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disclosures (country reports)

2013 Review of the Implementation Status of Corporate Governance Disclosures: Brazil

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Abbreviations

ABRACICON	Brazilian Academy of Accounting
ABRASCA	Brazilian Association of Listed Companies
APIMEC	Association of Analysts and Investment Professionals in Capital Market
BACEN	Brazilian Central Bank
BM&FBovespa	São Paulo Stock Exchange
BR GAAP	Accounting Principles Generally Accepted in Brazil
CFC	Federal Accounting Council
CNPq	National Council of Technological and Scientific Development
CPC	Accounting Pronouncements Committee
CVM	Brazilian Securities and Exchange Commission
FIPECAFI	Research Institute of Accounting, Actuarial and Financial
IBGC	Brazilian Institute of Corporate Governance
IBOV	BM&FBovespa index
IBRACON	Institute of Independent Auditors of Brazil
IFRS	International Financial Reporting Standards
ISAR	Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
UNCTAD	United Nations Conference on Trade and Development

Executive Summary

This report is a case study of corporate governance disclosure in Brazil. The study employs the benchmark of good practices in corporate governance disclosure developed by UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). This benchmark consists of fifty two disclosure items covering five subject areas. In this study it is applied to a sample leading Brazilian companies.

The findings of this study show that, on the average, firms listed in the BM&FBovespa index (IBOV) disclose more than three quarters of the items in the ISAR benchmark. Twenty of the 52 items in the ISAR benchmark were disclosed by 90% or more of the firms in our sample, while 12 of the items were disclosed by all firms. The level of disclosure was low for certain items in the ISAR benchmark: four items were disclosed by less than 20% of the firms. The absolute number of items disclosed by each firm ranged from 26 to 50.

The study concludes that the firms in our sample primarily disclosed items made mandatory by regulations issued by government agencies. On the other hand, several firms voluntarily disclosed non-mandatory items recommended by UNCTAD and by the Brazilian Institute of Corporate Governance (IBGC).

The authors wish to thank UNCTAD for its guidance in producing this document. Institutions wishing to produce similar country case studies should contact the UNCTAD secretariat at: isar@unctad.org

Introduction

1. This case study of corporate governance (CG) disclosure by Brazilian firms¹ utilizes the ISAR benchmark and the general methodology designed by UNCTAD and employed in previous CG country case studies and annual reviews. The objectives of the study were to:

- a. provide a brief overview of recent developments in Brazil related to CG practices and disclosure.
- b. present and analyze our findings regarding the disclosure of CG practices by the country's leading firms.

2. In section 1, we provide an overview of recent developments in rules and regulations for mandatory and voluntary CG disclosure in Brazil. In Section 2, we present and analyze our findings and look into the level of disclosure of each item in the ISAR benchmark.

3. The findings of this study show that, on the average, firms listed in the BM&FBovespa index (IBOV) disclose more than three quarters of the items in the ISAR benchmark. Twenty of the 52 items in the ISAR benchmark were disclosed by 90% or more of the firms in our sample, while 12 of the items were disclosed by all firms. The level of disclosure was low for certain items in the ISAR benchmark: four items were disclosed by less than 20% of the firms. The absolute number of items disclosed by each firm ranged from 26 to 50.

4. The study concludes that the firms in our sample primarily disclosed items made mandatory by regulations issued by government agencies. On the other hand, several firms voluntarily disclosed non-mandatory items recommended by UNCTAD and by the Brazilian Institute of Corporate Governance (IBGC).

5. Our findings highlight the contribution of private sector institutions to CG disclosure policies. We suggest government agencies consider adding IBGC's CG disclosure recommendations to currently mandatory regulations. In the view of the low rate of disclosure of several indicators related to board and management structure and process, we suggest reinforcing capacity building and training activities targeted at directors in order to raise awareness of disclosure obligations and build the technical capacities required for high quality CG disclosure.

¹The case study was produced by Dr. Marcelle Colares Oliveira, full professor of the Federal University of Ceará, Brazil, based on data collected by undergraduate accounting students (Giovana Maria Lima Silveira, Bruno Luiz da Silva Santos, Lais Silva Lima, Fernando Antônio da Silva Moraes Filho) supervised by her. We are grateful to the UNCTAD secretariat for their assistance with the production of this document, including editorial comments, methodological guidance and statistical analysis. Funding for this study was provided by the National Council of Technological and Scientific Development (CNPq). We would also like to thank the Brazilian Academy of Accounting (ABRACICON) and the Federal Accounting Council (CFC) for their valuable support.

I. Overview of developments in corporate governance disclosure

6. This section provides a brief description of the Brazilian model of CG disclosure and of recent advances in CG-related regulations. The issues discussed in this section are based on the distinction between²:

