2nd High-Level Policy Dialogue

What happens once the code is finalized: Different enforcement mechanisms

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Five-tiered regime of listing

- Standard (minimum legal requirements)
- Corporate governance listing segments
  - Nivel 1 (Level 1)
  - Nivel 2 (Level 2)
  - Novo Mercado (New Market)
  - Bovespa Mais (Bovespa Plus)

Comply with the regulation

+ better disclosure and free float
+ shareholder rights and arbitration
+ only voting shares
organized OTC gradual access to the main market
Evolution of Novo Mercado

Number of companies listed in Novo Mercado and Levels

- Novo Mercado
- Nível 1
- Nível 2

<table>
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<th>Year</th>
<th>Novo Mercado</th>
<th>Nível 1</th>
<th>Nível 2</th>
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Higher transparency
Shareholders' rights
Corporate governance
Higher transparency

Only voting shares
Shareholders' rights
Corporate governance
Higher transparency

Evolution of the IPOs

Corporate governance as the norm for local companies

- IPOs by listing segment (2004 - Nov/2010)
- Nível 1 8%
- Nível 2 14%
- Novo Mercado 79%

Participation of listing segments at the Stock Exchange (Nov/10)
- 35% of total listed companies
- 67% of market capitalization
- 74% of traded value

Launching of the Novo Mercado

Source: BM&FBOVESPA.
Evolution in the Capital raising activity
Capital raised in public offerings (US$ billion)

- Initial public offerings (IPOs)
- Follow on offerings

Foreign investors represented around 75% of the offerings

Review Process - Objective and drivers

Objective
- Enhance the value of Novo Mercado for investors and issuers and maintain it as a local and international benchmark

Drivers
- Evolution of the Brazilian regulation
  ✓ Convergence to the International Financial Reporting Standards (IFRS)
  ✓ More transparency required by CVM (for example, ICVM number 480/2009)
- Financial crisis
  ✓ Which mechanisms could guarantee the effectiveness of the Board of Directors?
- Development of the market and companies: the origin of the first Brazilian “corporations” (dispersed ownership)
  ✓ Brazilian Corporate Law, enacted in December 1976, was designed for companies with controlling shareholders
  ✓ Novo Mercado, created in December 2000, focus on mitigating agency conflicts between controlling shareholder and minority
Main issue of the review process

- Ownership structure: from concentrated to dispersed
  - How to protect the shareholders and the companies? How to avoid conflict of interests?
  - Anti-takeover clauses adopted by companies ("poison pills"): defense measures or real obstacles to change the control and the management?
  - Transfer of control was the most sensitive item of the current review
  - How to improve the Novo Mercado in order to suit all sorts of ownership structures?

- The Stock Exchange proposals related to the ownership dispersion
  - Mandatory bid triggered by accumulation of a material ownership interest, based on the City Code and the Takeover European Directive
  - Material ownership: 30% of voting shares
  - Equitable price: the highest price paid by the acquirer in the last 12 months
    - These items were not approved by the companies
  - Members of the board of directors must disclose their opinion about the offer (against or in favor)
    - This item one was approved by the companies

Wide and comprehensive debate

- Started in October 2008

- Relevance of a wider debate, instead of a process confined to the Exchange own perception:
  - Establishment of the Novo Mercado Advisory Committee (Câmara Consultiva do Novo Mercado or CCNM)
  - Discussion forums with issuers in all the phases
  - Open seminars for the public in general

- Direct contact with the Board members of the listed companies
Main changes approved (*) by companies

- Requirements related to the board of directors
  - No accumulation of the positions of chairman of the board and CEO
  - Requirement for the Board of Directors to advise the shareholders and the market on the terms and conditions of any tender offer (as it was mentioned before)

- Restrictions to certain bylaws provisions
  - Qualified majority vote (qualified quorum)
  - Entrenched provisions ("Cláusula Pétrea")

- Voting limitation: no limitation permitted under 5% of the shares

- Mandatory adoption and release of
  - Securities Trading Policy
  - Code of Conduct

- (*) Approval if 1/3 of listed companies do not vote against the proposal

Next steps

- CVM approval

- Issuers to be communicated of the final wording and date of effectiveness of the revised rules.

- The revised rules are expected to take effect on January 2011
  - Rules whose enforcement requires issuers to act promptly to amend the bylaws – deadline typically expiring within six months or the date on which the annual shareholders’ meeting next convenes, whichever is later.
  - Rules requiring the bylaws to be adjusted for conformance with the revised rules – deadline typically expiring within 3 years.
• **Relation between regulation, corporate governance and market**
  - Regulation based on corporate governance practices can provide the alignment of interests between investors and companies
  - For investors – it implies risk mitigation
  - For companies – it implies better valuation and, therefore, lower costs
  - For market – it implies efficient allocation of resources

• **Mandatory bid (or tender offer) rule maybe will have to be addressed in a different way**
  - Brazilian "Takeover Panel" or Corporate Law Reform?

• **Comply or Explain Code for corporate governance questions that are not regulated by the Law or agreement between companies and the Stock Exchange?**

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**Thank you!**

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