UNIVERSIDADE FEDERAL DO RIO DE JANEIRO
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MARINA DASTRE MANZANARES

THE FIRST YEAR OF MANDATORY COMPLY-OR-EXPLAIN IN BRAZIL

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Dissertação submetida ao corpo docente do Instituto COPPEAD de Administração, da Universidade Federal do Rio de Janeiro, como parte dos requisitos necessários à obtenção do grau de mestre.

Orientador: Prof. Ricardo Pereira Câmara Leal, D.Sc.

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ABSTRACT

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The year of 2018 is the first when Brazilian companies are required to report on a comply-or-explain corporate governance code. Companies can either comply with code provisions or may explain why they deviate from it, in that sense, explanations for non-compliance are considered the capstone of this philosophy. The present study analyzes Brazilian companies' responses to the code and expand previous studies on the quality of explanations. Compliance statements of 108 companies for 43 recommended practices, totalizing 1720 unique explanations, were analyzed. A taxonomy of explanations was developed from this analysis. Based on this taxonomy, an index that measures adherence/disclosure quality was created and its relationship to firms' characteristics was investigated. The results show that the majority of firms do not properly explain deviations from the Brazilian corporate governance code, and that certain firm characteristics relating to firm size, ownership concentration and performance are associated with a firm's decision to comply with code provisions or, alternatively, justify non-compliance by providing, either generic and uninformative explanations, or more firm-specific explanations. The empirical examination suggests that the quality of adherence/disclosure of Brazilian companies is positively associated with firm size and performance and negatively associated with ownership concentration. No significant association was found between level of adherence/disclosure and leverage. State-owned companies are also more likely to have a higher adherence/disclosure index.

Keywords: comply-or-explain; content analysis; corporate governance; code, non-compliance, quality of explanations

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1 INTRODUCTION

The year of 2018 is the first year Brazilian companies are required to report on a comply-or-explain corporate governance code (GT INTERAGENTES, 2016) despite the fact this type of philosophy has been introduced more than 25 years ago in UK by the Cadbury Committee (CADBURY, 1992), has widely acceptance worldwide and has been adopted by many different countries, particularly encouraged by transnational institutions, such as the OECD. Codes under the comply-or-explain philosophy provide a series of recommendations (or provisions) which companies must apply, or in case they don't, must justify. The provisions contained in this practice are a type of soft law that aims to recognize that one size does not fit all and what is considered best practice for the majority of the companies may not be the case in light of particular companies' circumstances.

Comply-or-explain is much more than ticking boxes and its flexibility intends to allow companies to make choices that best suit them. In this sense, explanations for non-compliance are the capstone of this philosophy. Lack of explanations or uninformative justifications may undermine the whole principle. On top of that, some studies have shown that companies that correctly explain their deviations have better performance than those that don't and even outperform the most compliant ones (ARCOT e BRUNO, 2007; ARCOT, BRUNO e FAURE-GRIMAUD, 2010; ROSE, 2016) while studies that evaluated performance association to strict code compliance have found inconclusive results (CUOMO, MALLIN e ZATTONI, 2016), results that emphasize the importance of explanations.

This study aims at examining how Brazilian firms have dealt with the introduction of this type of soft law by qualitatively analyzing the characteristics of the explanations provided in case of non-compliance and empirically examining the firm determinants of good quality explanations and adherence to the code provisions. The Brazilian governance context is marked by ownership concentration low levels of free float and liquidity (as compared to more developed markets), equity market dominance by large companies and considerable use of non-voting preferred shares, which can be determinants on how companies responded to the introduction of the Brazilian code.

Koładkiewicz (2017) and Cuomo, Mallin and Zattoni (2016) summarized recent studies on codes of good governance. They argue that research on the quality of explanations is still modest and relatively unexplored. Seidl, Sanderson and Roberts (2013) have developed one of the most comprehensive taxonomy of explanations, however while they are *"confident of the robustness of [their] taxonomy in respect of Germany and the UK [they] cannot say for sure there are no further forms of compliance or explanation to be found in other national contexts".* They invite researchers to collect evidence on developing countries. Aguilera and Cuervo-Cazurra (2009) argue that, due to a wide diversity of approaches to corporate governance in very different national contexts and because developing and transition economies are less advanced in areas of corporate governance, more careful attention should be paid to these countries. The present study aims to help filling these gaps.

