e. They must also have the capacity to act proactively, aiming to make informed, reflected, disinterested decisions. It is emphasized that their duties and responsibilities are comprehensive and not restricted to board meetings.

3.3. Independence of board members

Every board member, once elected, has a responsibility to the organization, regardless of the shareholder, shareholder group, administrator or stakeholder that nominated them for the position. Therefore, they must act in a technical, honest, and autonomous manner.

The independent performance of the board ensures the integrity of the governance system, as well as generates and protects the organization's value.

Practices

a. The board should exhaust all available means to assess the independence of board members. Ultimately, it is up to each board member to periodically reflect on his or her ability to make an independent judgment on the issues considered by the board.

b. Even if a board member does not have a conflict of interest in exercising his/her term, he/she may find him/herself in a situation of conflict of interest in a given resolution. In this case, he/she must manifest the conflict and abstain from participating in the discussion and decision on that topic.

c. The possible direction of a vote within the scope of a shareholders' agreement does not exempt the director from voting always in the interest of the organization, in accordance with the exercise of his/her duty of loyalty. Therefore, the director should critically examine the shareholder's voting advice and only follow it if it meets this premise.

d. If board members identify undue pressure or feel constrained and cannot maintain their independence, they should, at the very least, resign their position, without prejudice to the possibility of filing a complaint with the general meeting or the regulatory body.

e. Board members should not simultaneously act as paid consultants or advisors to the organization or its related parties.

f. It is recommended that the collective body be composed solely—or with a majority—of external and independent members. The independent members, in turn, should constitute a significant portion of the total number of members and take the lead, especially in situations of potential conflict of interest of internal and/or external board members. Unless legally determined, the appointment of internal directors to the board should be avoided.

Categories of board members

Although all board members have the responsibility to act independently in the best interest of the organization, some classifications are adopted in this Code to distinguish them according to their level of relationship with the organization or its stakeholders:

- Internal: members who hold a position as executive management member or who are employees of the organization.
- External: members with no current employment or managerial relationship with the organization, but who do not fit into the independent classification. For instance: former executive management member and former employees; lawyers and consultants who provide or have provided services to the company; controlling shareholders or shareholders with a significant stake, as well as their relatives; employees of subsidiaries and organizations in the same economic group; and fund managers with a significant stake.
- Independent: external directors who do not have family, business, or any other type of relationship with controlling shareholders, controlling groups, executives, service providers or non-profit entities that influence or may influence, in a significant manner, their judgments, opinions, decisions, or compromise their actions in the best interest of the organization.

3.4. Term of office

The term of office must allow enough time for the board member to contribute effectively and independently to the collective deliberations. The necessary adaptation period for new members must be considered.

Practices

a. All board members should be elected at the same general meeting, except in cases of vacancy, replacement or impediment.

b. The renewal of the term of office must take into account the results of the annual evaluation, and it is not advisable to remain on the board for a long time. To avoid life tenure, the bylaws/articles of incorporation or some document or policy of the organization may set a maximum number of years of continuous service on the board. The criteria for renewal should be stated in that document, in the bylaws of the board or in the organization's policies. Re-election can be allowed in order to build an experienced and productive board, as long as it is not automatic.

3.5. Time availability

Serving on a board of directors often demands more time then we foresee to attend board meetings as well as read and analyze documents beforehand. Upon taking on the role, board members must observe their fiduciary duties to the organization, as well as seek constant development of technical and behavioral skills. The board member is also expected to be engaged in updating himself or herself on the challenges and risks internal and external to the organization, in relation to economic, social, and environmental aspects.

Practices

a. Board members should not accumulate an excessive number of positions on boards, committees or in executive management. When taking on a new position, they should consider their personal and professional commitments, assessing whether they will be able to dedicate the necessary time to the position. They should inform the organization of other activities and positions on boards, and committees, especially if they are a board chair, committee coordinator, or top executive in another organization. This information should be made available to the board and its members for them to evaluate time availability and possible conflicts of interest.

b. It is recommended that the bylaws, articles of incorporation, or articles of association establish the maximum number of other boards, committees, or executive positions that may be held by members, taking into consideration the complexity of the organization and the dedication required for the position.

c. Directors have non-delegable responsibilities. The existence of an annual calendar of meetings agreed upon in meetings and of technologies that allow for virtual participation in meetings makes it possible for board members to be in all of them, reducing the need for substitutes. If the organization elects alternates, practices should be adopted to allow these members to be updated on the relevant subjects and only take over the position of the incumbent in case of a definitive vacancy.

3.6. Chairman or chairwoman of the board

The chairman or chairwoman of the board must act in such a way as to create a harmonious dynamic among the members of the collective body, fostering an open and safe environment for discussions and the expression of divergent opinions, as well as a culture of collaboration among the members. They are responsible for setting agendas, conducting the meetings, and forwarding priorities and strategic themes to the board.

Practices

a. The chairman or chairwoman of the board of directors is responsible for:

   i. defining the board's objectives and work programs;

   ii. ensuring that board members receive complete and timely information for the exercise of their duties;

   iii. ensuring there is balance in the agenda of meetings between short- and long-term matters;

   iv. conducting the meetings in such a way as to enable everyone's participation and get the best out of the board members;

   v. assigning responsibilities and deadlines;

   vi. leading the board's evaluation process;

   vii. carry out a relationship to the organization's chief executive officer, without interfering in his or her management, in order to monitor the operation and convey the board's deliberations;

   viii. ensuring the adequacy of the board's relationship with stakeholders and, especially, its engagement with shareholders;

   ix. preferably presiding over the general meeting or shareholders' meeting.

b. The bylaws or articles of incorporation, or even the bylaws of the board of directors, may provide that the vice-chairman/vice-chairwoman or another member appointed by the others shall replace the chairman or chairwoman in their absence or in a situation of conflict of interest.

c. To avoid the concentration of power and hindrance to the board's independence and its 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 or chairwoman 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.

3.7. Board committees

Board committees are bodies, statutory or otherwise, that assist the board of directors in the performance of its duties. Their existence does not imply delegation of the responsibilities that are incumbent upon the board of directors as a whole. The board committees have no decision-making powers, and their recommendations are not binding on the decisions of the board of directors.

Specific board committees can advise on various activities that fall under the competence of the board and that require time that is not always available at meetings. The committees study the matters within their competence and make recommendations to the board. For specific issues that support the board of directors, structures such as working groups or committees can also be created.

Practices

a. The number and nature of board committees should observe the organization's need, so the scope and benefit of each committee's existence should be periodically reassessed to ensure that all of them have an effective role.

b. Each board committee must have bylaws, approved by the board of directors, that establish its composition, scope of action, coordination, operation, among others.

c. The board committees must present a work plan and periodically report on their activities to the board of directors.

d. The board committees must meet regularly with the board of directors, the fiscal council, and the other board committees in order to ensure an adequate flow of information.

e. In line with the board's evaluation process, board committees should be evaluated periodically.

