



DIRECTORS VIEW

Although Brazil has recently returned to 9th place among the world's largest economies, its stock market is still in 20th place in terms of capitalization, according to the World Federation of Exchanges. These data demonstrate the growth potential of the Brazilian capital market. **However, since capitalism is a game of risk, to advance in this field, the key word is trust – which involves at least the foundations of stability in the country's economy and politics, in the business environment and in company management.** This last case is also known by the name of Corporate Governance, which has, among its principles, the concept of Stewardship, the fiduciary duty of asset managers to look after their clients' investments.

Corporate Governance and Stewardship are, therefore, two sides of the same coin. But both are still very incipient in Brazil.

Although Corporate Governance has been part of the best business practices for more than 30 years, it has become – in many Brazilian companies – just a matter of compliance, supervised by legal departments, with the strict objective of keeping companies in accordance with the rules, standards, and laws – a practice also known as “Box Ticking”.

Geraldo Affonso Ferreira

NED, Member of the Fiscal Council at BrasilAgro,
Member of the Audit Committee at SPTrans and CET

However, in Brazil, we still do not have effective Law Enforcement in the capital markets. The Securities and Exchange Commission (CVM) does not have the human and financial resources necessary for supervision to ensure compliance with best practices in companies' relations with their investors.

While this is not the reality in Brazil, **the means to increase investor confidence in local companies will be through effective Corporate Governance practices.** However, as the realities and contexts of each company are different, there is no guide with standards to be followed by all of them. Corporate Governance is more than that - it is a model of ethical, honest, and responsible management that must be present throughout company culture.

For this reason, the Brazilian Institute of Corporate Governance (IBGC) promoted some changes in its 6th edition of the Code of Best Practices of Corporate Governance, published last year. Founded in 1995, IBGC noted the need to review this important document, with the help of experts and with a new perspective.

“The group looked at the existing recommendations in the previous edition with a critical and careful vision, in order to make the publication less prescriptive and more oriented towards bringing principles

that are comprehensive to different organizations, as well as placing them in a context of greater relevance of environmental and social aspects in their decision-making processes,” says the new Code, in its presentation.

As one of the best Corporate Governance practices, **Stewardship** should also be a widely disseminated theme and applied by companies that are committed to ethics, transparency, and integrity in their relations with their investors. **But this is a concept that is still practically unknown, as well as viewed with prejudice and almost non-existent in Brazil.**

The following numbers prove this situation: the Brazilian Association of Financial and Capital Market Entities (Anbima) represents more than 900 asset managers, of which only 27 are signatories to the Brazilian Stewardship Code. Furthermore, Brazil still does not have a resolution from the capital market regulator (CVM) that is, at least, in line with the “comply or explain” model practiced in other countries.

A year ago, the Financial Reporting Council (FRC), the British capital markets regulator, published a very useful guide entitled “Corporate Governance and Stewardship mythbuster”. The document explains, in a very didactic and synthetic way, what these two concepts are and what the power of the FRC is to make UK companies comply with these provisions.

Below, I highlight three excerpts that I believe are essential for the capital market in any country. In the case of Brazil, I draw particular attention to the underlined terms,

which are still little known or used among local companies:

“Corporate governance... involves a framework of legislation, regulation, codes and voluntary action for companies and their shareholders. It includes important issues such as directors’ duties and remuneration, audit, shareholder rights, capital structure and corporate reporting”.

“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. It exists to set high standards for investors to demonstrate the effectiveness of their stewardship and allows investors to demonstrate successful engagement with companies”.

“All companies are different, and we recognise that there may be circumstances where companies can achieve a high standard of governance without strict compliance with a provision. If you choose not to comply with a provision, you must say so and explain why. It’s important that any explanations are clear and appropriately high-quality”.

I believe that only with the wide dissemination of the best practices of corporate governance and stewardship, to the point that they are part of the daily culture of companies and investors, will we progress towards a better and more reliable capital market, with long-term benefits for the development of the Brazilian economy.