A Decade of Corporate Governance in Brazil: 2010-2019

Bernard Black[*]
Northwestern University
Pritzker School of Law and
Kellogg School of Management

Antonio Gledson de Carvalho**
Fundação Getulio Vargas
School of Business at São Paulo

Humberto Gallucci Netto***
Universidade Federal de São Paulo
Escola Paulista de Política, Economia e Negócios

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Abstract: *We take advantage of the Brazilian mandatory corporate governance (CG) reporting system to build an overall Brazil Corporate Governance Index (BCGI) and subindices (CGIs), and track changes in firms' scores over the 10-year period from 2010-2019. We show that overall CG level improved significantly between 2010 and 2019, with most of the improvement over the first part of this period. The improvement has two sources: an increase in the proportion of high-standard listings (Novo Mercado and Level 2, NML2) versus low-standard listings (Level 1 and regular, L1R), and within-firm improvement in CG practices. In the first half of the sample period, both NML2 and L1R firms improved CG practices considerably. Overall improvement in the second half of the sample period reflects an increasing proportion of NML2 firms, plus gradual improvement in L1R CG levels; with nearly constant NML2 levels. Improvements were stronger for Board Procedure and Disclosure. Firms in both listings improved their CG. Overall improvement was stronger in NML2 than in L2R, but was concentrated in the period from 2010-2015.*

Keywords: Brazil, corporate governance, boards of directors, minority shareholders, disclosure

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[*] *bblack@kellogg.northwestern.edu*. [**] gledson.carvalho@fgv.br. [***] humberto.gallucci@unifesp.br. De Carvalho acknowledges financial support from FAPESP (2018-242959).

1 – Introduction

This article provides an overview of the evolution of corporate governance (CG) in Brazil, over the decade from 2010-2019. Since the turn of the century, the government and many private institutions have adopted a number of measures to promote improved CG. The Brazilian Institute for Corporate Governance (Instituto Brasileiro de Governança Corporativa, IBGC) was created in 1995. IBGC released its first Code on the Best Practices of CG in 1999. In 2000, Bovespa (succeeded by B3) created three high-governance listings (Level 1 (L1), Level 2 (L2), and Novo Mercado (NM)), to complement the regular listing (R).[1] The differences in rules for each level are summarized in De Carvalho and Pennacchi (2012). This contributed to a surge in initial public offerings beginning around 2004, almost all on NM and L2. CVM issued its own Recommendations on CG in 2002. In 2001, there was a reform of corporate law (Law 10.303/2001). In 2010, compliance with international financial reporting standards (IFRS) became mandatory. In 2009, CVM created a mandatory CG reporting system for publicly traded firms (*formulário de referência*), with reporting beginning in 2010.

We rely on the CG elements reported in *Formulários de referência* to build both an overall Brazil Corporate Governance Index (BCGI) and subindices for particular aspects of governance (CGIs), and track changes in firms' score on CGI over time.[2] We follow the methodology established by Black et al. (2010, 2014, and 2017) to compute four CGIs covering Board Structure, Board Procedures, Minority Shareholder Rights, and Disclosure (we refer to these four indices as subindices), and measure BCGI as the average of the four subindices. The precise elements of BCGI were developed in prior work; BCGI has been validated as predicting Tobin's q in a panel-data framework with firm fixed effects (De Carvalho, Dal'Bó, and Sampaio, 2021).

We show that CG improved significantly between 2010 and 2019. This improvement has two components: firms adjusting their CG practices and an increasing proportion of high-standard listings (NM or L2, below NML2) versus low-standard listings (L1 and R, below

[1] De Carvalho (2000) and (2002) describe the creation of these listings.

[2] Most studies on Brazilian corporate governance we based on surveys that had limited coverage (e.g., Black et al. 2010, 2012 and 2014).

L1R). In the first half of the sample period, both components were relevant. In the second half, overall improvement reflects an increasing proportion of NML2 firms, plus gradual continued improvement in L1R CG levels; with nearly constant NML2 levels. CG improved in all aspects, for both NML2 and L1R firms. Improvements were stronger for Board Procedures and Disclosure. Overall improvement was stronger in NML2 than in L2R, but was concentrated in the period from 2010-2015.

This article is structured as follows. Section 2 presents a historic overview of CG in Brazil. Section 3 describes our index and subindices. Section 4 presents our results. Section 5 concludes.