Koładkiewicz (2017) states that *"The results of analysis related to experience combined with the functioning of corporate governance codes to date indicate that the main challenge is not to convince companies of the need to apply these codes. The real challenge is to guarantee transparency for shareholders and potential investors regarding the provision of information by a given company as to its application or non-application of best practices as contained in such documents."* The current study aspires to help interested parties, such as regulatory bodies, shareholders and the companies themselves to deal with the recent comply-or-explain code in Brazil.

I find that companies in Brazil provide, in general, uninformative explanations not aligned to the comply-or-explain philosophy, with a particular emphasis on providing description of alternative solutions to the recommendation rather than context-specific justifications. The empirical examination finds evidence suggesting that the quality of adherence/disclosure of Brazilian companies is positively associated with firm size and performance. I find a negative association between ownership concentration and adherence/disclosure quality. State-owned companies are also more likely to have a higher adherence/disclosure index.

This study is organized as follows. Section 2 presents the literature review. Based on this review I was able to analyze explanations and use previous studies' taxonomies as starting points. Section 3 describes the methodology employed both in the qualitative and quantitative parts of this research. Section 4 shows the results: the taxonomy of explanations, descriptive statistics and the regression outcomes. Finally, Section 5 presents conclusions and suggestions for future research.

2 LITERATURE REVIEW

2.1 Codes of good governance and the comply-or-explain practice

Codes of good governance are defined as *"a set of 'best practice' recommendations regarding the behavior and structure of a firm's board of directors issued to compensate for deficiencies in a country's corporate governance system regarding the protection of shareholders' rights"* (AGUILERA e CUERVO-CAZURRA, 2004). The first corporate governance code was issued in 1978 in the United States; it was not until 1989 that a second code was developed in Hong Kong; a third code was developed in Ireland in 1991 (AGUILERA e CUERVO-CAZURRA, 2004; AGUILERA e CUERVO-CAZURRA, 2009). Notwithstanding, the first code to introduce the comply-or-explain approach to corporate governance was issued in 1992 by the Cadbury Committee set up by the London Stock Exchange and the UK Financial Reporting Council (CADBURY, 1992). Since then, more than 90 different countries have issued corporate governance codes (ECGI - EUROPEAN CORPORATE GOVERNANCE INSTITUTE; CUOMO, MALLIN e ZATTONI, 2016), encouraged by transnational institutions such as the World Bank and the OECD (AGUILERA e CUERVO-CAZURRA, 2009) and additionally fueled in the late 2000's by the global financial crisis of 2007/08 (CUOMO, MALLIN e ZATTONI, 2016).

These codes were issued within individual countries by stock-exchange-related bodies, associations of investors, directors, managers, law and accounting professionals, business and industry associations and governmental agencies (AGUILERA e CUERVO-CAZURRA, 2004; CUOMO, MALLIN e ZATTONI, 2016). According to recent studies (AGUILERA e CUERVO-CAZURRA, 2004; ZATTONI e CUOMO, 2008; INWINKL, SOFIA e WALLMAN, 2015) both efficiency and legitimacy contribute to explain the diffusion of codes around the world. On one hand, codes of good governance complement the legal system in shareholders' protection since they provide a means for holding managers and directors accountable and improve governance in general. On the other hand, codes are developed in order to harmonize the national corporate governance system with international best practices (ZATTONI e CUOMO, 2008). Codes of corporate governance are appealing because, since recommendations are not enforced by law, they do not trigger the political resistance

that may come from statutory and regulatory intervention and they can more easily adapt to changing market conditions (HASKOVEC, 2012).

