

This letter is in response to the “Special Corporate Governance Segment’s development process”.

M&G Investments is the UK and European asset management arm of Prudential PLC, the global financial services group. A long-term active investor, M&G has managed money on behalf of individuals and institutions for more than 80 years. Total assets under management are approximately \$350bn. We own approximately BRL1.7bn in Brazilian equities and have been investors in the country for many years.

When the Novo Mercado was launched it provided a significant and valuable hurdle for companies to pass and gave confidence on the underlying level of corporate governance. Unfortunately this strong step has not been sufficiently built on. The relative differentiation between the Novo Mercado and the rest of BM&F Bovespa has narrowed and other international exchanges have materially improved. As a result the Novo Mercado requires not just a strengthening of standards but also a more active approach to defending its standards with greater action taken against those companies that breach them.

In particular we are concerned by the ability of corporates to move between market segments to take advantage of the different corporate governance requirements. This materially undermines the rationale for having higher standards for the Novo Mercado. Requiring a shareholder vote on proposals to change segment provides limited protection to minority shareholders if there is a controlling shareholder with a vested interest in changing the listing. Other points we would like to raise:-

- Boards in Brazil fail to provide sufficient transparency on how they operate. An annual formal assessment of the board of directors which looks at, amongst other issues, the range of skills, the interactions between the executives and non-executives and the individual contributions of members is a very worthwhile exercise.
- Boards operate more effectively with ongoing and regular interaction (through both executive and non-executives) with a wide range of shareholders. This happens too rarely in Brazil.
- The definition of independent directors should be strengthened to take account of their historic relationship with the company as well as the controlling shareholder. Current rules are insufficiently challenging.
- Audit Committees should only be comprised of independent non-executive directors. This is a key element to providing confidence in the reported numbers.
- Bundled director voting materially restricts our ability to support our desired candidates whilst rejecting those we believe to be unsuitable. Typically we are supportive of the board as a whole but may occasionally have concerns with individual candidates, under bundled voting there is no way to reflect this in how we vote.
- Controlling shareholders must currently disclose candidates 15 days prior to the meeting date. However minority investors can present names at any time up to the time of the meeting. While we are supportive of encouraging recommendations from minority investors this lack of notice makes it difficult for us to vote in a suitably informed manner.

We are supportive of the steps that the BM&F Bovespa is taking to review the listing requirement and hope that this will result in a further strengthening in corporate governance.

Kind regards

Simon

Simon Bailey
Director of Corporate Finance and Stewardship