2 – History of Corporate Governance in Brazil

In the 20th century, Brazilian financial markets were heavily regulated. Brazil adopted its first Corporations Law only in 1940. The government ran the stock exchanges. Brokers were civil servants, who had the exclusive right to trade shares on the exchanges, and could pass this right on to their children. Government rules specified the number of brokers in each area, as well as brokerage fees.

The first modernization wave began in the 1960s. In 1965, the government approved the first law to regulate capital markets and securities offerings (Law 4728/65). The Brazilian securities commission (Comissão de Valores Mobiliários, CVM) was created in 1976 (Law 6385/76). A new Corporations Law, also enacted in 1976, established separate rules for closely held and public corporations (Law 6.404/76). These reforms eliminated the old civil servant brokers and permitted private stock exchanges and broker-dealers to emerge.

During the 1970s and 1980s, the government took several steps to encourage stock market development. It granted tax incentives to firms that went public, and to investors who purchased shares in public companies. Furthermore, it required pension funds and insurance companies to invest a minimum percentage of their assets in public traded shares. To allow companies to issue shares without risking loss of corporate control, the Corporate Law was amended (6404/1976) to allow non-voting shares up to the limit of 66% of the capital. Thus, with only 17% of the equity (50% of the voting shares) it is possible to keep control. By the end of the 1980s, there were almost 600 publicly traded companies, but a significant number of them went public only to capture the tax incentives, and had no interest in having a basis of shareholders or active trading on their shares.

In the late 1980s, the tax incentives to go public were eliminated. Since then, many of the firms that went public during the period of tax incentives have returned to private ownership. However, as the controlling groups of many firms did not have cash availability to take them private, many of them still remain listed. Meanwhile, in the 1980s, the Rio de Janeiro Stock Exchange collapsed, leaving the Sao Paulo Stock Exchange, Bovespa, as the principal share trading market. The remaining exchanges merged into Bovespa in 2000.

The 1990s was a period of intense changes: stabilization of inflation at acceptable levels; international trade liberalization; permission for international investor to trade in the Brazilian stock markets; and large-scale privatization. By the end of the 1990s, a large fraction of share trading were from privatized companies. To maximize the proceeds from the sale of control, the government sponsored a change in the corporate law (Law 9457/1997) to remove tag along rights in the change of control (granted in Law 6385/1976). Privatization and globalization brought not only size to the stock market, but also sophisticated international investors that demanded good CG and denounced abuses to minority investors. The control groups that acquired the privatized companies were in most of cases syndicates of international and local institutional investors. As consequence, local institutional investors started to have an active participation as stockholders, also demanding good CG.

In the 1990s, many large Brazilian firms cross-listed on the New York Stock Exchange (NYSE), and a significant portion of trading moved to the NYSE. Cross-listed firms had to adjust their governance to NYSE standards. However, privatizations aside, there were almost no IPOs, and the number of public firms shrank.

Based on the perception that it was necessary to improve Brazilian CG standards to maintain the viability of the Brazilian stock market, many initiatives were adopted. The Brazilian Institute for Corporate Governance (Instituto Brasileiro de Governança Corporativa, IBGC) was created in 1995. IBGC released its first Code on the Best Practices of CG in 1999. In 2000, in response to concern about weak protection for minority shareholders (including extensive use of non-voting shares, few outside directors, and low levels of disclosure), Bovespa created three new higher-governance markets (L1, L2, and

NM).[3] This contributed to a surge in initial public offerings, nearly all on NM or L2. Initial offerings had been nearly nonexistent until 2004 (De Carvalho and Pennacchi, 2012).

CVM issued its own Recommendations on CG in 2002. These were pure recommendations (not a *comply or explain* regime). In 2001, there was a modest reform of corporate law (Law 10.303/2001). For instance, tag along rights for a sale of control, which had been removed in 1997, were only partially restored. In 2009, CVM enacted mandatory reporting on CG practices (*formulário de referência*). In 2010, international financial reporting standards (IFRS) became mandatory. Beginning in 2016, firms were required to allow voting by mail (ICVM 561/2015). In 2017, CVM adopted a comply or explain requirement (ICVM 586/2017). However, this is mandatory only for firms for which the shares are part of the main stock indices (IBOVESPA and IBX 100).