Most of these codes of corporate governance are based on the comply-or-explain philosophy set forth by the Cadbury Committee in 1992. The comply-or-explain framework was chosen by the conviction that *"statutory measures would impose a minimum standard and there would be a greater risk of boards complying with the letter, rather than with the spirit, of their requirements"* (CADBURY, 1992). The essence of this principle is that strict compliance with the code recommendations is not mandatory but companies are required to state if they have applied the principles in the code and in the cases of non-compliance, they must explain the reasons for deviating, in sum, voluntary compliance coupled with mandatory disclosure (MACNEIL e LI, 2006; ARCOT e BRUNO, 2006; ARCOT e BRUNO, 2007; AGUILERA e CUERVO-CAZURRA, 2009). According to Keay (2014), *"the aim of comply or explain is to empower shareholders to make an informed evaluation as to whether non-compliance is justified, given the company's circumstances."*

This framework aims to avoid an inflexible 'one size fits all' approach to corporate governance by recognizing that companies are different and allowing for deviations of the recommendations in light of particular circumstances provided that companies give reasoned explanations for doing so (SEIDL, SANDERSON e ROBERTS, 2009; ARCOT, BRUNO e FAURE-GRIMAUD, 2010; HASKOVEC, 2012). Such reasons are supposed to inform about why adherence to the code provisions is not necessarily the optimal choice for a company and what are the specific circumstances that have led departure from suggested best practice (ARCOT, BRUNO e FAURE-GRIMAUD, 2010). These specific circumstances are generally related to firm- or industry-level particularities, such as size, structure, industry, international context and transitional issues, for instance, practices in one firm cannot be applied cost-effectively in another firm or accepted best practice in a company's key overseas market differs from domestic practice as stated in their national code of governance (SEIDL, SANDERSON e ROBERTS, 2013).

The perception is that codes of good governance can decrease the weighted average cost of capital, increase liquidity of a firm's stock, help companies to build stronger relationships with investors and increase investor's confidence in the market (ZATTONI e CUOMO, 2008; CANKAR, DEAKIN e SIMONETI, 2010; HASKOVEC, 2012; HOOGHIEMSTRA, 2012). The comply-or-explain regime finds support from

regulators, companies, directors and investors (RISKMETRICS GROUP, 2009). According to UK's Financial Reporting Council (FRC - FINANCIAL REPORTING COUNCIL, 2012), comply-or-explain in the UK has successfully promoted high standards of corporate governance over many years and there is now an universal acceptance of best practices that were initially introduced by the Cadbury Code, a very representative example of this universal acceptance being duality, that means, the CEO and the chairman should not be the same person.

Despite the several positive aspects and the general opinion amongst many in the governance community that codes of corporate governance can have a positive impact on company performance (HASKOVEC, 2012), a number of studies on several countries around the world are mixed and inconclusive as to whether a higher level of code compliance enhances performance, even though several measures for performance have been used and scholars have significantly improved the methodology over time. Some studies find that higher code compliance enhances firm performance, others find no association whatsoever or provide mixed results (AGUILERA e CUERVO-CAZURRA, 2009; CUOMO, MALLIN e ZATTONI, 2016). MacNeil and Li (2006) go even beyond these studies arguing that investors might use financial performance as a proxy to judge the merits of non-compliance and, in the end, performance has influence over excusing non-compliance in reverse. Besides, as argued by Hooghiemstra and Van Ees (2011) the comply-or-explain principle *"introduces uncertainty because the standards of good governance do not indicate legitimate arguments for deviation*"

However, most of the studies trying to relate codes with performance apply a mechanical way of evaluating governance quality. They consider a tick-box methodology to rate a company's quality of governance by defining better governance as strict adherence to governance provisions. Arcot and Bruno (2007) argue that, instead, an index to measure the quality of corporate governance cannot disregard the explanations provided by the companies that do not strictly conform to the provisions: *"If corporate governance matters for performance, a measure that does not account for companies' different choices fails to deliver such association".* After all, comply-or-explain aims to provide guidance and recognize that 'one size does not fit all'. They find that companies that depart from best practice because of genuine circumstances outperform all others and strict adherence to general accepted principles of good corporate governance does not necessarily lead to superior performance. They argue

that indeed *“one size does not fit all”* and the implementation of a rigid statutory law is not optimal.

