



BRAZIL

Proxy Voting Guidelines Benchmark Policy Recommendations

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1. Operational Items

Financial Results/Director and Statutory Reports

- **General Recommendation:** Vote for approval of financial statements and statutory reports, unless:
- There are concerns about the accounts presented or audit procedures used;
 - The external auditor expresses no opinion or qualified opinion over the financial statements; or
 - The company is not responsive to shareholder questions about specific items that should be publicly disclosed.

ISS will note whenever fees for non-audit services exceed standard annual audit-related fees. However, Brazilian companies are not required to present the ratification of external auditors to a shareholder vote, and the establishment of an audit committee is not mandatory. (Brazilian regulations allow external auditors to serve for a five-year term, or a 10-year term if the company establishes an audit committee.) Consequently, excessive non-audit fees will generally not result in adverse vote recommendations.

In circumstances where fees for non-audit services include fees related to significant one-time capital structure events (initial public offerings, bankruptcy emergencies, and spinoffs) and the company makes public disclosure of the amount and nature of those fees, which are an exception to the standard "non-audit fee" category, then such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit fees.

Stock (Scrip) Dividend Alternative

- **General Recommendation:** Vote for most stock (scrip) dividend proposals.

Vote against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

Allocation of Income

Brazilian companies are generally required to distribute at least 25 percent of adjusted net income as dividends to shareholders. Brazilian law also considers interest-on-capital-stock payments as dividends.

- **General Recommendation:** Vote for approval of the allocation of income, unless:
- The dividend payout ratio has been consistently below 30 percent without adequate explanation or in the absence of adequate total shareholder returns; or
 - The payout is excessive given the company's financial position.

Amendments to Articles of Association

- **General Recommendation:** Vote amendments to the articles of association on a case-by-case basis. Note that Brazilian companies frequently seek shareholder approval to ratify even non-material changes in share capital.

Change in Company Fiscal Term

- ▷ **General Recommendation:** Vote for resolutions to change a company's fiscal term unless a company's motivation for the change is to postpone its AGM.

Lower Disclosure Threshold for Stock Ownership

- ▷ **General Recommendation:** Vote against resolutions to lower the stock ownership disclosure threshold below 5 percent unless specific reasons exist to implement a lower threshold.

Amend Quorum Requirements

- ▷ **General Recommendation:** Vote proposals to amend quorum requirements for shareholder meetings on a case-by-case basis.

2. Board of Directors

Voting on Director Nominees under Uncontested Election

In Brazil, the code of best practice of corporate governance, from the Brazilian Institute of Corporate Governance (IBGC) and the Brazilian Code of Corporate Governance (2016) recommend that boards should have a "relevant number of independent directors" or be, at a minimum, one-third independent, respectively. These recommendations have become increasingly pertinent as the free float of Brazilian companies continues to grow. Majority independent boards remain rare in Brazil.

The revised version of the Sao Paulo Stock Exchange's (B3) Novo Mercado listing segment regulations, effective as of Jan. 2, 2018, states that member companies are required to maintain a minimum of 20-percent board independence or two independent members, whichever results in a higher independence level. The previous rule established only a minimum of 20-percent board independence, which could technically be met with one independent director depending on the size of the board. Companies listed under the Nivel 2 listing segment are required to maintain a minimum of 20-percent independent board, and B3 regulations continue to allow these companies (Nivel 2) to round down the required number of independent directors.

Companies that are part of the Nivel 1 and the non-differentiated ("Traditional") listing segments are not subject to a minimum independence requirement. Institutional investors largely believe that the aforementioned board independence requirements are presently inadequate, in light of the current free float and average board independence of companies in the differentiated listing segments.

ISS' benchmark board independence policy specifies that the boards of issuers belonging to the Novo Mercado and Nivel 2 listing segments, the country's highest levels of corporate governance, must be at least 50-percent independent, while companies listed under Nivel 1 or the Traditional segment must have at least one-third of the board or two directors, whichever is higher, classified as independent. Such thresholds are consistent with proportional board representation best practices and the growing expectations of institutional investors.


In 2021, ISS also included gender diversity and overboarding as part of its board election policy guidelines. As a result of the latter, directors participating in more than five public boards will be considered overboarded. In addition, CEOs serving in more than two boards besides their own will also be considered overboarded and receive against vote recommendations in the external boards. Moreover, starting in 2022, ISS policy guidelines will recommend that Brazilian companies listed in all segments have at least one female director.