3 – Corporate Governance indices

To compute BCGI and subindices (CGIs), we follow the methodology established by Black et al. (2010, 2014, and 2017). We build four CGIs covering Board Structure, Board Procedures, Minority Shareholder Rights, and Disclosure. We also calculate Brazil Corporate Governance Index (BCGI) as the average of the four subindices. All elements are binary; each subindex is calculated as the average of the elements included in the subindex (coded as "1" if a firm has the attribute and "0" otherwise). The concept underlying development of the index is to include only CG elements that (i) are objectively measurable and publicly available in the FRs (*formulários de referência*); (ii) are often believed to correspond to good CG, sometimes with empirical support, but often not; (iii) are relevant to CG in light of the Brazilian rules, institutions and practices;[4] (iv) there is reasonable variation across firms; and (v) the element is not too similar to another element.

Our BCGI is very similar, but not identical, to that of Black et al. (2010, 2012 and 2014). Because of the lack of publicly available CG data at the time they conducted their studies, they used surveys to collect CG information. In contrast, we use only publicly

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[3] De Carvalho (2000) and (2002) describe the creation of these listings.

[4] This involves some personal judgment in the choice of the element.

available data. By doing so, we increase the sample at the cost limiting our analysis to data covered in the FRs. The main difference between the current and prior indices are as follows. First, for disclosure, elements related to the use of international GAAP and consolidated financial statements lost meaning after IFRS became mandatory. We also omit subindices for control of related-party transactions (RPT) and ownership structure. Their RPT subindex consists mostly of the procedures that firms use to approve RPTs and their disclosure. This information is not included in the FRs. The use of an ownership structure subindex is uncommon in the literature; ownership structure also varies relatively little across time within firms.

Our CG subindices are composed of 25 firm attributes covering four principal aspects Table 1 lists all CG elements and their average scores from 2010 to 2019. Panel A reports averages for NML2 and Panel B, for L1R. We use ** to indicate that the element is mandatory for NML2 listings, and * for both NML2 and L1).

Board Structure comprises 7 elements. The role of the board of directors, in terms of CG, is to reduce agency problems inherent in organization and to improve decision-making (Hermalin and Weisbach, 2003; Hossain et al., 2001; and Dahya et al., 2008). Board Structure comprises two dimensions: board independence and board committees. Board Independence subindex comprises 4 elements, focusing on director independence and separation of the posts of CEO and board chairman. Audit committees, in turn, predict the integrity and quality of financial reporting available to the market (Klein, 2002). However, in Brazil, fiscal boards frequently replace audit committees (Black et al., 2010). The Board Committees subindex comprises 3 elements, focusing on the existence of the audit committee and fiscal board, and whether these organs include a minority shareholder representative.

Board Procedures includes 4 elements. Board procedures are a common component of CG indices (Bhagat et al. 2008). This dimension tracks whether the board regularly evaluates the CEO and other executives, the existence of a code of ethics and whether the firm has a bylaw governing the board.[5]

[5] Compared to Black et al, 2010, the Board Procedures subindex lost two elements that are not available from the FRs: *the company had more than four face-to-face meetings during the year*, and *the board receives data and information before the meetings*.

Minority Shareholder Rights includes 6 elements: tag along or takeout rights (Nenova, 2003 shows that in Brazil tag along is an important instrument for the protection of minority shareholders); minimum free float of 25% of outstanding shares (shares not held by the controlling group); shareholders' rights for the election of directors; preemptive rights; freezeout rights; and use of arbitration to solve disputes with minority shareholders.[6]

Disclosure consists of 8 elements. Several researchers emphasize that disclosure is directly related to market value (Klaper and Love, 2004; Durnev and Kim, 2005; Black et al. 2014 and 2020). This dimension includes, among other elements, whether the firm prepares financial statements in English, provides structured management reports, and posts financial statements on the company's website. It also tracks whether the auditor provides other services besides auditing, and is a Big-Four auditing firm.[7]

Within each subindex, all elements have the same weight. Thus, to compute the Board Structure subindex, we sum all 7 elements, and then divide by 7 and multiply by 100. If a firm has a value missing for a particular element, we use its average score for the non-missing values to compute each index. To calculate BCGI, we sum the indices and divide by 4 (the number of indices). Thus, BCGI and its subindices run from 0 to 100.

4 – Evolution of corporate governance

4.1 – Sample and data cleaning.

The sample consists of all publicly traded firms on B3 over 2010-2019 with available FR forms, including subsidiaries of foreign firms. Sample size is shown in Table 2.