In 2010, the same authors and Faure-Grimaud (ARCOT, BRUNO e FAURE-GRIMAUD, 2010) confirm these findings by defining two portfolios, the first containing only companies that fully comply or provide specific explanations, the second consisting of companies that provide no explanations or general explanations. They find that the first portfolio on average returns 2.8% more than the second one on an annual basis, reinforcing that the quality of explanations is driving the difference in returns. In 2011, Arcot and Bruno (2011) find that companies that do not comply with corporate governance standards and do not explain the reasons have the lowest profitability, whereas companies that comply and those that do not comply but give informative explanations perform better than other companies.

A more recent study (ROSE, 2016), when testing for the association between compliance and firm performance of Danish firms, develops a score that considers not only if the company complies or not with code recommendations *(“complies/complies poorly”*), but also if there is an explanation in case of deviation and if the explanation seems justified *(“explain/explain poorly”).* They find a positive link between ROE/ROA and this score; however, they argue that further evidence as well as country specific studies are needed “*to make hard conclusions regarding this important issue”.* It seems it is still too early to judge the efficacy of codes of good governance in face of the existing studies to date (CUOMO, MALLIN e ZATTONI, 2016). On top of that, the majority of studies about the functioning and effectiveness of comply-or-explain is focused on UK and other European countries, with some few exceptions.

2.2 Explanations under the comply-or-explain philosophy

The explanations for non-compliance with the code requirements are considered the capstone of the comply-or-explain system (SHRIVES e BRENNAN, 2015) and are what differentiate this system from prescriptive law (ARCOT e BRUNO, 2006). What must be clear concerning this philosophy is that non-compliance with any of the code recommendations is not necessarily a signal of poor corporate governance and may under some circumstances even be the preferred choice (ARCOT e BRUNO, 2006; HOOGHIEMSTRA e VAN EES, 2011; HOOGHIEMSTRA, 2012), and actively encouraged (SEIDL, SANDERSON e ROBERTS, 2013). Some argue that non-compliance should be named non-conformance to avoid confusion, since comply *and*

explain are both valid choices in light of the code philosophy (SANDERSON, SEIDL, *et al.*, 2010; SEIDL, SANDERSON e ROBERTS, 2013).

Instead, what should be considered bad practice is the lack of explanations or explanations that are not in line with the philosophy (KOŁADKIEWICZ, 2017). The comply-or-explain principle assumes that interested parties, mainly shareholders, will monitor and judge the explanations provided and will take actions accordingly (MACNEIL e LI, 2006; SEIDL, SANDERSON e ROBERTS, 2013; KEAY, 2014). As mentioned by Arcot, Bruno and Faure-Grimaud (2010): *"a flexible system [...] adds value if there are conditions under which one-size does not fit all. If there is full compliance, or if no meaningful explanations are observed (in cases of non-compliance), the "explain" part of the Code is ineffective."*

Akkermans, Van Ees et al (2007), Hooghiemstra (2012) and Keay (2014) support that there are only very general guidelines given by codes on how a company is supposed to explain non-compliance. However, it is possible to find some congruency about what is expected of a good and *"meaningful"* explanation aligned with the comply-or-explain framework. Many institutions, like UK's Financial Reporting Council (FRC - FINANCIAL REPORTING COUNCIL, 2012), Belgium's Corporate Governance Committee (CORPORATE GOVERNANCE COMMITTEE, 2016) and the European Commission (EUROPEAN COMMISSION, 2014) have issued guidelines on how to explain non-compliance, in face of a recent wave of criticism in regards to the (bad) quality of explanations presented.

Considering these guidelines and prior literature (SHRIVES e BRENNAN, 2015), a meaningful explanation should:

- Be sufficiently detailed but concise, clear and readable, avoiding overly general statements and standardized language;
- Provide the reasons for not applying the recommendation, by means of illustrating particular circumstances unique to the company (e.g. sector, size, structure, international context, etc.) that justify its non-compliance;
- Where applicable, describe the measure taken instead of compliance and explain how that measure achieves the underlying objective of the specific recommendation or provision;
- Provide an indication as to whether or not it is intended that the provision would be complied with in the future and when.