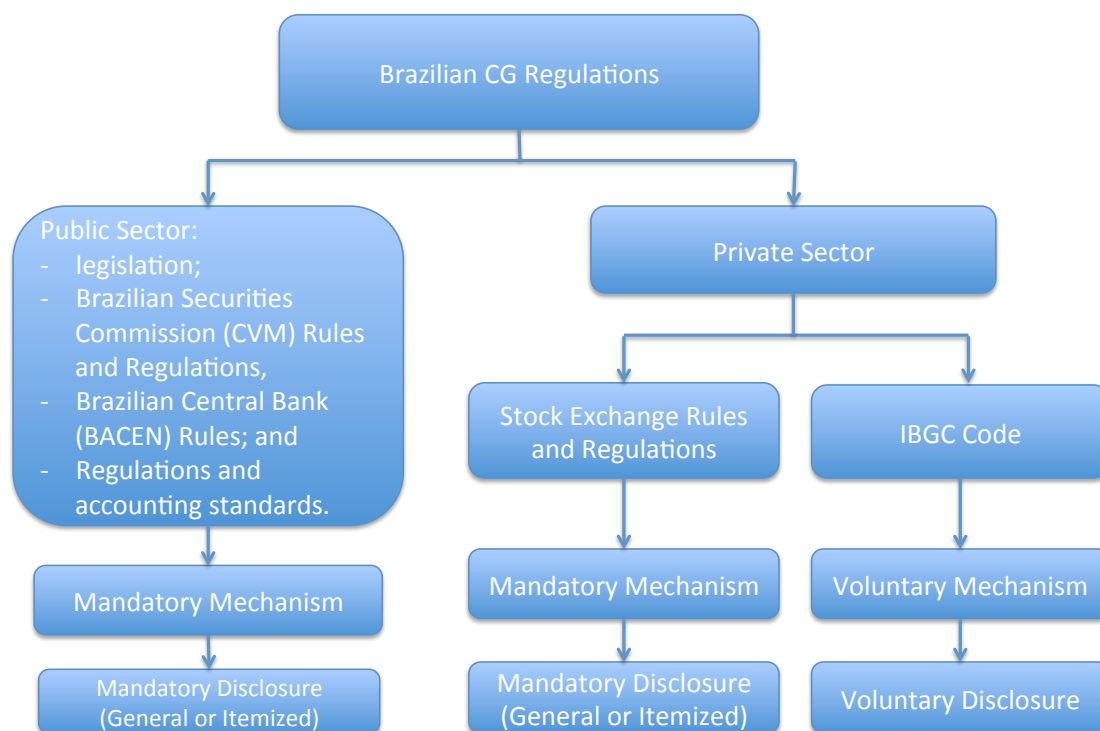
- a. mechanisms of corporate governance, i.e. what governance structures firms should have, what rules and procedures they should follow; and
- b. disclosure of corporate governance practices, i.e. what firms should report about what they are doing (UNCTAD; 2011, p. 21).

7. In Brazil, regulations on CG practices and disclosure stem from two different sources: government bodies and institutions, such as legislative bodies, the Brazilian Securities and Exchange Commission (CVM) and the Brazilian Central Bank (BACEN), and private institutions, such as BM&FBovespa, CG institutes and similar associations, investors and company groups. The CG mechanisms and disclosure practices determined by government bodies and agencies (public sector) may be classified as mandatory. The mechanisms and disclosure practices outlined by private institutions (private sector) may be either mandatory or voluntary.

8. In the first place, it should be recalled that the Brazilian legal system is based primarily on code law. Second, while adherence to a CG practice may be mandatory, its disclosure may not. In other words, disclosure may be mandatory in general or for specific items, or it may not be required at all (Figure 1). Thus, there is a natural tendency among Brazilian firms to disclose only when disclosure is mandatory, even if the adoption of the CG practice is determined by law. However, this scenario is changing due to pressures from external entities encouraging the adoption of a culture of isomorphism.

² This distinction was made by ISAR/UNCTAD in a study on CG disclosure in emerging markets. (UNCTAD/DIAE/ED/2011/3).

Figure 1 - Brazilian model of CG regulations



9. The most important steps towards the implementation of corporate governance in Brazil were taken in the late 1990s and in the beginning of the 21st century through a set of legal and institutional measures. In contrast, this case study focuses on developments that have occurred within the past five to six years.

A. Overview of CG regulations recently issued by public sector institutions

Legislation

10. In the past few years relevant changes have been made to mandatory mechanisms and disclosure regulations issued by public institutions, consolidating corporate governance in Brazil. Essential CG requirements are specified in federal laws and regulations issued by the Brazilian Securities and Exchange Commission (CVM).

11. The most important legal development has been the passing of two laws (#11.638/2007 and #11.941/2009) within the framework of Brazilian corporate law introducing changes in accounting rules focused on the convergence from Brazilian accounting practices to internationally accepted accounting standards (IAS/IFRS). However, the disclosure of these new practices is not always mandatory.

CVM rules and regulations

12. Concurrently, the CVM issued new rules designed to promote greater transparency among public firms. The new rules included:

- a. CVM Instruction #475/08 and Decisions #604/09 and #684/12: covers the presentation, recognition, measurement and disclosure of information regarding the significance of financial instruments to an organization, and the nature and extent of risks arising from those financial instruments.
- b. CVM Instruction #480/09 modified by Instructions #488/10, #509/11, #511/11, #520/12 and #525/12: covers initial registration requirements and periodic reporting for issuers of securities.
- c. CMV Instruction #308/99 modified by Instruction #509/11: covers the activities of the external auditors and audit-related duties and responsibilities of the board members.
- d. CVM Instruction #358/02 modified by Instruction #369/02 and #449/07: covers the disclosure and use of information about material acts or facts of listed firms.
- e. CVM Instruction #361/02, modified by Instructions #436/06, #487/10 and #492/11: covers public offering of acquisition of shares.
- f. CVM Instruction #481/09: covers additional requirements regarding procedures for calling, preparing and conducting general meetings of shareholders, and instruments facilitating the access of shareholders to general meetings (e.g. webcasting, online broadcasting, electronic voting and proxy voting).

13. It is important to highlight the significant improvement in CG disclosure quality which occurred as a result of the issuance of CVM Instruction #480/09 which makes the publication of the Reference Form (RF) mandatory (the Brazilian RF was inspired by the American 20-F).

14. However, as explained above, disclosure of mandatory practices may be general or itemized (covering specific items only, rather than a whole set of practices).

Accounting Standards

15. Current Brazilian accounting rules stem from corporate law, international accounting standards and technical statements issued by the Accounting Pronouncements Committee (CPC) in collaboration with ABRASCA, APIMEC, BM&FBOVESPA, FIPECAFI, IBRACON and similar institutions, and by the Federal Accounting Council (CFC). Rules based on corporate law are mandatory and apply to all Brazilian firms submitting financial reports. The rules contained in CPC and CFC statements are not mandatory but are often seen as an addition to mandatory rules for accounting presentation, recognition, measurement and disclosure. CPC and CFC guidelines become mandatory for public firms only after they are incorporated into CVM Instructions and Decisions.