For the most part, we extract elements directly from the FR forms. However, we observe some apparent misreporting, in which, for example, a firm's score on a particular element over a three-year period goes 1-0-1 or 0-1-0, where actual variation is unlikely. We assume the unusual observation was an error, and code these examples as 1-1-1 or 0-0-0.

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[6] Compared to Black et al, 2010, Minority Shareholder Rights lost one element: *minority shareholders elect a director.*

[7] Compared to Black et al, 2010, Disclosure lost 5 elements that became mandatory: *related party transactions disclosed to shareholders*; *firm discloses direct and indirect 5% holders*; *financial statements in IAS or US GAAP*; *financial statements are consolidated*; and *financial statements include statement of cash flows*. However, an element considering *Big-four auditing* was added.

4.2 – Evolution of overall corporate governance

Table 2, Panel A shows the evolution of BCGI and its subindices over 2010–2019. The average of BCGI in 2010 was 49 points. This average increased steadily until 2019 when it reached 65 points. Thus, over the whole period BCGI increased by 16 points.

One should be cautious when interpreting the improvement in CG because in addition to firms changing their governance, there was also a substitution of firms: some firms went public, almost all on NML2, and some delisted, principally L1R firms. Thus, the newly listed firms generally had above-average CG standards, while the delisting firms generally had below-average CG. Thus, the improvement in BCGI has two components. The first one is firms changing their CG practices, and the second one is the change in sample composition.

First, we investigate the extent to which firms change their CG. To do so, we remove the composition effect by calculating BCGI for a balanced panel of firms listed over the full sample period. Results are reported in Table 3, Panel A. The pattern of improvement that emerges is distinct from the one that we described in the previous paragraph. In 2010, the average BCGI was 50 points. This average increased by at least 2 points per year until it reached 60 points in 2014. From there on, the average increases slowly, reaching 63 in 2017, and remaining at 63 points from 2017 to 2019. Thus, over the whole decade, the improvement in BCGI due to firms changing their CG was 13 points.

The adjustment in CG was not uniform across firms. We discuss the balanced panel results in Table 3; the full sample results in Table 2 are very similar. The improvement was stronger for firms in NML2 (Table 3, Panel B versus Table 3, Panel C), but was concentrated in the first half of the sample period. For NML2 firms, BCGI went from 68 in 2010 to 81 points in 2015, but then largely leveled off, reaching 82 points over 2017- 2019. For L1R firms (Table 2, Panel c and Table 3, Panel B) there was rapid improvement over 2010-2013, from 38 points in 2010 to 44 points in 2013, and continued gradual improvement after that, to 48 points in 2019. The average BCGI score in 2019 for L1R firms (48 points) was well below NML2 throughout the sample period. As the improvement was stronger for NML2 than for L2R (14 vs. 10 points), the overall gap in CG between the two groups of firms was higher in 2019 than in 2010.

The second component of the overall increase in average scores is the rise of NML2 versus L1R. Over the decade, the number of firms in NML2 increased from 134 to 163 (Table 2, Panel B), while the number of L1R firms decreased from 232 to 164 (Panel C). Consequently, over the decade, the proportion of listings in NML2 increased from 37% (134/366) to 50% (163/327). This contributed to the increase in BCGI for the overall market. Thus, one can decompose the 16 points increase in BCGI from 2010 to 2019 into two components: 13 points for the average increase in CG for the balanced panel of firms (from Table 3, Panel A) and 3 points for the increase in the proportion of NML2 listings.

The number of L1R firms shrank considerably over the sample period. However, the average scores for each group numbers in Panel C of Table 2 and Panel C of Table 3 are very similar, suggesting that survivorship bias does not drive the improvement of BCGI in L1R. The firms that delisted had CG similar to those that remained.