3.7.1. Composition of the board committees

Practices

a. Members must have knowledge, experience, and independence of action on the subject matter of the committee. Each board committee must have a coordinator who, preferably, does not hold this position on other committees.

b. The board committee must have at least one board member among its members, and preferably be coordinated by a board member.

c. Each board committee should be composed of three to five members, and should include at least one specialist in their respective fields. The number of members, however, may vary according to the organization's industry, regulations, size, complexity of activities, and stage of maturity.

d. The board committees must not include executives from the organization. Their participation in the meetings must occur at the invitation of the committee members, to provide clarification on a given subject.

3.7.2. Qualifications and commitment

Practices

a. The board of directors should prepare a formal description of the qualifications, commitment, and time availability it expects from board committees.

b. The organization should disclose the list with each committee's members and their qualifications.

c. Each board committee should adopt its own bylaws that establish its structure, composition, activities, responsibilities, and scope of action.

d. The term of office for board committee members must follow the term of office for members of the board of directors. The board of directors' bylaws or internal regiment may establish a maximum number of board committees in which a board member can participate.

3.8. Audit committee

The audit committee is one of the board committees to the board of directors, whose purpose is to assist it in controlling the quality of the financial statements, internal controls, risk management, compliance, internal audit, and independent audit. Without deliberative prerogative, it exercises activities related to active and preventive supervision, aiming at the reliability and integrity of the information to safeguard and improve governance.

Practices

a. The audit committee should preferably be coordinated and composed of a majority of independent board members, in order to avoid conflicts of interest.

b. At least one member of the audit committee should have proven experience in accounting, finance, or auditing.

c. The audit committee should prepare a report, at least annually, describing the activities and recommendations of the collective body.

d. The audit committee should meet regularly with the board of directors, the fiscal council, and the other board committees to ensure an adequate flow of information.

3.9. Governance officer and the corporate governance area

To provide fluidity, improve the functioning of the governance system, and increase the quality of the decision-making process, it is recommended to structure a governance area under the leadership of a professional with the role of governance officer.

The governance officer is the manager of an organization's governance practices. Thus, this role should be perceived from three dimensions: strategic, for its performance as responsible for the architecture, improvement, and dissemination of the best governance practices, generating value for the organization; relational, which should contemplate the relationship with all the agents and governance bodies, mediating conflicts, ensuring the transparency of the decision-making process and the equity in the access to information; and, finally, operational, which includes all the advisory activities to the governance bodies.

The governance area and the governance officer should support and advise the governance bodies and agents, as well as other stakeholders, and have structure and resources compatible with the organization's size and complexity.

Practices

a. It is recommended that the governance area have an independent structure with direct link and access to the board of directors.

b. The governance officer's activities must be defined according to the organization's characteristics and the complexity of its governance system.

c. The duties of the governance area include:

   i. supporting the organization's governance processes and keeping the members of the board of directors, its committees, the fiscal council, the executive management, as well as the other supervisory or control bodies, updated in relation to best practices, in addition to supporting these agents in the performance of their duties, including facilitating access to the organization's facilities, when applicable;

   ii. implementing and improving governance practices oriented by the board of directors or the highest body of the organization;

   iii. elaborating and leading a program of integration and continuing education for board members, fiscal councilors, committee members, and officers, and assisting them in their integration into the organization and in continued education activities;

   iv. assisting the chairman or chairwoman of the board of directors in defining the relevant topics to be included in the agenda of the meetings and in calling the general meeting; forwarding the agenda and supporting material for the board meetings and interacting with the members of the executive management, in order to ensure the quality and timeliness of the information;

   v. ensuring the due register of meetings, deliberations, and votes, as well as 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. having access to the information, files and documents necessary to carry out their role.

3.10. Evaluation of the board and of the executive management

The board must periodically evaluate itself, its members, the chief executive officer, and the other governance bodies, in addition to ensuring that the executive management is evaluated. Evaluation is an important tool to identify opportunities for improvement and align all agents with the organization's purpose and strategies. In these evaluation processes, the collective body can rely on the assistance of the personnel committee or of the governance area, if they exist, of the personnel or human resources department, or even of external consultants.

3.10.1. Evaluation of the board and its members

The evaluation of the board and its members is an important tool for identifying deficiencies and opportunities for improvement in the performance of the body and its members, supporting the improvement of the organization's governance.

Practices

a. To conduct an effective board evaluation, members must be committed to identifying the strengths and areas for improvement of each individual board member and of the body as a whole.

b. It is the board's responsibility to disclose information about the evaluation process and the summary of the main points identified for the body's improvement and the corrective actions implemented, so that members and other stakeholders can properly understand its performance.

3.10.2. Evaluation of the chief executive officer and the executive management

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.

Practice

a. The board of directors is responsible for:

   i. periodically performing the formal evaluation of the CEO and setting, at the beginning of the fiscal year, financial and non-financial performance goals (including social, environmental, and governance aspects) aligned with the organization's purpose and its strategic planning;

   ii. approving and monitoring the CEO's individual development program;

   iii. acknowledging, reviewing, and approving the results of the evaluation of the executive management members carried out by the CEO with reference to the agreed targets and other subjective elements of the evaluation;

   iv. deliberating on the CEO's proposal concerning whether or not executives should remain in their offices.

3.11. Succession planning

The board must set aside some time to the succession of the chief executive officer and follow succession plans for the main executive management members. 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 roles, taking into account the challenges listed in its strategic plan. It could rely on assistance from the human resources committee, if there is one, or an external consulting.

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 or chairwoman 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. They should also present the board with plans for possible candidates' individual development, in such a way as to make their possible gaps known, as well as the way they are being handled.

3.12. Integration and continuing education of board members

The board member must be permanently concerned with his or her ability to act effectively within the organization. It is important that every board member constantly seeks to improve his or her skills in order to enhance his or her performance and act with a long-term focus on the best interests of the organization.

Practices

a. The chairman or chairwoman of the board of directors should ensure that the organization structures integration programs that help new board members become more quickly acquainted with the organization's culture and values, people, and operating context.

b. All new board members must go through an integration program, in which they: receive the information necessary to perform their duties; are introduced to the organization's key people; have the opportunity to learn about the organization's main activities, activities, and facilities.

c. The chairman or chairwoman of the board must encourage the continued education of board members, through refresher programs, congresses, industry fairs, and other events that can enhance their ability to contribute to the organization, based on the evaluation process and the context of the organization.

3.13. Board interlocking

Organizations must have mechanisms to identify and be duly informed of possible or potential conflicts of interest resulting from the participation of board members in other organizations, whether as a member of the board, a member of a committee, an executive, consultant, supplier or other relevant roles.

Practices

a. When taking office, board members must sign a consent form and a free statement indicating the absence of conflict of interest and whether they are politically exposed. 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 that may implicate a conflict of interest. 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.

3.14. Compensation of board members

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. It is recommended that board members' compensation is fixed and equal for all members. In consideration of the duties concerned and the amount of time dedicated, the chairman or chairwoman of the board may receive additional compensation, but not overly greater than that of other board members. Similarly, participation in committees may be used as justification for additional compensation of board members. Compensation based on the number of meetings attended is not recommended.