16. Many Brazilian firms are still making adjustments related to the convergence from BR GAAP to IFRS accounting standards. The CPC was created to assist in this process, which started in 2008 and ended in 2010, following which all financial reports must conform to IFRS. However, the implementation in a code law country of accounting standards developed in a common law country turned out to be more time-consuming than anticipated.

17. The convergence of accounting standards has improved the quality of financial reporting and the disclosure of certain types of CG information, such as financial and operating results, accounting estimates and related-party transactions. Much research is currently being done to evaluate the effectiveness of IFRS adoption, which is expected to produce significant improvements in financial and corporate governance disclosure worldwide.

B. Overview of CG regulations recently issued by private sector institutions

BM&FBovespa (São Paulo stock exchange)

18. The private sector has also recently issued new guidelines for mandatory mechanisms and disclosure. Thus, in 2011 BM&FBovespa (named Bovespa until 2008) updated the regulations of its three special listing segments: “New Market” and “Differentiated Practices of Corporate Governance” Level 1 and Level 2. In the new edition, practices are aligned with the practices adopted on advanced markets and are described in greater clarity and detail. The purpose of the introduction of these changes was to harmonize the Brazilian capital market with current CG trends and offer investors greater assurance. However, disclosure of mandatory BM&FBovespa practices may be general or itemized.

Brazilian Institute for Corporate Governance (IBGC)

19. The concept of corporate governance is more popular in Brazil than in most other emerging economies. As early as 1999, four years after its foundation, the Brazilian Institute of Corporate Governance (IBGC) issued a CG code referred to as the BPCG. Later, in 2001, a revised and expanded version of the BPCG featured recommendations divided into six different groups: ownership, board of directors, management, external auditors, supervisory board, conduct and conflicts of interest. In 2004, a third version with similar structure was released including new topics such as corporate responsibility, family board, free float and audit committees, apart from a wider and more detailed scope of responsibilities for the board as a result of the passing of the Sarbanes-Oxley Act in 2002.

20. The Brazilian organizational environment has changed substantially since 2004. Many new firms have gone public, and others with widely dispersed and diffuse ownership have been established. In addition, mergers and acquisitions of large businesses have become more frequent. In order to adjust to these new market demands and trends, the IBGC released a new version of the BPCG in 2009, including practices other than those already mandatory for Brazilian organizations at the time, e.g. proxy voting and poison pills, access to the agenda, transparency of minutes of meetings, and board efficiency. This version of the code is divided into six groups: ownership, board of directors, management, independent auditors, supervisory board,

conduct and conflicts of interest. The BPCG features a number of important CG practices and disclosure guidelines, but adherence is voluntary.

II. Status of implementation of good practices of CG disclosure

A. Background and methodology

21. This present paper provides an overview of corporate governance disclosure by Brazilian companies. The benchmark used in this study consists of 52 indicators recommended by UNCTAD/ISAR. In this study we determined:

- a. whether disclosure of the UNCTAD/ISAR indicators is required at country level.
- b. whether firms listed in the BM&FBovespa index (IBOV) make disclosure in accordance with UNCTAD/ISAR recommendations.
- c. whether firms included in the BM&FBovespa index (IBOV) make disclosure as required in Brazil.

22. The level of disclosure of each firm in the sample was evaluated against 52 UNCTAD/ISAR indicators of corporate governance divided into 5 groups:

- a. Financial transparency
- b. Ownership structure and exercise of control rights
- c. Board and management structure and process
- d. Auditing
- e. Corporate responsibility and compliance

23. Our findings were compared to the results of a 2011 UNCTAD study on CG disclosure in emerging markets. The latter covered 188 large firms in 22 emerging economies around the world (according to the MSCI Emerging Markets Global Index).

24. The present study evaluated the level of CG disclosure by all firms listed in the IBOV as of March 2013. At the time of sampling, there were 64 companies in the IBOV. The IBOV is an indicator of the average quotations of the most traded and most representative shares on the Brazilian stock market. It is also one of the oldest and most representative BM&FBovespa indexes. Our sample included firms from differentiated segments (“New Market” and “Differentiated Practices of Corporate Governance” Level 1 and Level 2) and from the general BM&FBovespa listing. All firms were subject to Brazilian corporate law and CVM regulations (Instructions and Decisions), but CG practices and disclosure levels depended on listing segment. The sample represented a significant cross-section of top Brazilian firms, covering 27 economic sectors according to the BM&FBovespa classification.

25. The websites of the firms in the sample, the websites of CVM and BM&FBovespa, and other internet sources accessible by interested investors were searched for publicly available information, including annual reports, internal regulations of the board of directors, board meeting minutes, general meeting minutes, codes of ethics, sustainability reports, articles of incorporation, articles of organization and RFs. Most of the data analyzed in this paper were retrieved from documents covering the year 2012.

26. The data were submitted to content analysis, identifying in the documents of each enterprise elements compatible with each practice listed in the UN guide. Thus, the disclosure of the practices recommended by the UN was evaluated based on a wide selection of documents. A summary sheet was created for each firm. The 52 items of disclosure were checked as either “yes” or “no” in order to identify which items were disclosed rather than measuring the quality of the disclosure. The summary sheets were emailed to the investor relations department of each firm for review, comments and suggestions. Ten enterprises sent comments and suggestions (response rate: 16%) which were incorporated into the study.

27. It is important to highlight that this study registered the disclosure of the GC indicators recommended by UNCTAD, but not the quality of the disclosure. Also, an array of CG items of mandatory and voluntary disclosure were covered, including those of the BPCG, in an effort to better understand the role public and private sector institutions play in CG disclosure.