4.2 – Evolution of individual aspects of corporate governance

The overall picture is of significant improvement in all aspects of CG (subindices). Table 2, Panel A provide a picture of the evolution of CG practices over our sample period. Average board structure scores increased by 15 points: from 40 to 55; Board Procedures, 21 points: from 38 to 59; Investor Rights, 10 points: from 52 to 62; and Disclosure, 18 points, from 65 to 83. The two subsubindices of Board structure evolved similarly: Board Independence increased by 16 points: from 39 to 55; and Board Committees, 15 points: from 41 to 56. All subindices also improve if we limit to a balanced panel (Table 3, Panel A), but often by smaller amounts. The time pattern of changes is similar for the subindices as for BCGI: stronger improvement earlier in our sample period and continued but slower change after that, driven by L1R firms. For NML2 firms at the subindex level, several subindices level off: The average for Investor Rights is 86 in both 2015 and 2019; for Disclosure is 97 in both 2015 and 2019, and for Board Independence is 77 in 2016 and still 77 in 2019 (Table 2, Panel B). For Disclosure, the subindex scores were already close to 100, leaving little room for improvement. For Shareholder Rights, four of the six elements are mandatory for NML2 firms (see the ** and * in Table 1).

For L1R firms (Table 2, Panel C), CG practices improved consistently over the whole period – less than NML2 over the full period, but more during the second half of the sample period. The two subindices with strongest improvement were Board Procedures, 15 points: from 31 to 46; and Disclosure, 16 points: from 54 to 70. Controlling for survivorship bias (Table 3, Panel C) only slightly changes these values.

5 – Conclusion

After more than two decades since the first studies on CG in Brazil at the firm level, still very little is known about how CG evolves over time. CVM rules requiring disclosure on CG practices, starting in 2010, allow the tracking of CG over time. Using this rich data, we describe how CG practices in Brazil evolved over 2010-2019. We find that firms do not adjust their CG continuously: adjustment was strong during the first half of the sample period, but mostly stable in the second half of this period, especially for NML2 firms. Furthermore, adjustment is not uniform across firms. Improvement in CG for firms listed in NML2 was stronger than for L1R firms in the first half of the sample period, yet slower in the second half.

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Table 1. Description of indices and evolution of elements

Description of indices and their elements, and average for each element. Each component takes value 100 if criterion is satisfied or zero, otherwise. Each index and subindex equals average value for its elements. BCGI equals average of the 4 indices (Board Structure, Board Procedure, Minority Shareholder Rights, and Disclosure). Board Structure Index is comprised of subindices for Board Independence and Audit Committee and Fiscal Board. * indicates element required for Level 1 (also required for Level 2 and Novo Mercado, ** indicates element required for Level 2 and Novo Mercado.

Panel A: Novo Mercado and Level 2 listings

		Mean									
	Board Structure: Board Independence Subindex	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
**BdIn.1	Board includes one or more independent directors	100	100	100	100	100	100	100	100	100	100
BdIn.2	Board has at least 30% independent directors	55	55	57	59	64	69	70	71	69	71
BdIn.3	Board has at least 50% independent directors	29	30	30	32	35	38	39	41	43	46
*BdIn.4	CEO is NOT chairman of the board	76	82	85	95	100	100	100	100	100	100
	Board Structure: Audit Committee and Fiscal Board Subindex										
BdCm.1	Audit committee exists	38	38	42	46	48	50	52	53	57	58
BdCm.2	Permanent or near-permanent fiscal board exists	57	64	66	69	72	74	73	81	83	84
not in the index	Either BdCm.1 or BdCm.2	74	79	81	86	88	89	89	92	92	92
BdCm3	Company has either permanent fiscal board or audit committee which includes minority shareholder representative	40	49	54	56	56	59	58	57	55	57
	Board Procedure Index										
Pr.1	Firm has system to evaluate CEO performance	57	62	68	71	74	74	73	73	73	73
Pr.2	Firm has system to evaluate other executives	30	33	36	39	40	40	40	42	44	44
Pr.3	Firm has code of ethics	45	57	75	82	85	87	89	89	88	88
Pr.4	Specific bylaw to govern board	62	72	75	80	81	82	81	82	83	84
	Minority Shareholder Rights Index										
Sh.1	Annual election of all directors	24	22	24	24	26	28	28	28	28	27
**Sh.3	Freezeout offer to minority shareholders based on shares' economic value	100	100	100	100	100	100	100	100	100	100
**Sh.4	Takeout rights on sale of control exceed legal minimum	100	100	100	100	100	100	100	100	100	100
**Sh.5	Arbitration of disputes with shareholders	100	100	100	100	100	100	100	100	100	100
Sh.6	Firm has no authorized capital or provides preemptive rights	68	72	72	73	79	84	85	85	85	85
*Sh.7	Free float $\geq$ 25 % of total shares	100	100	100	100	100	100	100	100	100	100
	Disclosure Index										
*Di.1	Management has regular meetings with analysts	100	100	100	100	100	100	100	100	100	100
*Di.2	Firm discloses annual agenda of corporate events	100	100	100	100	100	100	100	100	100	100
**Di.3	English language financial statements	100	100	100	100	100	100	100	100	100	100
**Di.4	MD&A discussion in financial statements	100	100	100	100	100	100	100	100	100	100
Di.5	Annual financial statements on firm website	89	93	93	96	96	98	98	98	98	98
Di.6	Quarterly financial statements on firm website	90	94	96	99	99	100	100	100	100	100
Di.7	Auditor does not provide non-audit services	77	77	81	80	81	84	83	83	85	85
Di.8	Big four auditor	87	94	93	94	93	94	94	93	94	94
Di.9	Disclosure of executive compensation	29	38	38	37	68	96	96	96	97	97