The most common market practice in Brazil remains slate elections. Nonetheless, in recent years, the market has experienced an increase in the number of individual board elections.


While directors nominated by a controlling shareholder must be disclosed at a minimum of 15 days prior to the meeting date, minority shareholders may present the names of their nominees up to the time of the meeting. These rules were designed to minimize restrictions on minority shareholders, but may negatively impact international investors, who must often submit voting instructions in the absence of complete nominee information.

Brazilian companies are required to provide its shareholders with a remote voting option, through the Remote Voting Card (RVC) as regulated by the Brazilian Securities Regulator (CVM) through its original Instruction 561/2015 and amended by Instruction 594/2017. For additional information regarding the Remote Voting Card and its disclosure requirements, refer to the Brazil Remote Voting Card (FAQ), available on the ISS Policy Gateway website.

Bundled and Unbundled Elections

 **General Recommendation:** Vote for the bundled election of management nominees, unless:

- Adequate disclosure of management nominees has not been provided in a timely manner;
- There are clear concerns over questionable finances or restatements;
- There have been questionable transactions with conflicts of interest;
- There are any records of abuses against minority shareholder interests; or
- The board fails to meet minimum corporate governance standards, including the minimum independence level, gender diversity and overboarding thresholds recommended under ISS policy.

 **General Recommendation:** In an unbundled election, for boards that meet the minimum independence level recommended by ISS, as detailed below, support all director nominees if:

- there are no concerns regarding the candidate(s) and/or the company.

However, if the proposed board falls below the minimum independence level recommended under ISS policy:

- Support the independent nominees presented individually under the majority election; and
- Vote against the non-independent candidates in the majority election.

In making the above vote recommendations, ISS generally will not recommend against the election of the chair, due to the relevance of the board leadership position in the absence of other governance concerns.

Minimum Independence Levels

Vote against the bundled election of directors if the post-election board at Novo Mercado and Nivel 2 companies would not be at least 50-percent independent.

A two-year phase-in period will apply in 2021 and 2022 to allow companies to gradually increase their overall board independence and adapt to the recommended independence threshold. During the transitional period (2021-2022), vote against proposed boards with overall independence level below 40 percent.

Vote against the bundled election of directors if the post-election board of Nivel 1 and Traditional companies would not have at least one-third of the board or two directors, whichever is higher, classified as independent by ISS.

Gender Diversity

For meetings on or after Feb. 1, 2022, generally vote against director elections at companies where the post-election board contains no female directors.

- For bundled elections, vote against the entire slate.
- For unbundled elections, vote against the chair of the Nominating Committee or chair of the committee designated with the responsibility of a nominating committee, or all such committee members if no committee chair has been identified. In case no nominating committee has been disclosed, vote against the chair of the board, or the entire board if no board chair has been identified.

A one-year transitional period will apply in 2021 to allow companies to incorporate gender diversity into their board compositions. During this transitional period, vote recommendations will not be impacted by the gender diversity policy. The gender diversity policy will come into effect on Feb. 1, 2022.

Overboarding

Generally, vote against management nominees who:

- Sit on more than five public company boards; or
- Are CEOs of public companies who sit on the boards of more than two public companies besides their own — recommend against only at their outside boards¹.

Generally, vote against the bundled election of directors if one or more nominees, if elected, would be overboarded.

Combined Chair/CEO



General Recommendation: Vote against the bundled election of directors of companies listed under the differentiated corporate governance segments of the Sao Paulo Stock Exchange (B3)--Novo Mercado, Nivel 2, and Nivel 1-- if the company maintains or proposes a combined chair/CEO structure, after three (3) years from the date the company's shares began trading on the respective differentiated corporate governance segment.

Vote against the election of the company's chair, if the nominee is also the company's CEO, when it is presented as a separate election at companies listed under the differentiated corporate governance segments of the Sao Paulo Stock Exchange (B3), Novo Mercado, Nivel 2, and Nivel 1-- after three (3) years from the date the company's shares began trading on the respective differentiated corporate governance segment.

¹ Although all of a CEO's subsidiary boards with publicly-traded common stock will be counted as separate boards, ISS will not recommend an against vote for the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent but may do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationships.