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 or compensation based on shares for board members, it should be bound to long-term results and goals. This compensation should be linked with medium- and long-term strategic goals and value generation, and the board should take the appropriate care to avoid encouraging conflicts of interest.

e. There should be transparency with shareholders and other relevant stakeholders on the compensation policy and annual compensation, including long-term benefits, if any, for board members. In the case of publicly-traded companies, disclosure of each member's compensation to the market is recommended, while in other types of organizations these figures should be presented at least to shareholders. In both cases, if the disclosure does not address the compensation of each board member, it should be made in an aggregate manner by corporate body or committee, indicating the maximum, minimum, and average compensation received by the members of each of them. Both forms of disclosure should separately disclose the compensation received by board members who are controlling shareholders or persons related to them, and should itemize all types of compensation and benefits paid to board members.

3.15. Budget of the board and external consulting

The independent and informed performance of the board of directors may require, in some situations, the hiring of external experts to support it in certain matters. Therefore, the organization should have financial resources set aside for this purpose.

Practices

a. The organization's chart of accounts must contemplate a specific cost center for the board. When needed, the body must be able to consult external professionals (e.g., lawyers, auditors, tax specialists, human resources), paid by the organization, in order to receive adequate subsidies on relevant matters. Expenses necessary for the board members' attendance at meetings should be covered by the organization.

b. Items that may be included in the board's budget include but are not limited to:

   i. remuneration of board and committee members;

   ii. travel, lodging, and meals, when meetings or visits occur outside the board member's place of residence;

   iii. expenses related to continuing education;

   iv. board of directors' events;

   v. directors' and officers' liability insurance (D&O);

   vi. funds for specialized consultancy and external experts' fees.

3.16. Internal regiment

Its purpose is to regulate the functioning of the board of directors, in order to ensure that it operates in accordance with the principles of corporate governance, current legislation, and the concepts defined in the bylaws/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 regiment 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. Organizations must disclose the internal regiment for the board and its committees to the shareholders, other governance agents, and stakeholders.

3.17. Board meetings

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.

3.17.1. Schedule and agendas

Practices

a. The chairman or chairwoman of the board shall propose an annual calendar 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, avoiding a frequency that is too high, resulting in undue interference in the management, and also a frequency that is too low, resulting in the distancing of the organization's management. Exceptions may be admitted in times of crisis.

c. The chairman or chairwoman of the board should also, with the support of the governance area, propose an annual thematic agenda with relevant issues and discussion dates, ensuring coverage of all relevant issues throughout the year and allowing for adequate advance planning and preparation by management.

d. In setting the agenda for meetings, the chairman or chairwoman of the board must consult the other board members and the chief executive officer.

3.17.2. Material and preparation for meetings

Practices

a. The governance area or, if it does not exist, the person responsible defined by the board of directors should ensure that board members receive materials with appropriate advance notice provided for in the bylaws, of adequate quality, relevance, and depth.

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 or a specific board committee, if there is one.

c. Board members must have access to the corporate documents that are relevant to the vote, such as the bylaws/articles of incorporation, minutes of previous meetings of the board and of general meetings, statements issued by committees or the fiscal council. The executive management and members the fiscal council members of the organization must be available to attend and provide clarification on any issues that are submitted to vote by the board.

3.17.3. Behavioral aspects

Practices

a. The behavioral aspects present in the dynamics of the board of directors can positively or negatively impact the effectiveness of the collective body. Therefore, each board member should objectively evaluate their individual behavior and the dynamics among the participants during board meetings, in order to contribute to a participative and constructive environment that favors the independent posture of board members in collective decision-making.

b. In addition to adequate experience and technical knowledge, each board member is expected to have a posture that enables active listening and allows diverse perspectives and points of view for the best deliberation and collective construction.

3.17.4. 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 only be in attendance as long as their participation is required or as the board deems convenient. The minutes should contain a record of the entrance and exit of these guests.

3.17.5. Exclusive sessions

Practice

a. At board meetings, an exclusive moment should be regularly set aside for board members without the presence of executive management, any conflicted board members, and other guests. This practice aims to promote alignment among members and allow for the discussion of topics that are the exclusive purview of the board or that involve potential conflicts.

3.17.6. 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, it is recommended that the summary of the resolutions that should be included in the minutes be passed on to the board members present. The governance officer or another person responsible, as defined by the board of directors, must ensure that the proposed text of the minutes circulates among all board members in time for them to make their considerations. After appropriate adjustments have been made, the document must be signed, in a timely manner, by all board members and published appropriately by the organization's governance area.

c. The decisions must be forwarded to the chief executive officer, and there must be a follow-up of what the board asks for.

d. Dissenting votes and any relevant information should be included in the minutes. Th 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 members.

3.18. Confidentiality

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.

3.19. Relationships

The board of directors must ensure that its relationships (with shareholders, chief executive officer, other executives, committees, fiscal council, auditors, and governance officer) are effective and transparent, avoiding information asymmetries, and abiding by all regulation concerning confidentiality and fairness. It must also make sure the relationships among other governance agents are based on governance principles.

Practices

a. The board should build, for the benefit of the organization, a transparent and cooperative relationship with the executive management.

b. The chief executive officer is the link between the board of directors and the organization. It is vital that communication between the CEO and the board is clear, continuous and provides the right setting for effective decision making. All relevant communication between them should preferably be formalized so that there can be proper monitoring of defined actions and responsibilities.

c. The chairman or chairwoman of the board and/or the chief executive officer should be advised/consulted when board members wish to contact executive management for clarification.

d. The board of directors should meet periodically with the fiscal board, when it exists, to address matters of common interest and develop a work agenda.

e. Administrators should provide members of the fiscal board with reports and recommendations issued by auditors or other experts and should not obstruct or hinder communication between any members of the fiscal board with auditors and the executive management.

f. The board of directors must maintain communication with shareholders, employees, and all other stakeholders, providing information about its activities. Communication with these audiences must observe the practices regarding the treatment of relevant and/or confidential information.

3.20. Advisory board

This is an optional body, not foreseen by law, which may or may not be included in the company's bylaws or articles of incorporation. It differs from the board of directors in that it is not part of the organization's management and does not have decision-making powers. Not being a deliberative body, it only gives its opinion, advises, and proposes recommendations, which may or may not be accepted by the administrators. It can have internal, external, and independent members.

In organizations that do not have boards of directors, either because they are at an early stage of adopting good corporate governance practices or because their corporate type does not contemplate such a management body in the applicable legal regulations, the advisory board can function as a structure for promoting and improving corporate governance.

If the advisory board acts in a deliberative manner, it is acting as a board of directors, and its members will assume the corresponding legal duties and responsibilities.

Practices

a. Regardless of whether the bylaws or articles of incorporation provide for it, the role, composition, responsibilities, and scope of action of advisory boards should be well defined by the shareholders and included in the bylaws.

b. It is recommended that, regardless of the size and maturity of the organization, the advisory board incorporate the best corporate governance practices and adhere as closely as possible to the recommendations of this Code for boards of directors.

4.
Executive management

The executive management is the body responsible for the management and steering of the organization, and its responsibility is to execute, supported by the principles of corporate governance, the strategy approved by the board of directors or, in its absence, by another body entrusted with its role and attributions—either a shareholders' committee or the collective body of executive management itself.