B. Main findings of the study: overview of all disclosure items

28. Table 1 displays the results of the study for the 52 CG indicators recommended by UNCTAD/ISAR organized into five groups, as explained in section A above. This grouping of the disclosure items makes it possible to analyze the relative level of disclosure within each group.

Table 1: Main findings of CG practices disclosed by firms listed in the BM&FBovespa index (IBOV).

Disclosure items by group	% of firms disclosing
Ownership Structure and Exercise of Control Rights	
Ownership structure	100
Process for holding annual general meetings	100
Control structure	100
Control rights	98
Availability and accessibility of meeting agenda	97
Control and corresponding equity stake	80
Rules and procedures governing the acquisition of corporate control in capital markets	78

Disclosure items by group	% of firms disclosing
Anti-takeover measures	72
Changes in shareholdings	63
Financial Transparency	
Company objectives	100
Financial and operating results	100
Nature, type and elements of related-party transactions	100
Critical accounting estimates	92
Impact of alternative accounting decisions	89
The decision making process for approving transactions with related parties	81
Rules and procedure governing extraordinary transactions	75
Board's responsibilities regarding financial communications	75
Auditing	
Auditors' involvement in non-audit work and fees paid to auditors	100
Internal control systems	80
Process for interaction with external auditors	73
Duration of current auditors	73
Process for interaction with internal auditors	72
Rotation of audit partners	69
Process for appointment of external auditors	61
Process for appointment of internal auditors / Scope of work and responsibilities	44
Board confidence in independence and integrity of external auditors	42
Corporate Responsibility and Compliance	
A Code of Ethics for all company employees	98
Policy and performance in connection with environmental and social responsibility	91
Impact of environmental and social responsibility policies on the firm's sustainability	84
A Code of Ethics for the Board and waivers to the ethics code	83

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Disclosure items by group	% of firms disclosing
Mechanisms protecting the rights of other stakeholders in business	83
Policy on “whistle blower” protection for all employees	70
The role of employees in corporate governance	28
Board and Management Structure and Process	
Composition of board of directors (executives and non-executives)	100
Role and functions of the board of directors	100
Risk management objectives, system and activities	100
Qualifications and biographical information on board members	100
Determination and composition of directors’ remuneration	100
Governance structures, such as committees and other mechanisms to prevent conflict of interest	98
Duration of director’s contracts	95
Composition and function of governance committee structures	94
Existence of plan of succession	84
Independence of the board of directors	84
Existence of procedure(s) for addressing conflicts of interest among board members	83
Performance evaluation process	64
“Checks and balances” mechanisms	59
Types and duties of outside board and management positions	44
Number of outside board and management position directorships held by the directors	41
Compensation policy for senior executives departing the firm as a result of a merger or acquisition	17
Professional development and training activities	16
Availability and use of advisorship facility during reporting period	16
Material interests of members of the board and management	14

General considerations

29. As shown in Table 2, twelve of the items in the ISAR benchmark were disclosed by all of the firms in our sample. The top most frequently disclosed items were those required by mandatory regulations issued by entities in the public or private sector, such as Brazilian corporate law, CVM Instruction #480 (which introduced the RF) and rules for special BM&FBovespa listing segments.

30. These findings reflect the characteristics of the Brazilian code law system and the important role public policy makers, regulators and stock exchanges play in CG disclosure.

Table 2: UNCTAD/ISAR items most frequently disclosed by firms listed in the BM&FBovespa index (IBOV).

CG indicator	% of firms disclosing
Ownership structure	100
Process for holding annual general meetings	100
Control structure	100
Company objectives	100
Financial and operating results	100
Nature, type and elements of related-party transactions	100
Auditors' involvement in non-audit work and fees paid to auditors	100
Composition of board of directors (executives and non-executives)	100
Role and functions of the board of directors	100
Risk management objectives, system and activities	100
Qualifications and biographical information on board members	100
Determination and composition of directors' remuneration	100

31. As shown in Table 3, ten items were disclosed by fewer than 60 per cent of the sampled firms. Seven of the least frequently disclosed indicators belong to the group "Board and Management Structure and Process". The low level of disclosure of these indicators may be explained by the fact that many Brazilian firms still have concentrated ownership, with family members doubling as owners and managers. CG practices and disclosure have therefore tended to focus on how to avoid abuse by controlling shareholders and the expropriation of minority shareholders, rather than on capacity building and training targeted at directors in order to raise awareness of disclosure obligations and build the technical skills required for high quality CG

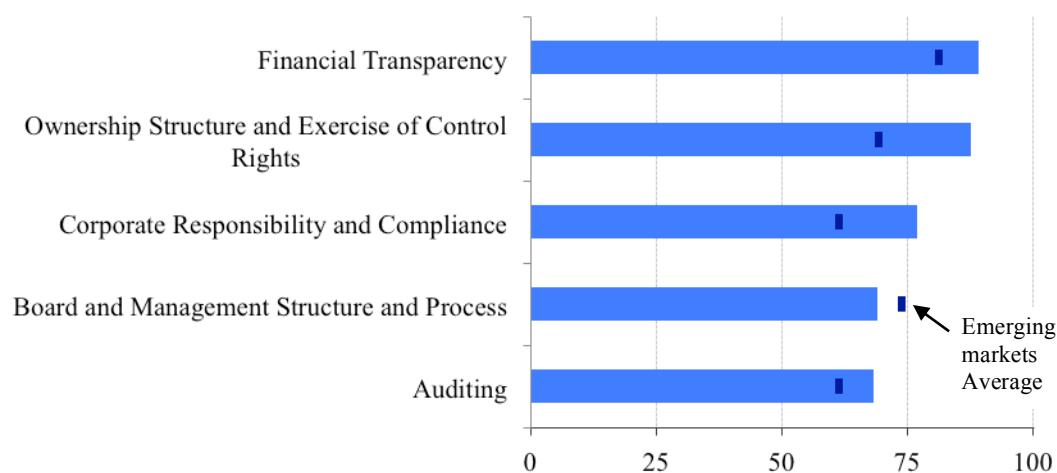
disclosure. It may also in part be due to company policies resulting from the tension between voluntary and mandatory disclosure.