Governance Failures

Under extraordinary circumstances, vote against individual nominees (appointed by management or minority shareholders), members of a committee, or the entire board, due to:

- Material failures of governance, stewardship, risk oversight (including, but not limited to, environmental, social, and climate change issues), or fiduciary responsibilities at the company;
- Failure to replace management as appropriate; or
- Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

Vote against individual nominees, members of a committee, or the entire board due to a conflict of interest that raises significant potential risk, in the absence of mitigating measures and/or procedures.

Election of Minority Nominees (Separate Election)

Article 141 of the Brazilian Corporate Law grants the rights to minority common and preferred shareholders to appoint one member each to the board of directors in a separate election in which the controlling shareholder is not allowed to vote.


Brazilian Corporate Law only requires controlling shareholders to disclose their nominee slate prior to the shareholder meeting. Minority stockholders can present the names of their nominees up to the time of the meeting.

In September 2019, the Brazilian Securities Regulator (CVM) issued Instruction 614, updating the guidelines for companies on how to account for the votes submitted by shareholders for the election of directors using the remote voting card. The updated rule allows the submission of voting instructions for both the election of the management nominees and the election of a minority shareholder representative under a separate election.

According to the updated regulation, companies must first establish (i) whether minimum regulatory quorum requirements were met for the holding of the separate minority election and (ii) whether minority shareholders have disclosed one or more nominees, in which case such election will be carried out. If YES, the company will consider the voting instructions submitted under the separate election proposal. If NO, the company will disregard the instructions submitted for the separate minority election (as this one will not take place) and will consider the votes submitted for the majority election proposal.

Holders of preferred shares can only participate in the separate election to select the board representative of minority preferred shareholders.

The Brazilian Securities Regulator did not update the rules for the election of fiscal council representatives through the remote voting card. In this case, shareholders continue to be allowed to provide voting instructions only in one of the election scenarios, either to the minority separate election or to the election of the management fiscal council nominees. Such rule is accounted for in ISS' vote recommendations described below.

 **General Recommendation:** Vote for the election of minority board nominees (ordinary and preferred holders), as well as minority fiscal council nominees, presented under a separate election when timely disclosure is provided of their names and biographical information, in the absence of other concerns regarding the proposed nominees. If competing minority nominees are disclosed by different minority shareholders, the [contested election policy](#) will be applied.

In the absence of timely disclosure regarding minority nominees, an "Abstain" recommendation may be issued for the separate minority election proposal.

For fiscal council elections, in the event of publicly-disclosed minority nominee(s), ISS will prioritize the support for the election of minority representatives, issuing an "Abstain" recommendation for the management nominees. In the absence of timely disclosure of a minority fiscal council nominee, an "Abstain" vote will be recommended for the fiscal council minority separate election agenda item, with a vote recommendation presented for the management fiscal council nominees in accordance with ISS' policy guidelines.

ISS will update its report and vote recommendations, as applicable, on a best effort basis, whenever the names and biographical information of minority nominees are disclosed following the publication of the original report, up to a **minimum of eight (8) days** prior to the shareholder meeting, in which case priority will be given to allow minority shareholders to elect a representative to the board of directors and/or fiscal council.

ISS Classification of Directors – Brazil

Executive Director

- Employee or executive of the company;
- Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company.

Non-Independent Non-Executive Director (NED)

- Any director who is attested by the board to be a non-independent NED;
- Any director specifically designated as a representative of a significant shareholder of the company;
- Any director who is also an employee or executive of a significant shareholder of the company;
- Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material^[5] connection with the dissident, either currently or historically;
- Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., family members who beneficially own less than 10 percent individually, but collectively own more than 10 percent), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances);
- Government representative;
- Currently provides (or a relative^[1] provides) professional services^[2] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of \$10,000 per year;
- Represents customer, supplier, creditor, banker, or other entity with which company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test^[3]);
- Any director who has conflicting or cross-directorships with executive directors or the chair of the company;
- Relative^[1] of a current employee of the company or its affiliates;
- Relative^[1] of a former executive of the company or its affiliates;
- A new appointee elected other than by a formal process through the General Meeting (such as a contractual appointment by a substantial shareholder);
- Founder/co-founder/member of founding family but not currently an employee;
- Former executive (five-year cooling off period);
- Any director who has served for 12 or more years on the board will be deemed non-independent, unless local best practices recommend a lower tenure limit which will then be applied;
- Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance.