The executive management is responsible for executing the organization's strategy, seeking ways to achieve its financial and non-financial objectives. In choosing these paths, the management should seek to adopt the concept of integrated thinking in order to ensure that the occurrence of negative externalities is minimized and positive ones are enhanced.

Without dismissing the individual responsibilities of each officer, whenever possible, the executive management should act collectively, benefiting from the diversity and participation of all its members. The collective action, however, must be supported by statutes or bylaws so that specific responsibilities are established for each organization, according to its size, regulations, structure, and attributions.

4.1. Duties

The executive management is the body that executes the core business activity, and is therefore responsible for implementing all operational and financial processes. The board of directors is responsible for ensuring that the organization is guided by its purpose, as well as by the principles of corporate governance, and that it is in full compliance with the legal provisions and other internal policies to which it is subject.

Practice

a. The executive management, under the leadership of the chief executive officer, must plan, organize, and control organizational resources to responsibly generate value for the organization, its members, and its stakeholders. It is responsible for establishing processes, policies, and indicators that ensure that it and the board of directors are able to objectively evaluate the standard of conduct and culture observed in the organization's operations.

b. The executive management must effectively ensure the enforcement of the organization's code of conduct, disclosing it and periodically training all stakeholders subject to it: administrators, employees, and also suppliers and service providers with whom it relates.

c. The executive management must also ensure that its stakeholders are given, in addition to the information that is mandatory by law or regulation, due clarification and guidance, both financial and non-financial, positive or negative, as soon as it becomes available. Information that may help in the correct evaluation of the organization and influence possible investment decisions must be disclosed.

d. The responsibilities, jurisdictions, and duties of the executive management must be clearly and objectively defined in the bylaws or articles of incorporation. The executive management must have its own internal regiment—approved by the board of directors—establishing its structure, operation, roles, and responsibilities. The organizational policies must establish a formal set of decision-making competencies and detail what falls under the competence of each executive officer, of the executive management as a collective body, or of the board of directors.

4.2. Nomination of executive management members

The process of appointing the members of the executive management is of paramount importance to a successful implementation of the organization's strategy. The executive management must be aligned with the purpose of the organization and the principles of corporate governance, 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, including social and environmental ones. As a relevant leadership in the organization, the executive management must act with integrity and promote a culture based on diversity and inclusion.

If there is a board, it must debate and approve any nomination.

Practices

a. The CEO must submit the nomination of the executive officers for approval by the board of directors. At the time, they must present, in addition to qualifications such as market experience, length of time in business, education, and reputation of the nominees, other issues and considerations that led them to these people, such as the nature and strategy of the organization, the challenges mapped out, and the level of governance maturity.

b. In making up its executive management, the organization must consider the creation of a competence matrix and contemplate the diversity of knowledge, experience, age group, gender, color or race, ethnicity, sexual orientation, among other aspects that reflect the reality in which the organization and its stakeholders are inserted.

c. Diversity must be considered as a driver for the organization's innovation and sustainability.

4.3. Evaluation of the executive management

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.

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.

Practice

a. 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 made up by human resources can be supported by the personnel committee, if there is one. The results of the evaluation must be shared with the board of directors, which is in turn responsible for the evaluation of the chief executive officer.

4.4. Compensation of the executive management

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 and its stakeholders. Compensation must be fair and consistent with market conditions, responsibilities, and the risks inherent to each position.

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. 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.

d. 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 does not control the decision-making process and its respective supervision. The chief executive officer must submit the proposals for compensation of executive management members to the board of directors, which should, in turn, submit it for approval by shareholders.

e. The compensation and benefits policy for executive officers, including any long-term incentives and, when there are any, the rules for retention bonuses or clawback clauses, must be disclosed to interested parties, as provided for by law and in order to comply with the principles of transparency and accountability.

f. It is recommended that the annual compensation of the executive management be made transparent to shareholders and other relevant stakeholders. In the case of publicly-traded companies, it is advised that the compensation of each executive officer be disclosed to the market, while in other types of organizations these amounts must be presented at least to the shareholders. In both cases, if the disclosure does not address the compensation of each executive officer, it must be made in aggregate form, indicating the maximum, minimum, and average compensation received.

4.5. Relationships

The board of directors, as the body responsible for managing the organization, must ensure that relationships are guided by governance principles, working to build and maintain an adequate flow of information among the various governance agents and other stakeholders of the organization.

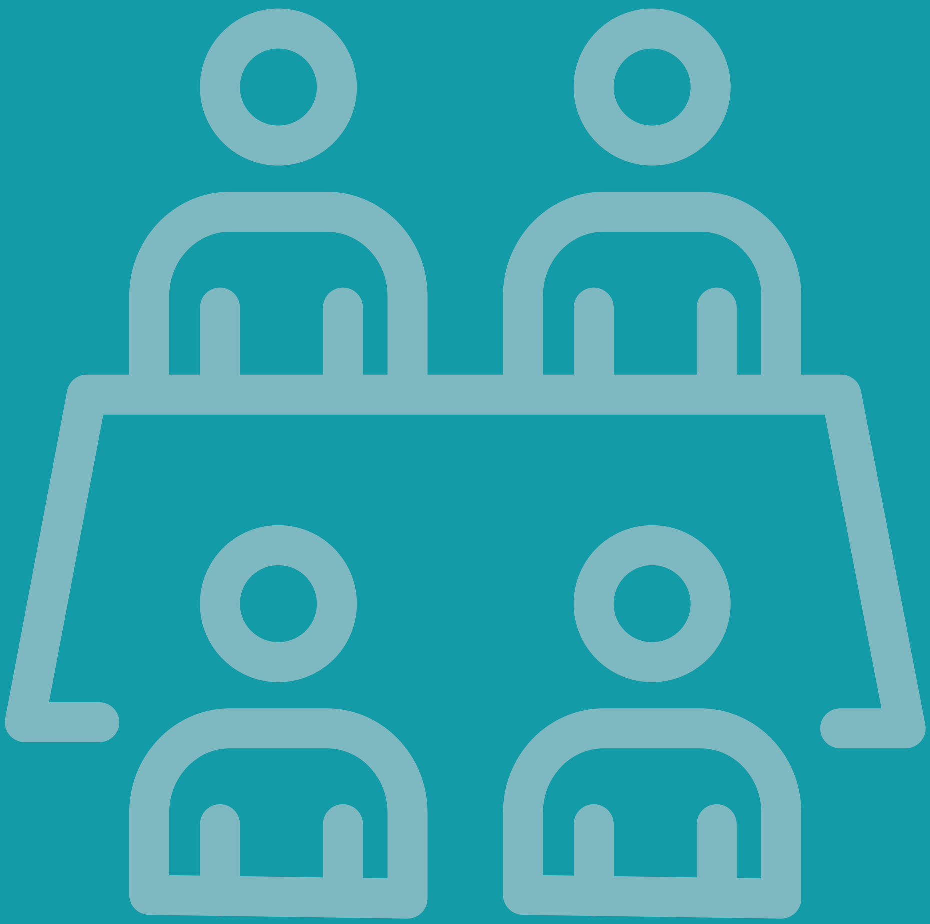
Practices

a. The CEO and the entire executive management must base their relationships with the other agents of governance on governance principles.

b. Executive officers must attend meetings, when summoned, and provide due clarifications to the board of directors, its board committees, and the fiscal council.

c. The executive management must provide, in a clear and timely manner, the necessary information for the performance of the other governance agents.

d. The chief executive officer and the other officers, with the guidance and supervision of the board of directors, must ensure a transparent, long-term relationship with stakeholders, in addition to defining the relationship strategy with the organization's various audiences.