Table 1. Description of indices and evolution of elements
Panel B: Level 1 and Regular listings

		Mean									
	Board Independence Subindex	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
BdIn.1	Board includes one or more independent directors	19	19	19	20	24	25	26	26	27	28
BdIn.2	Board has at least 30% independent directors	9	8	8	8	11	14	15	18	18	19
BdIn.3	Board has at least 50% independent directors	4	3	2	4	5	7	6	8	11	11
*BdIn.4	CEO is NOT chairman of the board	65	71	71	70	69	70	67	69	68	68
	Audit Committee and Fiscal Board Subindex										
BdCm.1	Audit committee exists	17	16	17	18	20	22	23	26	24	28
BdCm.2	Permanent or near-permanent fiscal board exists	61	62	62	61	62	61	60	64	67	67
not in the index	Either BdCm.1 or BdCm.2	65	66	66	66	66	66	65	67	69	69
BdCm3	Company has either permanent fiscal board or audit committee which includes minority shareholder representative	38	38	39	43	45	43	46	47	40	41
	Board Procedure Index										
Pr.1	Firm has system to evaluate CEO performance	34	37	39	39	40	42	42	43	43	42
Pr.2	Firm has system to evaluate other executives	17	19	21	23	24	28	29	30	30	30
Pr.3	Firm has code of ethics	30	31	36	38	43	40	41	41	41	42
Pr.4	Specific bylaw to govern board	44	52	54	57	60	60	63	67	68	68
	Minority Shareholder Rights Index										
Sh.1	Annual election of all directors	28	26	25	26	29	28	28	29	29	28
Sh.3	Freezeout offer to minority shareholders based on shares' economic value	31	32	33	33	34	33	32	32	31	32
Sh.4	Takeout rights on sale of control exceed legal minimum	15	17	18	19	19	19	19	21	22	22
Sh.5	Arbitration of disputes with shareholders	14	15	15	16	15	14	14	15	16	17
Sh.6	Firm has no authorized capital or provides preemptive rights	71	73	71	73	76	78	79	78	79	79
*Sh.7	Free float ≥ 25 % of total shares	52	48	51	55	56	54	51	54	54	54
	Disclosure Index										
*Di.1	Management has regular meetings with analysts	25	27	26	26	27	27	26	27	27	28
*Di.2	Firm discloses annual agenda of corporate events	44	46	47	45	43	43	43	43	48	49
Di.3	English language financial statements	32	31	32	34	35	34	34	36	38	38
Di.4	MD&A discussion in financial statements	46	51	56	72	77	75	77	79	80	79
Di.5	Annual financial statements on firm website	74	78	84	89	91	92	93	95	95	95
Di.6	Quarterly financial statements on firm website	71	79	82	89	91	91	93	95	93	95
Di.7	Auditor does not provide non-audit services	84	87	87	88	89	91	92	93	93	94
Di.8	Big four auditor	62	66	64	63	63	61	62	62	63	62
Di.9	Disclosure of executive compensation	45	52	50	49	67	81	84	85	86	86

Table 2: Evolution of CG Levels Over 2010-2019

Annual means of corporate governance scores for Brazil Corporate Governance Index (BCGI) and indicated indices and subindices, over 2010 to 2019. All indices and subindices are scaled to run from [0,100], where zero (100) represents bad (good) corporate governance. BCGI is the average of the 4 indices. **Panel A**. All firms. **Panel B**. Firms listed in Novo Mercado or Level 2. **Panel C**. Firms with Level 1 or regular listing. Sample includes all firms traded in each year on the indicated levels (unbalanced sample). For firms that move from Regular or Level 1 listing to Level 2 or Novo Mercado listing, or vice versa, the table reports BCGI scores for these firms in the Panel that is appropriate for each year.