Table 3: Ten UNCTAD/ISAR items least frequently disclosed by firms listed in the BM&FBovespa index (IBOV).

CG indicator	% of firms disclosing
“Checks and balances” mechanisms	59
Process for appointment of internal auditors / Scope of work and responsibilities	44
Types and duties of outside board and management positions	44
Board confidence in independence and integrity of external auditors	42
Number of outside board and management position directorships held by the directors	41
The role of employees in corporate governance	28
Compensation policy for senior executives departing the firm as a result of a merger or acquisition	17
Professional development and training activities	16
Availability and use of advisorship facility during reporting period	16
Material interests of members of the board and management	14

32. As shown in Figure 2, the group “financial transparency” displayed the highest level of disclosure (89%), followed by the group “ownership structure and exercise of control rights” (88%). In four of the five groups, the average level of disclosure by Brazilian firms clearly exceeds that of firms in emerging markets in general, according to a recent UNCTAD study; in the fifth group (“Board and Management Structure and Process”), however, the situation is the inverse. This is reflected in the list of the least frequently disclosed CG indicators (Table 3). In Brazil, there has historically been little acknowledgment of the role of the board in corporate governance. Our findings suggest that disclosure practices in this area should be given more priority.

Figure 2: Average levels of CG disclosure by Brazilian firms and by firms in emerging markets in general (UNCTAD, 2011) according to group of indicators.

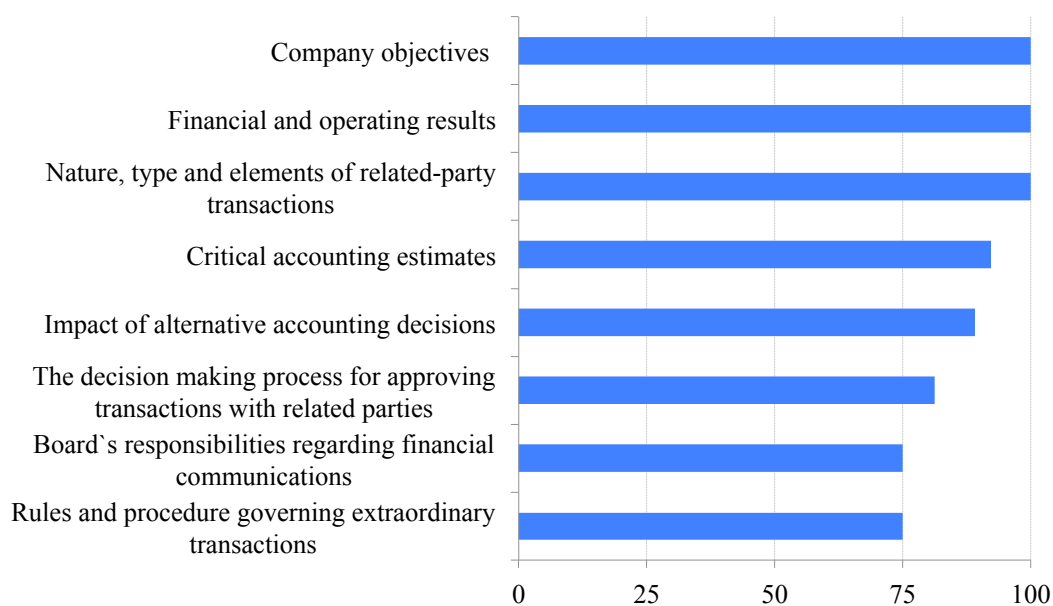


33. In other words, the level of disclosure by the firms in our sample is relatively high if compared to that of firms in emerging markets in general, with the exception of indicators in the group “Board and Management Structure and Process”.

C. Financial transparency

34. As noted above, the highest level of disclosure (89%) was observed for the group “financial transparency”. Figure 3 is a breakdown of this group. The indicators “nature, type and elements of related-party transactions”, “financial and operating results” and “company objectives” were fully disclosed (100%). The disclosure of these indicators is required by CVM Instruction #480/09 and by corporate law. Although all the indicators in this group are described in detail in these regulations, not all Brazilian firms disclose them.

35. This fact may be explained by the novelty of these requirements and by the need for firms to make extensive adjustments. Nevertheless, their inclusion in Brazilian regulations represents an important step forward in the development of CG disclosure.

Figure 3: Level of disclosure of indicators in the group “Financial transparency”.

36. The high level of disclosure observed for some of the indicators in this group may be primarily the result of mandatory regulations compatible with the Brazilian code law system. A recently issued CVM Instruction (#480/09) regarding the registration of issuers of securities on regulated markets is likely one of the main factors responsible for this outcome.

37. This CVM Instruction made disclosure of RF content mandatory. The RF includes the topics: identification of persons in charge of RF content, auditors, selected financial information, risk factors, market risk, issuer's history, issuer's activities, economic group, relevant assets, director's comments, projections, general meetings and the board, administrator's remuneration, human resources, control, transactions with related parties, capital stock, repurchased plans and securities in treasury, securities trading policy, information disclosure policy, and extraordinary business. However, some disclosure practices are not mandatory for all issuers.

38. The introduction into corporate law of new accounting practice/disclosure regulations, especially concerning financial instruments, has also contributed significantly to heightening the level of disclosure of the indicators in the group “Financial Transparency”.

