

São Paulo, 11th of November 2024

Re.: Novo Mercado Evolution – Public Consultation No. 02/2024 – DIE

Dear B3's Novo Mercado Team,

At abrdn, our purpose is to enable our clients to be better investors. We have been integrating environmental, social and governance (ESG) considerations into our investment process since the 1990s, and we believe investing responsibly is not only the right thing to do, but it also helps us to identify opportunities and manage risks. As such, we are strong supporters of various groups advocating for companies to adopt best practices when it comes to their businesses policies and practices, which alongside with timely, consistent and high-quality disclosure will enable asset managers like us to make better assessments of how our investments could positively or negatively impact the progress towards our shared goals, like mitigating climate change and upholding strong human rights practices.

While we compliment B3 on the creation, implementation, and consequent improvements of the Novo Mercado listing segment, and acknowledge and appreciate some of our contributions were taken into consideration, on this second Public Consultation we noted a material dilution in the proposals, with several concessions being made in order to maintain the status quo in spite of the opportunity to deliver improvements to the Novo Mercado segment, which would help keep the segment relevant as a cornerstone in aligning Brazilian listed companies with international best practices in corporate governance. With this, we are mindful that B3 could be missing the opportunity to deliver a more tangible enhancement to its highest listing standard, raising concerns about the commitment towards continuous evolution of the segment.

We encourage B3 to reevaluate the Public Consultation process and reflect on its governance process, so that future processes can find the right balance of making tangible steps towards continuously evolving the segment, while gaining support among all stakeholders.

Please find below our observations regarding the key reform topics presented by B3 on this Novo Mercado public consultation.

I – Novo Mercado Warning

First, we thank B3 for taking into consideration our proposal for the hypotheses listed in the first Public Consultation to be reduced to the most severe cases, nonetheless we flag that we would still appreciate the addition of a company being granted the “Novo Mercado Warning” in cases of fraud or conviction of the company or its directors for bribery, corruption or money laundering, as we understand such an event could have a significant impact in a company's reputation, financials and market perception, which is aligned with the proposed purpose of informational measure and transparency of the “Novo Mercado Warning”.

While the proposed changes to this item overall, compared to the first Public Consultation, are reasonable, including the possibility of the company presenting additional clarifications before B3 issues the warning, the lack of a proper definition of a deadline for the manifestation of the company in our view may hinder the timeliness of such communication to the market. Finally, we consider an important addition to this proposed item the disclosure of a sanctioning proceeding related to non-compliance with the Novo Mercado Regulation.

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II – Board of Directors

Limited Participation in Boards of Directors

Given the proposal was virtually maintained similar to the first Public Consultation, we emphasize our support to this item, as it is aligned with our voting guidelines and also supported by proxy voting advisors such as ISS in its Brazil Proxy Voting Guidelines. We also welcome the inclusion of the exceptions for the cases of companies of the same group.

Independence

While we appreciate the extension of the term in office for a directors to be considered independent from the previously proposed 10 years to 12 years is in line with our contribution to the first round of Public Consultation, which is aligned with the [abrdrn's Listed Companies ESG & Voting Policies](#), we understand the cooling-off period between mandates that would allow a director to return as an independent should be greater than 2 years, as we brought forward in our first contribution, therefore we continue to advise on a minimum of 5 years for the cooling-off period.

Regarding the minimum independence in the board of directors, we reiterate our previous contribution, that the 30% minimum is not ambitious enough. In principle, we would be keen for the minimum to be in line with abrdrn's Voting Policy, which recommends companies' board of directors to have at least 50% of independent directors. Nonetheless, recognizing the reality of the local market, we would suggest the percentage of independent representation on the board of directors to be at least 30% or majority independent for companies that have over 50% of free-float.

III – Reliability of Financial Statements

While we understand the merits of the proposal of expressing the direct responsibility of the CEO and CFO for the effectiveness of internal controls, our understanding continues to be that such statement is not necessary, as in Brazil the responsibility over the Financial Statement of a company is already defined by law.

IV – Sanctions

We are comfortable with the withdrawal of the disqualification penalty, given in our previous contribution we flagged the proposal lacked clearer conditions in which the penalty would be applicable.

We were, however, negatively surprised with the maintenance of the current amounts of penalties, as B3 had in the first Public Consultation presented strong arguments in favour of the adjustment relating the adjustment to the practices adopted by CVM in Resolution No. 45.

V – Arbitration

We welcome the adjustment of the accreditation of new chambers being approved by B3's board of directors rather than the Market Chamber Arbitration itself to avoid conflict of interest.

VI - Complaint Channels, Anonymity, and Data Disclosure

We continue to support the proposal brought forward by B3 regarding the disclosure of number of complaints the companies received through their complaint channels, however we object to the removal of the need to disclose nature and sanctions applied, as we believe the additional disclosure helps provide investors with valuable information regarding the effectiveness of the companies' whistleblower channel and management of complaints.

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VII – Directors' Remuneration

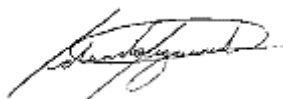
While we understand the clawback and malus topic was brought forward as a question to the market and not a proposal, we were disappointed to see this not being further pursued in this Public Consultation, as it would represent a clear institutional advancement, providing international alignment and indicating greater rigor in situations where the responsibility of administrators is evident, which is also aligned with [abrdn's Listed Companies ESG & Voting Policies](#).

VIII – Integrity

In light of our contribution in the first Public Consultation, we are in agreement with B3 not moving forward with this topic at the moment.

Lastly, we would like to thank B3 for giving us the opportunity to express our views on this important proposal. We look forward to following the next steps in the process and remain at your disposal should you wish to discuss our comments further.

Yours sincerely,



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Head of Brazilian Equities, abrdn



Raquel Camargo dos Santos
ESG Analyst, abrdn

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