Independent NED

- No material^[4] connection, either directly or indirectly, to the company (other than a board seat) or the dissenting significant shareholder.

Employee Representative

- Represents employees or employee shareholders of the company (classified as “employee representative” but considered a non-independent NED).

Footnotes:

[1] “Relative” follows the definition of “immediate family members” which covers spouses, parents, children, stepparents, step-children, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.


[2] Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship.

[3] A business relationship may be material if the transaction value (of all outstanding transactions) entered into between the company and the company or organization with which the director is associated is equivalent to either 1 percent of the company's

turnover or 1 percent of the turnover of the company or organization with which the director is associated. OR, A business relationship may be material if the transaction value (of all outstanding financing operations) entered into between the company and the company or organization with which the director is associated is more than 10 percent of the company's shareholder equity or the transaction value, (of all outstanding financing operations), compared to the company's total assets, is more than 5 percent.


[4] For purposes of ISS' director independence classification, "material" will be defined as a standard of relationship financial, personal or otherwise that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.

Appointment of Internal Statutory Auditors (Fiscal Council)

 **General Recommendation:** Vote for the appointment or (re)election of fiscal council members, unless:

- The name of the management nominee(s) is not disclosed in a timely manner prior to the meeting;
- There are serious concerns about the statutory reports presented or the audit procedures used;
- Questions exist concerning any of the statutory auditors being appointed; or
- The auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.
- Minority shareholders have presented timely disclosure of minority fiscal council nominee(s) to be elected under separate elections, as allowed under Brazilian law. See [Election of Minority Nominees \(Separate Election\)](#).

Contested Director Elections and Competing Minority Nominees

 **General Recommendation:** For contested elections of directors (and/or fiscal council members), e.g. the election of shareholder nominees or the dismissal of incumbent directors, ISS will make its recommendation on a case-by-case basis, determining which directors (and/or fiscal council members) are best suited to add value for shareholders.

The analysis will generally be based on, but not limited to, the following major decision factors:

- Company performance relative to its peers;
- Strategy of the incumbents versus the dissidents;
- Independence of directors/nominees;
- Experience and skills of board candidates;
- Governance profile of the company;
- Evidence of management entrenchment;
- Responsiveness to shareholders;
- Whether a takeover offer has been rebuffed;
- Whether minority or majority representation is being sought.

When analyzing a contested election of directors, ISS will generally focus on two central questions: (1) Have the dissidents proved that board change is warranted? And (2) if so, are the dissident board nominees likely to effect positive change? (i.e., maximize long-term shareholder value).

Dismiss Directors

- ▷ **General Recommendation:** Vote on a case-by-case basis when the company proposes to dismiss directors, paying particular attention, but not limited, to:
- Whether the company has presented a compelling rationale for the request, and
 - Whether the overall independence level of the newly-proposed board is in line with ISS policy guidelines.

Discharge of Directors

- ▷ **General Recommendation:** Generally vote for the discharge of directors, including members of the management board and/or supervisory board, unless there is reliable information about significant and compelling controversies as to whether the board is fulfilling its fiduciary duties, as evidenced by:
- A lack of oversight or actions by board members that invoke shareholder distrust related to malfeasance or poor supervision, such as operating in private or company interest rather than in shareholder interest; or
 - Any legal proceedings (either civil or criminal) aiming to hold the board responsible for breach of trust in the past or related to currently alleged actions yet to be confirmed (and not only the fiscal year in question), such as price fixing, insider trading, bribery, fraud, and other illegal actions; or
 - Other egregious governance issues where shareholders will bring legal action against the company or its directors.

Director, Officer, and Auditor Indemnification and Liability Provisions

- ▷ **General Recommendation:** Vote proposals seeking indemnification and liability protection for company's directors, officers, and/or fiscal council members and employees on a case-by-case basis.

As part of the analysis, ISS will consider the company's disclosure regarding terms including, but not limited to, the following:

- Safeguards to prevent potential conflict of interests, including the independence of the decision-making process for approval of indemnification coverage;
- The disclosure of a publicly-available, board approved indemnification policy;
- Clear description of acts and events that can and cannot be covered by the indemnity policy or contract;
- Information regarding potential financial impact of the indemnity policy or contracts to the company;
- Eligible beneficiaries of the policy, including the length of the post-employment period that will be covered by the policy or contract;
- Treatment of indemnity payments already made in the event of a final irreversible court ruling has determined that associated actions were outside the scope of indemnification coverage.