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Panel A: All Firms										
BCGI	49	52	55	57	59	61	62	63	64	65
Board Structure	40	42	44	46	49	50	51	53	54	55
Board independence subindex	39	42	43	45	48	49	50	52	54	55
Audit committee and fiscal board subindex	41	43	45	48	49	50	51	54	54	56
Board Procedures	38	43	48	51	54	55	56	58	59	59
Investor Rights	52	54	55	56	58	58	59	60	62	62
Disclosure	65	70	71	73	77	79	80	82	83	83
Number of firms	366	372	362	350	340	321	316	307	331	327
Panel B: Novo Mercado & Level 2 listings										
BCGI	68	72	74	76	79	81	81	81	81	82
Board Structure	55	58	61	64	67	68	69	70	71	72
Board independence subindex	65	67	68	71	74	76	77	77	77	78
Audit committee and fiscal board subindex	45	50	54	57	59	61	61	63	65	66
Board Procedures	49	57	64	69	71	71	71	72	73	73
Investor Rights	82	82	83	83	84	86	86	86	86	86
Disclosure	86	89	89	90	93	97	97	97	96	97
Number of firms	134	147	149	146	148	139	141	143	164	163
Panel D: Level 1 & Regular listings										
BCGI	38	40	41	43	45	45	46	47	48	48
Board Structure	31	32	32	33	35	35	36	38	37	39
Board independence subindex	24	25	25	25	28	28	29	31	31	32
Audit committee and fiscal board subindex	39	39	39	41	42	42	43	46	44	45
Board Procedures	31	35	37	39	42	43	44	46	46	46
Investor Rights	35	35	35	37	38	38	37	38	39	39
Disclosure	54	57	59	61	64	66	67	68	70	70
Number of firms	232	225	213	204	192	182	175	164	167	164

Table 3: Evolution of CG Levels for Balanced Sample

Annual means of corporate governance scores for Brazil Corporate Governance Index (BCGI) and indicated indices and subindices, for balanced sample of firms listed over 2010 to 2019. All indices and subindices are scaled to run from [0,100], where zero (100) represents bad (good) corporate governance. **Panel A**. All firms. **Panel B**. Firms listed in Novo Mercado or Level 2. **Panel C**. Firms with Level 1 or regular listing. For firms that move from Regular or Level 1 listing to Level 2 or Novo Mercado listing, or vice versa, the table reports BCGI scores for these firms in the Panel that is appropriate for each year..

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Panel A: All Firms										
BCGI	50	54	56	58	60	61	62	63	63	63
Board Structure	42	44	46	48	50	51	52	53	53	53
Board independence subindex	41	43	45	46	48	50	50	52	52	52
Audit committee and fiscal board subindex	42	45	47	50	51	52	53	54	54	55
Board Procedures	38	45	50	52	55	56	57	58	58	59
Investor Rights	54	55	55	57	58	59	59	60	60	59
Disclosure	67	71	72	75	78	80	81	81	82	82
Panel B: Novo Mercado & Level 2 listings										
BCGI	68	72	75	77	79	81	81	82	82	82
Board Structure	55	59	62	65	68	69	70	71	71	71
Board independence subindex	66	68	69	72	75	76	77	77	76	76
Audit committee and fiscal board subindex	44	50	55	57	60	62	63	65	66	66
Board Procedures	48	57	65	70	72	73	73	74	75	75
Investor Rights	82	82	83	83	85	86	86	86	85	85
Disclosure	86	88	89	90	94	97	97	97	97	97
Number of firms	120	124	126	128	130	128	130	133	132	132
Panel C: Level 1 & Regular listings										
BCGI	38	41	42	44	45	46	47	47	48	48
Board Structure	33	34	34	35	36	37	37	38	38	38
Board independence subindex	25	26	26	26	28	29	30	31	31	31
Audit committee and fiscal board subindex	41	42	42	44	44	44	45	46	44	45
Board Procedures	31	35	38	39	41	43	44	45	45	45
Investor Rights	34	35	35	37	37	38	38	38	39	38
Disclosure	54	58	59	63	66	68	68	68	69	69
Number of firms	174	170	168	166	164	166	164	161	162	162