5.

Supervisory and control bodies

The shareholders, the board of directors, and the executive management may rely on governance bodies and structures to support them in exercising their duties, particularly in the supervisory and control functions. According to the applicable legislation for each type of organization, its corporate structure, size, and complexity, some structures will be mandatory or advisable.

5.1. Fiscal council

The fiscal council is part of the organizations' governance system and may be temporary or permanent, as defined in the bylaws. It represents a supervisory mechanism that reports to the shareholders, independent from the board of directors and the executive management. It is established by decision of the general meeting with the purpose of monitoring the actions and proposals by the board of directors and executive management members, as well as ensuring that their legal and statutory duties are being met.

In addition to its supervisory role, the members of this body have a duty to analyze and give their opinion on proposals and documents from the administration, for instance, relating to changes in share capital, the issuance of debentures, investment plans, capital budgets, dividend distribution, financial statements, annual report, among others.

The goal of the fiscal council is to ensure the preservation of the organization's value and interests, considering the expectations of the shareholding structure. The organization should facilitate the installation of the fiscal council, if requested by any group of shareholders, according to the applicable legislation.

Organizations should encourage debate among all members regarding the composition of the fiscal council, seeking to ensure that it has the desirable diversity of professional profiles and experiences pertinent to their functions and to the organization's field. The fiscal council is a collective body, however, its members have the power to act individually—for instance, each member has the prerogative to request clarifications and information from the management bodies, without needing the agreement of the other members.

Practices

a. In appointing fiscal council members, independence, behavioral, and technical-functional skills should be favored.

b. The responsibility of board members is to the organization, regardless of who appointed them. Thus, their actions must be guided by fairness, transparency, independence, and confidentiality.

c. Fiscal council members must be adequately compensated for their performance, considering the context and current market conditions, their qualifications, the value generated to the organization, and the risks of the activity. Appropriate compensation promotes the alignment of goals and avoids conflicts of interest.

d. In the exercise of its term, the fiscal council should engage with the organization's other governance agents, including participation in the shareholders' meeting, board meetings dealing with topics within its competence, meetings with board committees, in particular the audit committee, meetings with independent auditors and internal auditors.

e. The fiscal council should monitor the work of the independent auditors and the internal auditors, as well as the relationship of these professionals with the administrators. The auditors must attend fiscal council meetings, whenever summoned, to provide information related to their work.

5.2. Independent auditors

The independent audit team is responsible, in compliance with the applicable regulations, for issuing an opinion on whether the financial statements and integrated corporate reports prepared by management adequately represent, in all material respects, the organization's financial position.

As a good practice, it is recommended that integrated corporate reports dedicate equal importance to financial and non-financial information and be assured by an independent auditor.

Practices

a. The independent auditor should be selected and hired by the board of directors, reporting to the board directly or indirectly through the audit committee, if there is one. It should take care, where appropriate, to keep executive management informed of all aspects of the development of its work.

b. In organizations without a board of directors, the independent auditors must be hired and report to the shareholders, in order to ensure their independence.

c. 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.

d. The independent auditor should issue a report with recommendations arising from the assessment of internal controls performed during the audit process.

e. The independent auditor must be present at the meeting to answer shareholders' requests for clarification, and also at the meetings of the board and the audit committee that will deliberate on the financial statements.

5.2.1. Independence

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.
As a rule, the auditor should not provide other services to the organization being audited and should avoid any conflict of interest within the organization or entity being audited.

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 there is one.

b. With support from the audit committee, if there is one, the board of directors should ensure that the independent auditors comply with professional rules of independence, including financial Independence. It must also define which services other than the audit might be done without implicating a loss of independence.

c. At least one of the meetings done throughout the year among independent auditors and the audit committee must have the goal of discussing the auditors' independence. In this occasion, auditors must present, for the board of directors or the audit committee to analyze, a formal document ensuring their independence.

d. 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 there is one, will assess the impact of this potential hiring on the person's independence.

5.3. Internal auditors

The internal auditing's goal is strengthening the governance of organizations by applying a systematic and disciplined approach to the evaluation and improvement of risk management and control processes.

Organizations must have an internal audit role that can be in-house or outsourced (fully or partially). This decision has to do with the organization's size and complexity, its industry, and the maturity of its governance. It is worth noting that even if outsourced, the internal audit management will always belong to the contracting organization.

Practices

a. The internal audit activity must be performed with independence and objectivity.

b. It should report to the board of directors with the supervision of the audit committee, if there is one.

c. The internal audit work plan should be aligned with the organization's strategy, based on risks, discussed within the audit committee, and approved by the board of directors.

d. Assessments made by the internal audit should be aligned with the strategic direction of the organization and are intended to improve internal controls, standards, and procedures, and to identify risks and recommend controls to mitigate them.

e. The internal audit team should act in cooperation with the independent audit team for the purpose of strengthening the control environment and mitigating the organization's risks.

f. Internal audit leaders should maintain programs for quality assurance and improvement of their practices, in accordance with international standards, which can be done through self-assessments or by a trained third party.

5.4. Risk management

Risk management is carried out through structured processes that help identify, control, and mitigate the risk factors related to the business. Risk management contributes to the organization's continuity and generation of value. This activity is the responsibility of all governance agents and must be based on compliance with principles, policies, rules, regulations, and applicable laws.

Risk management is supported by three lines of action. The first corresponds to the managers of each business line; the second, to the risk management, internal controls, and compliance roles; and the third, to the internal auditors.

As the highest governance body, the board of directors must ensure proper risk management, approving policies and guidelines that develop monitoring mechanisms. In organizations where the board does not exist, the shareholders are responsible for this. In addition to the board, the audit committee, the board committees, the executive management, and the fiscal council play an important role in risk management.

Practices

a. The risk management framework should consider the size, complexity, regulations, and risks inherent to the organization's business and industry.

b. The organization should have a risk management policy that is approved by the board of directors and establishes the acceptable limits for risk exposure, considering its risk appetite.

c. The board of directors must ensure that the executive management has mechanisms in place to identify, assess, prioritize, mitigate, and monitor risks to keep them at levels consistent with the organization's risk appetite.

d. The board of directors and executive management should review, question, and collaborate in defining the organization's risk map as well as its risk appetite.

e. The board of directors, the executive management, and other employees should periodically identify and assess the risks to which the organization is exposed.

f. The board of directors and executive management must ensure that they are aware of the organization's most relevant risks and ensure that these risks are being managed effectively.

g. The executive officer responsible for risk management should produce reports and information that assist decision makers in identifying, prioritizing, mitigating, and monitoring risks related to the organization.