Vote against proposals that would:

- Allow indemnity coverage for current and/or former director, officers, and/or fiscal council members who have entered into leniency agreements with the country's authorities in the context of corruption investigations;
- Allow indemnity coverage of acts committed outside the normal exercise of duties of the administrator, acts performed in bad faith, malice, or fraud, or acts committed in detriment of the company's best interest; and
- Indemnify external auditors.

Board Structure

- ▷ **General Recommendation:** Vote for proposals to fix board size.

Vote against the introduction of classified boards and mandatory retirement ages for directors.

Vote against proposals to alter board structure or size in the context of a fight for control of the company or the board.

Vote against proposals to increase board terms.

3. Capital Structure

Brazilian companies frequently seek shareholder approval to ratify even non-material changes in share capital through the approval of article amendments. However, Brazilian regulations also allow the board to issue shares up to the authorized capital limit, without additional shareholder approval, as long as such a provision is included in the company's bylaws.

Share Issuance Requests

General Issuances

- ▶ **General Recommendation:** Vote for issuance requests with preemptive rights to a maximum of 100 percent over currently issued capital.

Vote for issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital.

Specific Issuances

- ▶ **General Recommendation:** Vote on a case-by-case basis on all requests, with or without preemptive rights.

Increases in Authorized Capital

- ▶ **General Recommendation:** Vote for non-specific proposals to increase authorized capital up to 100 percent over the current authorization unless the increase would leave the company with less than 30 percent of its new authorization outstanding.

Vote for specific proposals to increase authorized capital to any amount, unless:

- The specific purpose of the increase (such as a share-based acquisition or merger) does not meet ISS guidelines for the purpose being proposed; or
- The increase would leave the company with less than 30 percent of its new authorization outstanding after adjusting for all proposed issuances.

Vote against proposals to adopt unlimited capital authorizations.

Reduction of Capital

- ▶ **General Recommendation:** Vote for proposals to reduce capital for routine accounting purposes unless the terms are unfavorable to shareholders.

Vote proposals to reduce capital in connection with corporate restructuring on a case-by-case basis.

Capital Structures

- ▶ **General Recommendation:** Vote for resolutions that seek to maintain or convert to a one-share, one-vote capital structure.

Vote against requests for the creation or continuation of dual-class capital structures or the creation of new or additional super voting shares.

Preferred Stock

- ▶ **General Recommendation:** Vote for the creation/issuance of convertible preferred stock as long as the maximum number of common shares that could be issued upon conversion meets ISS guidelines on equity issuance requests.

Vote against the creation of a new class of preference shares that would carry superior voting rights to the common shares.

Vote against the creation of blank check preferred stock unless the board clearly states that the authorization will not be used to thwart a takeover bid.

Vote proposals to increase blank check preferred authorizations on a case-by-case basis.

Debt Issuance Requests

- ▶ **General Recommendation:** Vote non-convertible debt issuance requests on a case-by-case basis, with or without preemptive rights.

Vote for the creation/issuance of convertible debt instruments as long as the maximum number of common shares that could be issued upon conversion meets ISS guidelines on equity issuance requests.

Vote for proposals to restructure existing debt arrangements unless the terms of the restructuring would adversely affect the rights of shareholders.

Pledging of Assets for Debt

- ▶ **General Recommendation:** Vote proposals to approve the pledging of assets for debt on a case-by-case basis.

Increase in Borrowing Powers

- ▶ **General Recommendation:** Vote proposals to approve increases in a company's borrowing powers on a case-by-case basis.

Share Repurchase Plans

- ▶ **General Recommendation:** Generally vote for market repurchase authorities (share repurchase programs) if the terms comply with the following criteria:


- A repurchase limit of up to 10 percent of outstanding issued share capital; and
- A holding limit of up to 10 percent of a company's issued share capital in treasury ("on the shelf").

Authorities to repurchase shares in excess of the 10 percent repurchase limit will be assessed on a case-by-case basis. ISS may support such share repurchase authorities under special circumstances, which are required to be publicly disclosed by the company, provided that, on balance, the proposal is in shareholders' interests.


