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Re: AMEC Draft Stewardship Code

CFA Institute and the CFA Society Brazil welcome the opportunity to comment on the AMEC stewardship code. We believe that the introduction of such governance mechanism will benefit not only direct stakeholders, as minority shareholders, but also the Brazilian Capital Markets as a whole. Recent events in Brazil, which raised important inquiries regarding the Corporate Governance of listed companies, turn the discussions about fiduciary duties of institutional investors, as well as fairness and accountability from the companies´ side into crucial matters for the enhancement of best practices.

In this scenario, the implementation of a stewardship code can help guide institutional investors to best serve their ultimate beneficiaries by setting out a set of aspirational best practices in an effort to improve governance and transparency.

We agree with AMEC that good stewardship does not necessarily entail activism, but instead involves being a good steward in meeting one's fiduciary duties and responsibilities before clients. We also agree that the development of stewardship activities by institutional investors can drive the adoption of good corporate governance practices and create value for the companies as more active investors can lead them to have more structured management processes, what may mitigate several potential risks.

Nonetheless, we consider of great importance to bear in mind that the concept of "stewardship" is barely incipient in the Brazilian domestic market (in spite of the fact that this underlines the importance of AMEC´s initiative); moreover, the implementation of some of the suggested practices may bring about attendant costs (bonding, monitoring, sanctioning costs, for instance). This way, it may be of benefit for all related parties that the discussion of this Code is taken to further consideration.

Apart from the suggestions here presented, we would like to offer the CFA Society Brazil´s premises to hold an event for members aiming at discussing the subject and the actual reach of the Code. We consider that the CFASB´s members represent an educated substrate in the domestic Capital Markets, so the opportunity to exchange ideas with such an audience may definitely result beneficial for all.

For that purpose, we remain at your disposal for considering this possibility and make due arrangements.

AMEC Code Principles

The draft AMEC Code sets out seven principles which institutional investors should adhere to meet their fiduciary duty towards the end beneficiaries:

1. Implement a stewardship program
2. Implement mechanisms to manage conflicts of interest
3. Take ESG factors into account in their investment processes and stewardship activities
4. Monitor the issuers of invested securities
5. Be active and diligent in the exercise of voting rights
6. Establish collective engagement criteria
7. Be transparent as to their stewardship activities

This list of principles covers all of the areas that we expect a stewardship code to address; however, the devil is in the details. We ask that AMEC ask for transparency by firms that sign up for the code concerning each of the principles enumerated above. For example; concerning voting rights (6) and engagement (7), we encourage AMEC to further detail the kinds of disclosures concerning voting and voting policy disclosure and engagement disclosure that are established best practices. In this way firms and their beneficiaries know what types of disclosures are expected to fulfill a commitment to each principle.

Address Specific Questions

AMEC states that they are especially seeking views about a number of issues. We list them below with our comments for each immediately following the item in question.

1. *The model for adherence to the Code and for the reporting of stewardship activities.*

According to AMEC, initially, companies can adhere to the AMEC Code, but there will be no monitoring by AMEC. If the Association's Management Board decides to, AMEC may start to monitor signatories, but only after the drafting and launch of the Implementation Guide and also after the period necessary for the market to understand its content and how its principles are to be applied.

We understand AMEC's wish to get institutions to sign up for the code as a commitment to the aspiration of better governance and transparency, but would like to hear more information on what may be planned for eventual monitoring and the timing of an Implementation Guide launch. With this information institutional investors can know when they can receive guidance on implementing the code, and how much time they have to implement a code before some sort of reasonable monitoring is to commence.

We also encourage AMEC to provide further details on the nature of reporting about compliance with the code. Many other stewardship codes around the world have adopted a "comply or explain" model in which the institution that adopts the code must periodically report on which parts of the code they comply with, which they don't, and why they have complied or why they haven't. Such reporting allows beneficiaries of these institutions to judge for themselves the value of "compliance". We believe that such a "comply or explain" baseline of compliance is appropriate at this time. It is up to AMEC to then determine how to interpret or monitor compliance at some point in the future.

2. *The definition and translation of 'stewardship'.*

Definitions of stewardship may vary by market, but we believe that AMEC could include language that calls on asset owners and asset managers to put the interests of their clients first.

We believe such language would go a long way to addressing the question of 'stewardship' that this code and other stewardship codes wish to address.

We encourage AMEC to review CFA Institute's Asset Manager Code of Professional Conduct (AMC). The Asset Manager Code of Professional Conduct outlines the ethical and professional responsibilities of firms ("Managers") that manage assets on behalf of clients. By adopting and enforcing a code of conduct for their organizations, Managers demonstrate their commitment to ethical behavior and the protection of investors' interests. The AMC is targeted primarily at asset managers so there will of course be aspects of the AMC that do not apply to what AMEC is trying to achieve with the Stewardship code. However, we encourage the AMEC to use the principles and language of the AMC where they feel they are appropriate.

3. *Suggestions on a supervision structure for the adherence to the Code.*

The claim of compliance with a stewardship code can be a difficult problem. This is the case from an operational standpoint (verifying and maintaining) and from the standpoint of potentially raising obstacles for firms that wish to comply with the code. One concern is if firms are already bound by regulation to do all of these things in the code, and they don't want to have yet another thing with which to comply.

AMEC may not wish to make this decision in the immediate future, as this code as currently constructed is more aspirational in nature and not meant to be a rulebook. However, AMEC must decide what compliance will mean in the future. What milestones do investors or asset managers have to reach in order to claim compliance, will such compliance be audited, if so by whom? We encourage AMEC to begin discussing this issue internally and working with firms that wish to sign up to the code to ensure that future compliance with the code is meaningful.

4. *The inspirational approach of the Code to encourage institutional investors to act as the "owners" of their investees, both through (1) a continuous engagement policy and (2) the participation in shareholders meetings and the conscious exercise of voting rights*

As we noted above, we encourage AMEC to go into further detail when discussing what current best practices are when discussing the issues of engagement and exercising voting rights. Such guidance will help firms wishing to comply with this code better understand the level of transparency that is expected from them by their beneficiaries.

5. *The ideal approach for justified waivers to the exercise of voting rights, both to prevent investors from being excessively burdened and to avoid the adoption of a "default" situation of non-exercise of voting rights. Specifically, should investors disclose the justification for the non-exercise of voting rights? What would be the alternatives to encourage the change in the default situation?*

We believe that investors should disclose the justification for non-exercise of voting rights as we believe the vote is a valuable asset. Voting rights are an integral part of any corporate governance system. These rights ensure that shareowners are able to voice their opinions on board nominees and other proxy initiatives, as well as other corporate actions that may affect the value of their interests.

Therefore, it is incumbent upon investors to give adequate reasons for not exercising their voting rights.

6. *Terms, definitions and recommendations highlighted in Section 3 ("the Code"), especially the verbs.*

We have no comments concerning this topic at this time.

Concluding Remarks

CFA Institute and CFA Society Brazil welcome this draft stewardship code offered by AMEC. We are happy to discuss these matters further if you wish to contact us.

Yours faithfully,

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