5.5. Internal controls

Internal controls are processes established by governance agents with the goal of ensuring the organization meets its goals while in compliance with legal and regulatory requirements.

The internal control structure must work in a synchronized way and operate in conjunction in order to be efficient and effective in the conduction of internal controls. The deliberation and supervision of internal controls is done by the board of directors and the executive management.

Practices

a. The executive management should define procedures and policies for establishing the organization's system of internal controls.

b. The board of directors should oversee the performance, development, and deficiencies of the organization's system of internal controls.

c. Internal auditors should design their work plans in the audit, seeking to align them with the organization's key internal controls and risks.

d. The board of directors, the audit committee, and the fiscal council should question and monitor the executive management about the internal controls structure and its improvement, supported by the internal and independent auditors.

5.6. Compliance

With the purpose of materializing the integrity principle, compliance is the permanent search for coherence between what is expected from an organization—respect for rules, purpose, values, and principles that constitute its identity—and what it actually practices on a daily basis.

The compliance program of an organization must include a set of mechanisms and procedures, policies, guidelines, code of conduct, whistleblower channel, and other instruments with the purpose of preventing, detecting, and correcting deviations of conduct, frauds, acts of corruption, money laundering, illicit acts committed against the public administration, among other issues. In addition, it must align the activities of everyone in the organization with its principles, values, and purpose, while promoting a culture of integrity.

Practices

a. The board of directors and executive management must commit to and support the fostering of an ethical culture and the strengthening of the organization's compliance program.

b. The board of directors and executive management must ostensibly and publicly declare the importance of the values and policies that make up the organization's compliance program, always acting unequivocally and consistently with what they preach.

c. The board of directors and executive management must ensure that the instance responsible for the organization's compliance program has the means to put it into practice, ensuring the allocation of adequate necessary financial, material, and human resources.

d. Governance agents must promote the continuous improvement of the organization's ethical culture, so that its actions are always consistent with the principles, values, laws, and regulations to which it is submitted.

6.

Conduct

The making of a principled environment is dependent on individual choices and conducts, and the code of conduct is a key document to ensure this.

6.1. Code of conduct

The code of conduct or code of ethics[5] is a set of internal rules whose main goal is to promote the purpose, principles, and ethical values; to foster transparency; to discipline the organization's internal and external relationships; to manage conflicts of interest; to protect physical and intellectual capital (assets); and to consolidate good corporate governance practices. Their creation and compliance raise the level of confidence in the organization and improve its image and reputation.

Practices

a. The code of conduct should be developed under the leadership of the executive management, according to the purpose of the organization, and approved by the board.

b. Representatives from different areas of the organization must take part in the process of drafting the document, so as to ensure a broad set of views, experiences, and knowledge, thus facilitating everyone's engagement.

c. The code of conduct applies to shareholders, board members, executive officers, employees, suppliers, and other stakeholders, as well as their relations with the organization and with each other.

5 Some organizations choose to call the document a code of conduct, while others call it a code of ethics. This code does not intend to go into the merits of existing nomenclatures, definitions, or theories, but rather to highlight the importance and need for organizations to have a guiding document that contains at least the provisions listed in this section.

d. In the case of suppliers, other shareholders, and stakeholders, it is recommended that the organization encourage adherence to its code of conduct or the implementation of a different code of conduct that is compatible to it, or, further, ensure that the supplier's code of conduct adheres to the code of the contracting organization.

e. The code of conduct should provide for the application of disciplinary measures in case of non-compliance with the standards.

f. The executive management should implement, disseminate, and ensure that it is made available in an easily accessible place, such as the organization's website.

g. The executive management must promote continuing education programs on the code of conduct for all levels of the organization.

h. The executive management should periodically review and update the code of conduct.

6.2. Whistleblower channel

The whistleblower channel, provided for and regulated by the code of conduct, is an important instrument for receiving reports of actual or potential misconduct. It is meant to receive and forward these reports for appropriate treatment, and thus prevent legal, financial, and reputational risks to the organization, ensure the effectiveness of its compliance system and exercise transparency in communication and in the relationship with its stakeholders.

Practices

a. Organizations should ensure the implementation of appropriate tools—preferably managed by a specialized third-party company—that ensure impartiality, anonymity, confidentiality, and non-retaliation to the whistleblower and witnesses.

b. The organization must implement processes and nominate the people responsible for evaluating and investigating the complaints received, as well as the necessary actions. A third party with recognized capacity may be in charge of this process.

c. Its operating guidelines must be defined by the executive management and approved by the board of directors.

d. A flow and scopes for receiving, investigating, and handling complaints and potential conflicts of interest of those involved in the investigation must be established.

e. The executive management must report to the board of directors, in a consolidated manner and at defined intervals, on the complaints received and investigated.

6.3. Organizational policies

In addition to compliance with laws and regulations, the organization must define organizational policies applicable to its operating reality and to the risks identified. These documents consist of clear and consistent norms and procedures, which establish processes and routines within the organization's daily activities, as well as align expectations with governance agents, employees, suppliers, customers, and other stakeholders. Policies should reflect strategic guidelines and be grounded in the organization's values, principles, and purpose.

Although they may vary according to the structure, industry, legal nature, or maturity of the governance, some of the most common policies for Brazilian organizations can be mentioned, such as the hierarchy regime; risk management; communication; crisis management; transactions between related parties; contributions and donations; compensation of executive management and board members; diversity, equity, and inclusion; distribution of results; prevention and detection of illegal acts; anti-corruption; stock trading; information disclosure; extra-audit services, among others.

Practices

a. Within the governance structure, the executive management is responsible for the elaboration and dissemination of the organizational policies. For the policies to be effective, the executive management needs to take responsibility for making their dissemination, periodic training, and engagement of the target audience feasible.

b. The organizational policies must establish the competencies and responsibilities, as well as the limits of authority and review frequency. In this context, they must define the approval and decision-making instances.

c. The board of directors must know the organizational policies and approve and monitor those that require its direct action and are under its responsibility.

6.3.1. Related parties transactions

The board of directors, its board committees, or the executive management, according to each case, have a duty to monitor transactions with potential conflicts of interest, or those which, directly or indirectly, involve related parties such as members of the board of directors, executive management, shareholders, among others, as defined in the respective policy.

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), considering the risks and ensuring communication in the organizational reports.

b. The bylaws/articles of incorporation may require that transactions between related parties be approved by the shareholders' meeting or the board of directors, according to each case, with the exclusion of any members with potentially conflicting interests in the deliberation.

c. Whenever necessary, transactions between related parties must be sustained by independent evaluation reports, without the participation of any of the parties involved, written based on real premises and information supported by external sources. In relevant transactions, it is advised to create a special independent committee for this evaluation.

d. Ways of compensating advisors, consultants, or intermediaries that generate conflicts of interest with the organization, the shareholders, or class of shareholders must be avoided.

e. Corporate reorganizations involving related parties must ensure equal and fair treatment to all shareholders.