In light of the significance of the quality of explanations contained in a governance statement of compliance, some studies have tried to categorize the justifications provided by companies in case of deviation from provisions. Probably, the first studies to analyze, to some degree, the quality of explanations provided by companies in case of non-compliance are Pass (2006) and MacNeil and Li (2006).[1]

MacNeil and Li (2006) do not systematically analyze explanations. They suggest that *"non-compliance disclosures made by companies are often extremely brief and uninformative"* and they give an example of a company's uninformative sequence of explanations to illustrate the point that, by not providing investors with the basis for making a proper evaluation, investors might be adopting a proxy to judge the merits of non-compliance.

Pass (2006) analyzes the extent of compliance of 50 companies reporting in 2005 under UK's Combined Code. The study focuses on six key provisions that were included in the Code in 2003 and are especially concerned in providing greater empowerment for company's non-executive directors in top-level decision-making, with a particular emphasis on non-executives being *"independent"*. The analysis of the reasons for non-conformance follows an *"acceptable/unacceptable"* evaluation criteria of the explanations given specifically for these six provisions and is secondary to the article objectives.

In 2006 and 2007, Arcot and Bruno (ARCOT e BRUNO, 2006; ARCOT e BRUNO, 2007) defined six categories for explanations given by companies subject to UK's Combined Code considering, in most part, whether the explanations are firm- or industry-specific, and by being so, are aligned to the underlying philosophy of comply-or-explain.

In their first working paper Arcot and Bruno (2006) find that an average of 17% of non-compliances are not explained at all and in 51% of the cases the explanations are standard and uninformative and that companies that do provide explanations tend to stick to the same explanations over time, which they suggest could be a sign that shareholders are not paying enough attention. They also suggest that, like MacNeil and Li (2006), *"intervention by shareholders in matters of corporate governance is usually not preemptive, but typically occurs after bad performance".* Using similar categories, the RiskMetrics Group report (RISKMETRICS GROUP, 2009) analyzes the

[1] For more information about the articles on the quality of 'comply-or-explain' disclosures see Appendix A.

statements of 270 companies in 18 EU Member States. The report finds that only 39% of all explanations provided can be defined as informative.

Hooghiemstra (2012) builds on the content analysis performed by Arcot and Bruno (2006) in order to evaluate the informativeness of the explanations given for deviations from the best practice provisions of the Dutch corporate governance code and the relation between governance mechanisms and the level of informativeness. Based on the findings, he argues that *"firms which are followed by fewer analysts, firms having more dispersed ownership, firms having boards that are weaker and firms relying more on debt finance tend to provide generic, but uninformative explanations instead of firm-specific and informative explanations, and that these firms approach the comply-or-explain requirement more symbolically than substantively."*

Seidl, Sanderson and Roberts (SEIDL, SANDERSON e ROBERTS, 2009; SEIDL, SANDERSON e ROBERTS, 2013) use content analysis to evaluate the quality of explanations of 257 companies in UK and Germany and derive an expanded taxonomy of such explanations. Explanations are divided in three main categories:

- Deficient justification: company discloses deviation without providing reasons. Deviations may be either temporary or persist over time and are not aligned with the functioning of the comply-or-explain code regime.
- Context-specific justification: company justifies deviation with reference to its specific situation. These are considered genuine explanations and aligned with the comply-or-explain philosophy.
- Principled justification: company contends that a provision does not reflect best practice and justifies deviation with reference to problems with the specific code provision.

40% of explanations in the UK and well over 50% of explanations in Germany fall into the category of *"deficient justification".* Considering these results, the authors (SEIDL, SANDERSON e ROBERTS, 2013) extend the study and analyze the legitimacy tactics associated to these forms of explanations.

Building partially on the content analysis earlier developed by Seidl, Sanderson and Roberts (2009), Hooghiemstra and Van Ees (2011) develop a taxonomy for explanations provided in 2005 by 126 listed Dutch firms. They examine the extent to which firms deviated from code recommendations and, to what extent, Dutch listed firms adopted similar arguments to explain the deviations. They find that the degree of strict compliance is positively associated with firm size, probably motivated by fear of

reputation loss and by the fact that, generally, code recommendations are based on best practices of such large companies. They also find uniformity in how firms did not comply with the code, and, subsequently, explained non-compliance. Based on these findings the authors cast doubt on the effectiveness of the comply-or-explain philosophy and suggest that enforcement/regulation may be needed for better functioning of codes in general, since the lack of satisfactory explanations may undermine the intentions of codes of good governance.