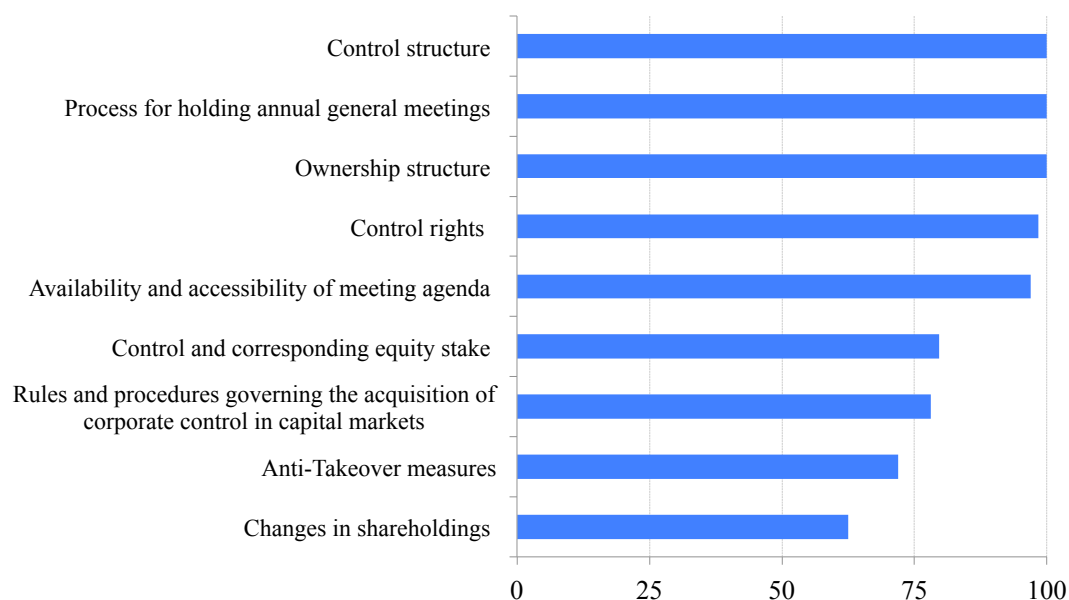
39. Finally, the recent convergence from BR GAAP to IAS/IFRS introduced new accounting principles and practices which require the disclosure of related-party transactions (CPC 05 R1 ~ IAS 24) and changes in accounting estimates (CPC 23 ~ IAS 8).

D. Ownership Structure and Exercise of Control Rights

40. As we have seen, the group “Ownership Structure and Exercise of Control Rights” displayed the second-highest level of disclosure (88% on the average). Three of the indicators in this group were disclosed by 100% of the sampled firms. Brazilian firms must disclose information on capital structure, rights assigned by shares, and

mechanisms for acquiring control by filling out RFs on the CVM website. This type of information can usually also be found on corporate websites and in charters.

Figure 4: Level of disclosure of indicators in the group “Ownership Structure and Exercise of Control Rights”.



41. The indicators “Control rights” and “Availability and accessibility of meeting agenda” were disclosed by almost all firms and information was easy to obtain. CVM Instruction #481/09 may be considered a significant advance in CG implementation. It contains highly detailed instructions on the preparation and holding of proxy voting at shareholder meetings, provided the meeting agenda is available and accessible.

42. As for the other indicators, despite the best efforts of public and private entities, the level of disclosure remains low, highlighting the agency problem which exists between controlling shareholders and minority shareholders in Brazilian firms. The existence of ever more stringent penalties for violations of regulations on CG practices and disclosure, updated annually by BM&FBovespa to encourage compliance, has not changed the situation substantially and rules are not infrequently flouted.

E. Corporate responsibility and compliance

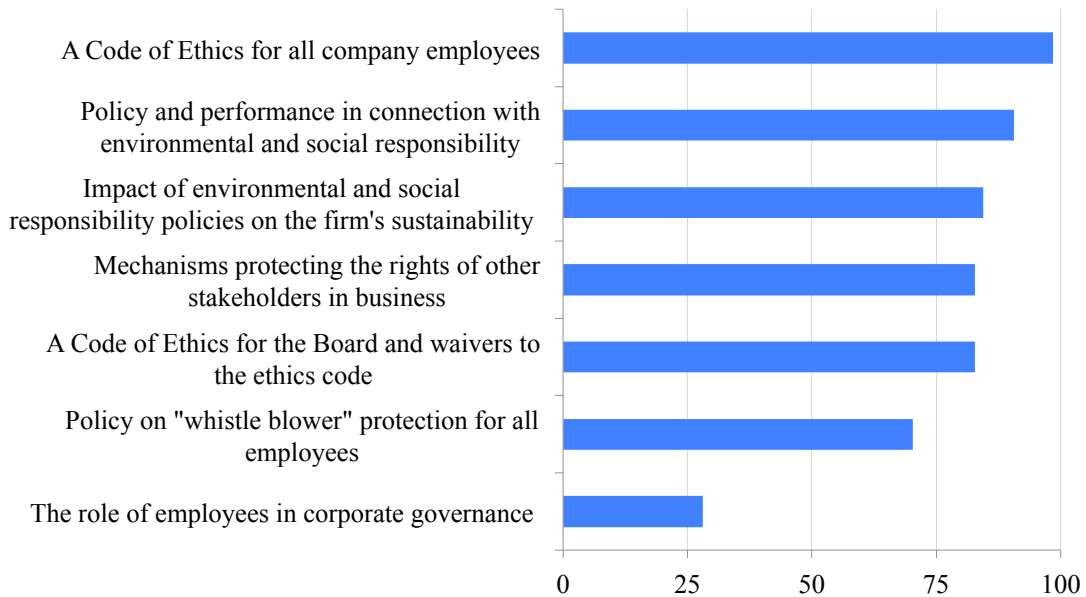
43. Although this group contains the smallest number of mandatory CG disclosure regulations, the level of disclosure was relatively high among the firms in our sample (77%) compared to firms in other emerging markets (61%).