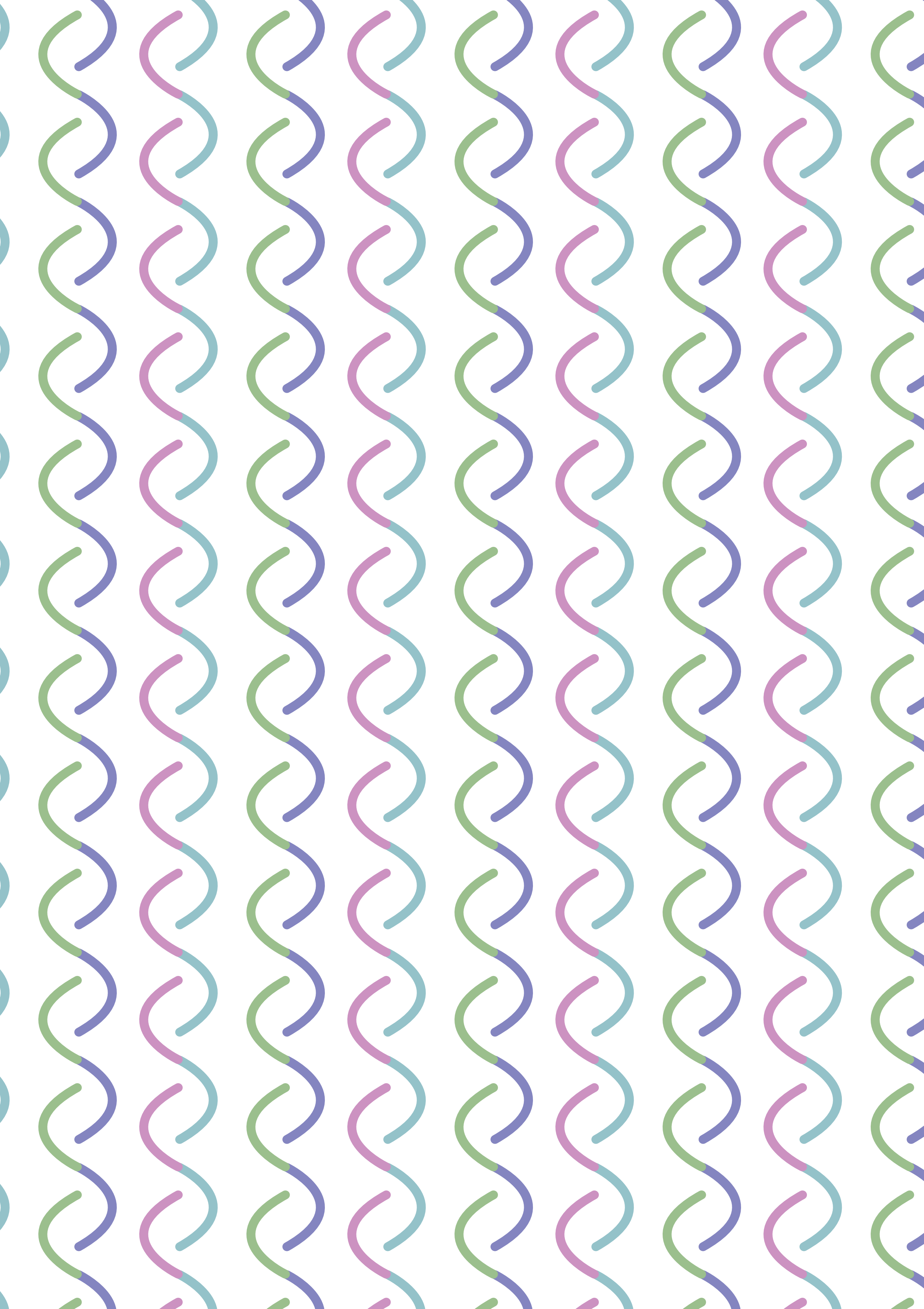
6.3.2. Treatment of insider information

The use of relevant insider information that has yet to be disclosed by governance agents for one's own benefit or that of others is illegal, unethical and violates the principle of fairness. This 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 undisclosed information, the code of conduct and other documents 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 key in any transaction involving securities, the code of conduct should clearly state the duty of loyalty to the organization.

b. The organization must have a specific organizational policy, approved by the board of directors, containing the procedures to be observed to inhibit and penalize the improper use of information. For publicly-traded companies, the code of conduct should pay special attention on the trading of securities by corporate agents and other members of the organization, as well as provide for a specific procedure in this case.



Glossary

Administrator: For the purposes of this Code, administrators are individuals who act as board members or executive officers (executive management members), as provided for in the bylaws or articles of incorporation.

Arbitration: Mechanism by which the resolution of conflicts is submitted to one or more third parties (arbitrators), through the arbitration agreement. By opting for arbitration, the judicial route is set aside. The arbitration award produces the same effects as a court decision.

Company: A publicly- or privately-held corporation.

Competency matrix: A tool that defines the competencies and skills expected of a person to act or assume a function within the organization, so that he/she can perform his/her activities efficiently and achieve the proposed results and objectives. In the case of collective bodies, the competency matrix should establish the attributes expected individually from each member as well as those that should be present in the body as a whole.

Directors' and officers' civil liability insurance (D&O): D&O coverage is related to regular management acts performed during the exercise of duties, both with respect to defense costs with lawsuits and legal fees, as well as pecuniary convictions.

Externalities: Contemplating the effects and results of the decisions of an organization and its activities that generate benefits (positive externalities) or impose costs or damages (negative externalities) on third parties that did not participate or influenced the decision or contractual relationship established, voluntarily or not.

Integrated thinking: The effective consideration, by the organization, not only of the possible financial returns of an action, but also of possible negative externalities that may compromise the environment, social responsibility, and good governance.

Mediation: A voluntary process of conflict resolution, in which the parties involved seek, through dialogue mediated by a third person, a solution that meets the needs of all those involved in the conflict.[6]

Plural voting: Plural voting can be understood as the right conferred to the shareholder to hold shares that represent more than one vote in the general meeting or shareholders' meeting deliberations.

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6 Conselho Nacional de Justiça. Conciliação e mediação. Available at: https://www.cnj.jus.br/programas-e-acoes/conciliacao-e-mediacao/. Access on: Apr. 6th, 2023.

Poison pills: In Brazil, poison pills are characterized by statutory clauses that oblige the acquirer of a certain minority stake in the capital of a company to make a public offer for the acquisition of the totality of its capital at a certain price, usually much higher than that practiced by the market at the time of the operation and, not rarely, pending an appraisal report. Unlike a clause that determines an offer for the acquisition of a relevant stake based on historical market prices, poison pills can result in the concentration of political power that is disproportionate to the de facto controlling shareholders, in the encasement of inefficient managers, in the aggravation of conflicts between shareholders and managers or between majority and minority shareholders, and make it difficult to carry out transactions of interest to shareholders and with potential benefits for the company.

Preferred shares: Those that have preference in the payment of dividends, or even in the reimbursement of capital in case of liquidation of the company. In general, this economic preference occurs in detriment to the right to vote in the shareholders' meeting or assembly.