Shrives and Brennan (2015) draw on various theoretical frameworks, such as agency theory, institutional theory and resource dependency theory in order to analyze the quality of explanations of UK companies reporting in 2004/05 and 2011/12. They expand previous studies' categories on explanations (SEIDL, SANDERSON e ROBERTS, 2013) and develop a new typology consisting of seven dimensions to describe explanations, including their location in a given report, the number of words they contain, their specificity and mimetic behavior.

The authors find that the key areas of non-compliance are the proportion of non-executive directors at the board, followed by the constitution of the various board committees. In relation to the specificity of explanations they find that many companies do not provide specific explanations (55% in 2004/05 and 60% in 2011/12) and around a quarter of the companies provide inadequate or no explanations. Based on their findings over these seven categories they argue that explanations are of variable quality and, if codes are to operate effectively, companies must improve their explanations in relation to the position of the statements in the reports, readability, detail and specificity. They also suggest, similar to Hooghiemstra and Van Ees (HOOGHIEMSTRA e VAN EES, 2011) and Keay (KEAY, 2014), that some sort of oversight is necessary to improve the overall functioning of the comply-or-explain.

More recently, Bradbury, Ma and Scott (2018) examined the explanations given by Australian companies for not having an audit committee and whether these explanations are consistent with underlying firm characteristics. They find that firms deviate from corporate governance provisions mainly due to internal factors affecting their ability to supply an audit committee, such as firm or board size, rather than a lack of external demand for higher-quality governance, which is consistent with the underlying philosophy of the comply-or-explain. They conclude that *"the explanations are justified, and the concerns that explanations are used as pretexts to avoid corporate governance best practice may be overstated".* Another study in a non-

European context (CANKAR, DEAKIN e SIMONETI, 2010), however, show that Slovenian companies for the most part *"did not explain why they had deviated from a particular Code provision but simply disclosed this fact, or provided the disclosure by literally describing their corporate practices."*

Although studies on the quality of explanations appear to be increasing over time, it is recognized that there is still a lack of efforts in such direction (KOŁADKIEWICZ, 2017) More empirical evidence on the reasons behind compliance and non-compliance and on the type and quality of explanations provided to justify deviations from codes' recommendations must be collected (CUOMO, MALLIN e ZATTONI, 2016).

2.3 Corporate Governance in Brazil

The dilution of minority shareholder interests *"is a 'nearly universal practice' in 'middle income and developing countries'"* (CANKAR, DEAKIN e SIMONETI, 2010). The first Code of Best Practices developed by the Brazilian Institute of Corporate Governance (IBGC), the "New Law of Corporations", Law 10,303 of 31 October 2001, the Brazilian Securities Commission (Comissão de Valores Mobiliários, CVM) Instruction 480 of December 7th 2009, which introduced a comprehensive disclosure form, the Reference Form (Formulário de Referência or FR) and the three premium list segments (Level 1, Level 2, and Novo Mercado) introduced by The Securities, Merchandise, and Futures Exchange of Brazil (BM&FBovespa) are examples of recent efforts to improve corporate governance practices in Brazil (OECD, 2013; LEAL, CARVALHAL e IERVOLINO, 2015).

Two recent studies (BLACK, CARVALHO e SAMPAIO, 2014; LEAL, CARVALHAL e IERVOLINO, 2015) demonstrate that, by means of measuring the evolution of corporate governance indices, corporate governance practices have improved in Brazil in the last two decades. Another study (CARVALHO e PENNACCHI, 2012) shows that company's migration to BM&FBovespa premium listing brings positive returns to its shareholders.

Despite the recent regulation efforts and the optimistic results of these studies, Brazilian corporate governance environment is still represented by ownership concentration (with companies generally controlled by a family, state, foreign-controlling group or shared-control); low levels of free float and liquidity (as compared

to more developed markets); equity market dominance by large companies; and considerable use of non-voting preferred shares (OECD, 2013).