In addition, ISS will recommend against any proposal where:

- The repurchase can be used for takeover defenses;
- There is clear evidence of abuse;
- There is no safeguard against selective buybacks; or
- Pricing provisions and safeguards are deemed to be unreasonable in light of market practice.

Reissuance of Repurchased Shares

-  **General Recommendation:** Vote for requests to reissue any repurchased shares unless there is clear evidence of abuse of this authority in the past.

Capitalization of Reserves for Bonus Issues/Increase in Par Value

-  **General Recommendation:** Vote for requests to capitalize reserves for bonus issues of shares or to increase par value.

4. Compensation

Shareholders are asked to approve the aggregate remuneration of directors and executive officers at Brazilian annual general meetings in a binding vote. The company's board of directors then decides how to allocate this aggregate remuneration figure among different individuals. The aggregate remuneration figure approved by shareholders should be inclusive of the variable remuneration that directors and executive officers may receive.

Management Compensation

► **General Recommendation:** Generally vote for management compensation proposals that are presented in a timely manner and include all disclosure elements required by the Brazilian Securities Regulator (CVM).

Vote against management compensation proposals when:

- The company fails to present a detailed remuneration proposal or the proposal lacks clarity;
- The company does not disclose the total remuneration of its highest-paid executive; or
- The figure provided by the company for the total compensation of its highest-paid administrator is not inclusive of all elements of the executive's pay.

Vote case-by-case on global remuneration cap (or company's total remuneration estimate, as applicable) proposals that represent a significant increase of the amount approved at the previous AGM (year-over-year increase). When further scrutinizing year-over-year significant remuneration increases, jointly consider some or all of the following factors, as relevant:

- Whether there is a clearly stated and compelling rationale for the proposed increase;
- Whether the remuneration increase is aligned with the company's long-term performance and/or operational performance targets disclosed by the company;
- Whether the company has had positive TSR for the most recent one- and/or three-year periods;
- Whether the relation between fixed and variable executive pay adequately aligns compensation with the company's future performance.

Vote on a case-by-case basis when the company proposes to amend previously-approved compensation caps, paying particular attention as to whether the company has presented a compelling rationale for the request.

Compensation Plans

In Brazil, equity-based compensation plans were rarely submitted to shareholder approval prior to 2006. Since the publication of Instruction 481 by the Brazilian Securities Regulator (CVM) in December 2009, effective as of January 2010, companies are required to publish all facts relevant to such plans at least 15 days prior to the meeting date. According to this regulation, Brazilian companies should, at a minimum, disclose detailed information regarding potential dilution, exercise prices, vesting features, and performance criteria.

► **General Recommendation:** ISS will generally support reasonable equity pay plans that encourage long-term commitment and ownership by its recipients without posing significant risks to shareholder value.

Practically all of the plans presented since the implementation of the 2009 CVM guidelines have included reasonable dilution limits and adequate vesting conditions. Performance criteria, meanwhile, are rarely disclosed.

ISS' assessments of these plans have generally hinged on the presence of discounted exercise prices (which are common in Brazil), particularly in the absence of specific performance criteria. Moreover, ISS considers the potential for conflict of interests when administrators are also beneficiaries of the plan, and whether there are sufficient safeguards to mitigate such concerns.

Vote against a stock option plan and/or restricted share plan, or an amendment to the plan, if:

- The plan lacks a minimum vesting cycle of three years;
- The plan permits options to be issued with an exercise price at a discount to the current market price, or permits restricted shares to be awarded (essentially shares with a 100 percent discount to market price), in the absence of explicitly stated, challenging performance hurdles related to the company's historical financial performance or the industry benchmarks;
- The maximum dilution exceeds ISS guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods, as these features partially offset dilution concerns by reducing the likelihood that options or shares will become exercisable unless there is a clear improvement in shareholder value; or
- Directors eligible to receive options or shares under the scheme are involved in the administration of the plan.

Vote on a case-by-case basis if non-executive directors are among the plan's potential beneficiaries, paying special attention to:

- Whether there are sufficient safeguards to ensure that beneficiaries do not participate in the plan's administration; and
- The type of grant (if time-based, performance-based, or in lieu of cash), considering the long-term strategic role of boards of directors.