44. This finding may be due to several different circumstances. One of these is the power of institutions to lay pressure on firms and enforce disclosure. Another is the changing market forces which presently favor socioenvironmentally responsible firms.

45. The fact that the IBGC Code contains recommendations related to all the indicators in this group is evidence of the efforts of this institution to encourage disclosure of these CG practices.

46. In the regulations applicable to firms in special listing segments, BM&FBovespa requires firms to create/adopt and disclose a code of ethics applicable to all employees and administrators.

Figure 5: Level of disclosure of indicators in the group “Corporate Responsibility and Compliance”.



47. One of the 64 firms in our sample did not have a code of ethics but, according annual reports, followed the principles of several international codes, including “Global Compact”.

F. Auditing

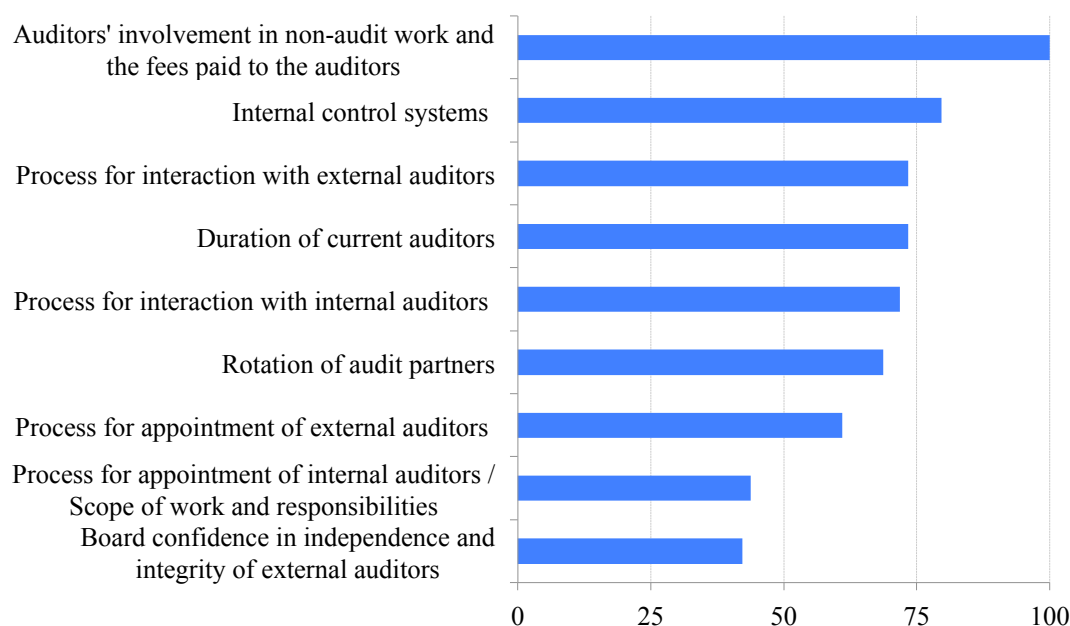
48. In Brazil, corporate law and CVM regulations require financial reports to be audited by independent auditors. Firms cannot be audited by the same auditors for more than five years, and auditors cannot provide multiple services to the same firm.

49. Disclosure of internal audits is not mandatory. The same is true for the appointment of and interaction with internal auditors, and for the interaction with external auditors.

50. The recently introduced RF requires the disclosure of auditors’ involvement in non-audit work and the disclosure of fees paid -- a remarkable step forward in CG implementation. The RF collects information about internal control systems and the rotation of auditing firms. Some firms in our sample disclosed information about their current audit firm, but did not specify the duration of the partnership or outline their rotation policy. The same lack of detail was observed with regard to auditors’ involvement in non-audit work.

51. In view of the fact that Brazil is a code law country and that disclosure of half the indicators in this group is voluntary, the observed disclosure level of 68% may be considered a reasonable average (Figure 6). On the other hand, considering the crucial role auditing plays in corporate governance, the average is far from ideal. Acceptable or not, since many of the audit-related indicators were only fairly recently introduced in the set of best international CG practices, the disclosure level of this group may be expected to improve considerably in the near future.

Figure 6: Level of disclosure of indicators in the group “Auditing”.



G. Board and Management Structure and Process

52. The IBCG code has several recommendations related to board and management, such as the right of shareholders to leave the organization, the appointment of independent, external and internal board members, and plans of succession. These indicators are not mentioned in the recommendations issued by other institutions in the public and private sector.

53. Brazilian corporate law determines the role, functions and responsibilities of the board, but does not require this disclosure. CVM Instruction #480/09 requires the disclosure of information about the board, but not about external and independent members.

54. Disclosure in this group, the largest one, is rather varied. Five items were disclosed by 100% of the firms. The level of disclosure ranged from 14% to 98% for the other items (Figure 7).

55. The disclosure level for the indicator “duration of directors’ contracts” was not 100% despite the fact that this information is usually provided in company charters and internal documents.

56. Few firms disclosed information regarding “compensation policy for senior executives departing the firm as a result of a merger or acquisition”. Brazilian laws do not require the disclosure of this information.

57. CVM guidelines require firms to disclose the total amount of executive remuneration. In our sample, 100% disclosed the amount of director remuneration and its composition. Many firms post regulations on board remuneration on their websites to show stakeholders to what extent director remuneration depends on the company’s performance. Very few companies disclose the remuneration paid to each member of the board.

Figure 7: Level of disclosure of indicators in the group “Board and Management Structure and Process”.