Psychological safety: A belief, shared by members of a team, that they feel safe to take interpersonal risks. Psychological safety involves a team environment characterized by interpersonal trust and mutual respect in which people feel comfortable being themselves.[7]

Pyramid structures: Control structures that allow a shareholder, through participation in other organizations, to effectively control the organization by holding a small fraction of its total capital.

Shared value: Operational policies and practices that increase the competitiveness of a company and, at the same time, improve the economic and social conditions of the communities in which it operates. Creating shared value focuses on identifying and expanding the connections between social and economic progress.[8]

Third sector: Organizations of private origin with a predominantly public purpose, known in some laws as civil society organizations, most often within a multifaceted universe, popularly called the third sector.[9]

Voting cap: A mechanism to establish a limitation on the number of votes of each shareholder.

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7 Edmondson, A. Psychological Safety and Learning Behavior in Work Teams. **Administrative Science Quarterly**, 44(2), 1999, p. 350–383.

8 Brazilian Institute of Corporate Governance (IBGC). **Guia das melhores práticas para organizações do terceiro setor**: associações e fundações. IBGC: São Paulo, 2016.

9 Porter, M. E.; Kramer, M. R. Creating Shared Value. **Harvard Business Review**, January–February 2011.

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About IDB Invest

IDB Invest, a member of the IDB Group, is a multilateral development bank committed to promoting the economic development of its member countries in Latin America and the Caribbean through the private sector. IDB Invest finances sustainable companies and projects to achieve financial results and maximize economic, social, and environmental development in the region. With a portfolio of $15.3 billion in asset management and 375 clients in 25 countries, IDB Invest provides innovative financial solutions and advisory services that meet the needs of its clients in a variety of industries.

Corporate governance plays a key role in creating value for companies, investors, and society as a whole.

At **B3**, **Brazil's stock exchange** and self-regulatory entity of the capital markets, one of our missions is to promote and disseminate knowledge about corporate governance.

To this end, we act on several fronts by following legislative and regulatory movements (in Brazil and worldwide), adapting regulations, creating reports and promoting discussion forums, such as, for example, the **Conexões de Valor** [Connections of Value] program, in addition to recognizing the efforts of companies through a wide variety of indexes.

Historically, we have a very close partnership role with the **Brazilian Institute of Corporate Governance (IBGC)**, contributing to events that promote transparency, equality, and accountability.

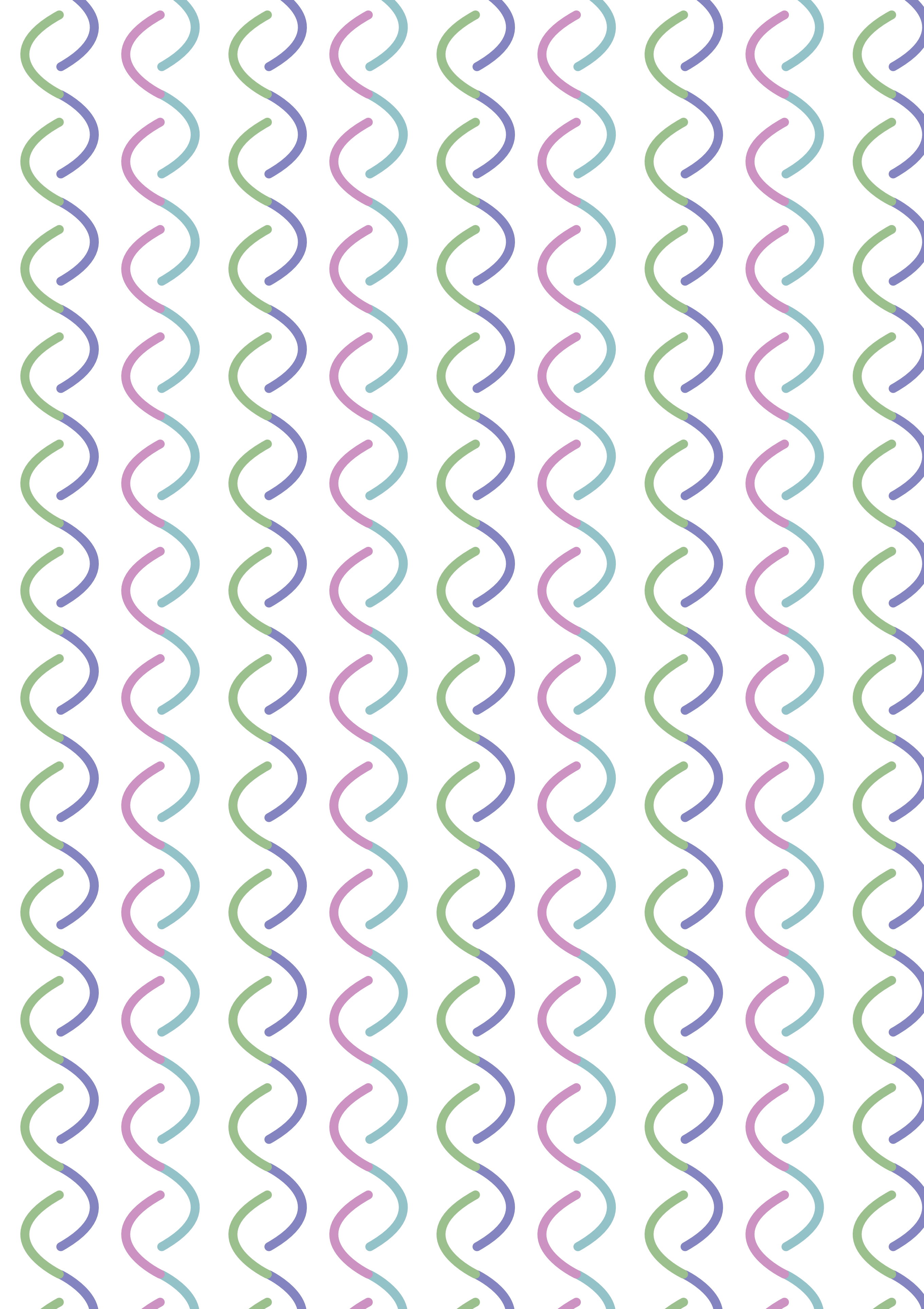
That said, it is with great pride that today we present ourselves as sponsors of the **6th Edition of IBGC's Code of Best Practices of Corporate Governance**, which will be an important reference for the evolution of good governance practices in organizations.

The new Code presents relevant guidelines for organizations to be better prepared to promote good corporate governance, with the goal of achieving both longevity and good business performance.

We hope you enjoy your reading and continue to rely on **B3** for all stages of your company's journey.

May your company achieve the highest levels of governance, getting even closer to society and investors with these suggestions of good practices.

B3, the Brazilian stock exchange



ibgc

Founded on November 27th, 1995, the Brazilian Institute of Corporate Governance (IBGC), a civil organization, is the Brazilian reference and one among the main reference organizations for corporate governance worldwide. Its purpose is to generate and disseminate knowledge on the best corporate governance practices and influence the most diverse agents in its adoption, contributing to the sustainable development of organizations and, consequently, to a better society.

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