Specifically for share matching plans, in addition to the abovementioned factors, vote against the plan, or an amendment to the plan, if:

- The shares to be acquired by the participant to become eligible to the share matching plan lack a minimum three-year lock-up period.

Furthermore, for share matching plans with no disclosed performance criteria, ISS will recommend against the plan if:

- The shares of the initial investment may be purchased by the participant at a discount to the market price;
- The initial investment is made using resources other than the annual variable remuneration received by the participant; or
- The plan lacks a reasonable ratio between the number of shares awarded by the company (matching) and each share acquired by the participant.

5. Other Items

Reorganizations/Restructurings

▷ **General Recommendation:** Vote reorganizations and restructurings on a case-by-case basis.

Mergers and Acquisitions

▷ **General Recommendation:** Vote case-by-case on mergers and acquisitions taking into account the following:

For every M&A analysis, ISS reviews publicly available information as of the date of the report and evaluates the merits and drawbacks of the proposed transaction, balancing various and sometimes countervailing factors including:

- Valuation - Is the value to be received by the target shareholders (or paid by the acquirer) reasonable? While the fairness opinion may provide an initial starting point for assessing valuation reasonableness, ISS places emphasis on the offer premium, market reaction, and strategic rationale.
- Market reaction - How has the market responded to the proposed deal? A negative market reaction will cause ISS to scrutinize a deal more closely.
- Strategic rationale - Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions.
- Conflicts of interest - Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? ISS will consider whether any special interests may have influenced these directors and officers to support or recommend the merger.
- Governance - Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues (such as valuation) outweigh any deterioration in governance.

Vote against if the companies do not provide sufficient and timely information upon request to make an informed voting decision.

Appointment of Independent Auditors

▷ **General Recommendation:** Vote for the election of auditors to conduct valuation of proposed transactions, unless:

- Name of the proposed auditors has not been published;
- There are serious concerns about the procedures used by the auditor;
- There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position; or
- External auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

Mandatory Takeover Bid Waivers

▷ **General Recommendation:** Vote proposals to waive mandatory takeover bid requirements on a case-by-case basis.

Reincorporation Proposals

- ▷ **General Recommendation:** Vote reincorporation proposals on a case-by-case basis.

Expansion of Business Activities

- ▷ **General Recommendation:** Vote for resolutions to expand business activities unless the new business takes the company into risky areas.

Related-Party Transactions

- ▷ **General Recommendation:** In evaluating resolutions that seek shareholder approval on related-party transactions (RPTs), vote on a case-by-case basis, considering factors including, but not limited to, the following:

- The parties on either side of the transaction;
- The nature of the asset to be transferred/service to be provided;
- The pricing of the transaction (and any associated professional valuation);
- The views of independent directors (where provided);
- The views of an independent financial adviser (where appointed);
- Whether any entities party to the transaction (including advisers) is conflicted; and
- The stated rationale for the transaction, including discussions of timing.

If there is a transaction that ISS deemed problematic and that was not put to a shareholder vote, ISS may recommend against the election of the director involved in the related-party transaction or the full board.

Antitakeover Mechanisms

Mandatory Bid Provisions (sometimes referred to as poison pills in Brazil), are the antitakeover provisions most commonly used by these companies.

The ownership triggers for these mandatory bids typically range between 15-35 percent, and some include onerous minimum price provisions. The B3 attempted in late 2010 to require all issuers in the Novo Mercado to adopt a mandatory bid provision with a 30-percent trigger, though the measure was voted down by issuers (since the Novo Mercado is a voluntary listing segment).


A few companies also include voting caps in their bylaws, though issuers in the differentiated listing segments may not have a voting cap below 5 percent.

- ▷ **General Recommendation:** Generally vote against all antitakeover proposals, unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

Vote for mandatory bid provisions that are structured in line with the recommendations of the Sao Paulo Stock Exchange's Novo Mercado listing segment:

- Ownership trigger of 30 percent or higher; and
- Reasonable pricing provisions.

Shareholder Proposals

 **General Recommendation:** Vote all shareholder proposals on a case-by-case basis.

Vote for proposals that would improve the company's corporate governance or business profile at a reasonable cost.

Vote against proposals that limit the company's business activities or capabilities or result in significant costs being incurred with little or no benefit.

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