H. Comparison with local laws and regulations

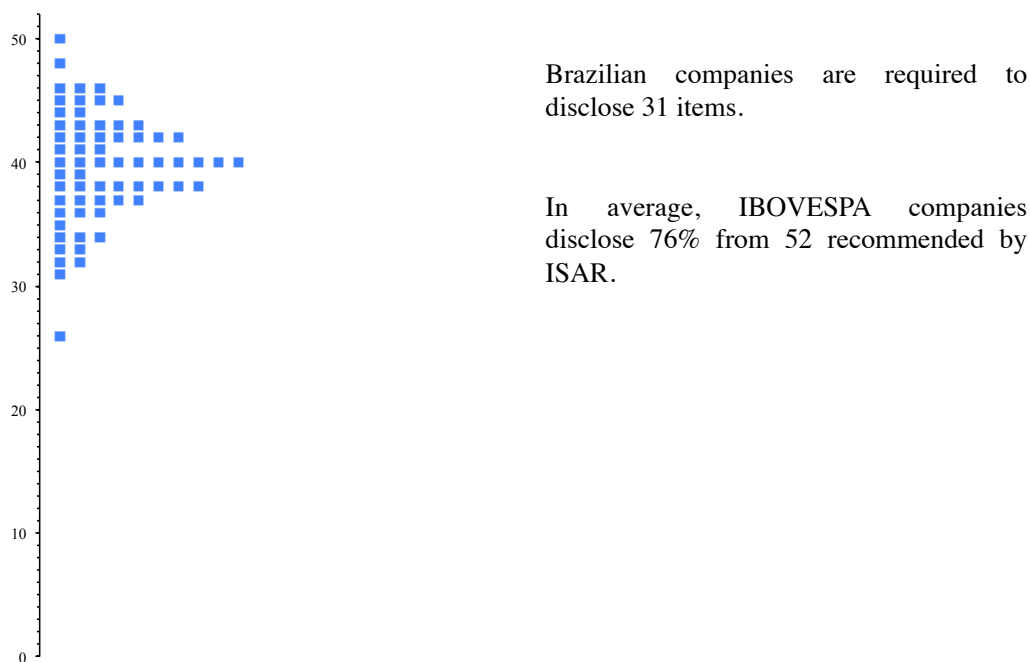
58. Brazilian laws and regulations require the disclosure of 31 of the 52 indicators listed in the ISAR benchmark (Table 4). These indicators were disclosed by most of the firms in the sample, indicating a relatively high level of compliance with legislation.

Table 4: Level of disclosure of the 31 indicators required by Brazilian laws and regulations.

Disclosure items by group	% of enterprises disclosing
Ownership structure	100
Process for holding annual general meetings	100
Control structure	100
Company objectives	100
Financial and operating results	100
Nature, type and elements of related-party transactions	100
Composition of board of directors (executives and non-executives)	100
Role and functions of the board of directors	100
Risk management objectives, system and activities	100
Qualifications and biographical information on board members	100
Determination and composition of directors' remuneration	100
Auditors' involvement in non-audit work and the fees paid to the auditors	100
Control rights	98
A Code of Ethics for all company employees	98
Governance structures, such as committees and other mechanisms to prevent conflict of interest	98
Availability and accessibility of meeting agenda	97
Duration of director's contracts	95
Composition and function of governance committee structures	94
Critical accounting estimates	92
Impact of alternative accounting decisions	89
Existence of procedure(s) for addressing conflicts of interest among board members	83
The decision making process for approving transactions with related parties	81
Internal control systems	80
Control and corresponding equity stake	80
Rules and procedures governing the acquisition of corporate control in capital markets.	78
Rules and procedure governing extraordinary transactions	75
Board's responsibilities regarding financial communications	75
Duration of current auditors	73
Rotation of audit partners	69
Performance evaluation process	64
Changes in shareholdings	63

59. The absolute number of items disclosed by each firm ranged from 26 to 50. On the average, firms included in the IBOV disclosed 76% of the 52 indicators recommended by ISAR (Figure 8).

Figure 8: Total number of items disclosed by each firm in the sample (each square represents a firm).



III. Conclusions

60. Corporate governance disclosure has become a common practice among leading firms in Brazil. This situation is at least in part due to the stepping up of disclosure requirements issued by CG-related institutions in the public and private sector over the last five years.

61. The study stresses the importance and substantial achievements of CG-related institutions and capital markets with regard to CG implementation in Brazil, as disclosure of 31 of the 52 ISAR indicators has been made mandatory by law. However, Brazilian firms are still a long way from full and detailed disclosure.

62. Many CG indicators are currently not subject to mandatory complete and detailed disclosure, as recommended by ISAR and the IBGC.

63. On the average, the companies in our sample disclosed 76% of the indicators recommended by ISAR. The most frequently disclosed indicators were those associated with financial reports and those required by corporate law and the CVM. Much remains to be done to bring CG disclosure of Brazilian firms up to international standards.

64. Policy options to consider:

- a. Design a single recommended standard for CG disclosure.
- b. Adopt a “report-or-explain” approach.

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Annex : List of companies included in the study

All Amer	Hypermarcas
AMBEV	ITAÚ S.A.
B2W	Itaú Unibanco
Banco do Brasil	JBS
BM&FBOVESPA	Kablin S.A.
BR MALLS PAR	LIGHT
Bradesco	LLX Log
Bradespar	Localiza
Braskem	Lojas Americanas
BRF Foods	Marfrig
Brookfield	Metalúrgica Gerdau
CCR	MMX Miner
CEMIG	Mrv
CESP	Natura
Cetip	OGX Petróleo
Cia Hering	Oi
Cielo	Pão de Açúcar
COPEL	PDG Realt
COSAN	Petrobras
CPFL Energia	Renner
CSN	Rossi Resid
Cyrella	Sabesp
Dasa	Santander
Duratex	Sousa Cruz
ELETROPAULO	Suzano
ELETROBRAS	Telef Comunicações
Embraer	TIM
Energias BR	Trans Paulist
Fibria	Ultrapar
Gafisa	Usiminas
Gerdau	V-agro
Gol	Vale