The first comply-or-explain governance code in Brazil (GT INTERAGENTES, 2016) is one of the latest initiatives to improve corporate governance practices and investor protection in Brazil. It was introduced by CVM Instruction 586 of 8 June 2017, which modified original Instruction 480 and is a result of a collective effort of 11 institutions related to the Brazilian capital market, including the Brazilian Institute of Corporate Governance (IBGC), CVM and The National Bank for Economic and Social Development (BNDES), benchmarking the previous Brazilian code and other 18 countries' codes that were chosen considering the size of their respective capital markets and the relative importance of such markets to the Brazilian context. The year 2018 is the first year when Brazilian public companies are required to report on this new code. Unlike many countries' companies that inform on this code in an existing governance report, Brazilian companies are required to deliver their compliance statements as a separate form available to be fulfilled at CVM's website.

The code is divided into *principles*, which are the core values of corporate governance advocated by the code; *fundamentals*, which underpin and explain the principles; *recommended practices* (hereafter recommendations), which are the rules of conduct derived from the principles; and *guidelines* that complement each principle by providing additional instructions and, in many cases, guidance on how to explain deviations from the respective principles' recommendations. There is a total of 54 individual recommendations companies are expected to apply, and if not, following the comply-or-explain framework, they shall explain the reasons for such a decision and make the explanations publicly available. According to the Code, explanations must be *"written in accessible language, in a transparent, complete, objective and accurate manner, so that shareholders, investors and other interested parties can carefully form their assessment of the company."* The principles, fundamentals and recommendations are distributed in five chapters concerning the following topics: (1) Shareholders, (2) Board of Directors, (3) Top Management (4) Supervisory and Control Bodies, and (5) Ethics and Conflict of Interests.

3 METHODOLOGY

3.1 Sample

This study examines how companies explain deviations from the Brazilian code of corporate governance. 2018 is the first year when Brazilian listed companies were required to report under the 'comply-or-explain' philosophy. According to the Brazilian Securities Commission (*Comissão de Valores Mobiliários,* CVM) criteria, companies that, at the publication date of CVM Instruction 586/2017, had at least one class or type of share at the Brazilian Index 100 (IBrX - 100) or the Bovespa Index (Ibovespa) were required to fulfill the Governance Report; the deadline to report was October 31st. By this rule, in this first year, 95 companies were asked to complete and disclose the Governance Report at CVM's website. Additionally, 13 companies voluntarily reported. The final sample comprises 108 companies. The reports were collected from CVM's website.

Each company provided compliance statements for 54 recommended practices. In completing the Governance Report, companies had three options: "Yes" (S), when they adopted the recommended practice; "Partial" (P), when the recommendation was partially adopted; and "No" (N), when the practice was not adopted. By ticking P or N, the company was required to provide the justification for not fully adhering to the recommended practice.

In 10 of the 54 recommended practices, there was the "Not Applicable" (NA) option. These recommendations were excluded from the analysis since, for the results to be comparable, all the recommendations had to be applicable to all the companies. In some of the recommended practices companies were required to comment on their practice even if they had chosen the option S. These "comments" are not the subject of the present study and therefore were not analyzed. Additionally, the recommendation 5.5.2, which asserts that *"the policy [on contributions and donations] should state that the board is the responsible body to approve every disbursement related to political activities"* was disregarded, because this recommendation is no longer applicable since Elections Law (Law nº 9.504/1997) as modified by Law nº 13.165/2015 prohibits companies to donate to political campaigns.

Considering these criteria, the explanations of 108 companies for 43 recommended practices, totalizing 1720 unique explanations, were analyzed.

3.2 Data Analysis

3.2.1. Qualitative Content Analysis

Similarly to prior studies on the quality of explanations provided for non-compliance with codes of corporate governance (ARCOT, BRUNO e FAURE-GRIMAUD, 2010; HOOGHIEMSTRA e VAN EES, 2011; HOOGHIEMSTRA, 2012; SEIDL, SANDERSON e ROBERTS, 2013) I used qualitative content analysis (SCHREIER, 2013; BERGMAN, 2015; MAIER, 2018) to investigate the justifications provided by Brazilian companies in the first year of comply-or-explain disclosure in Brazil and develop a taxonomy of explanations.

As stated by Schreier (2013): *"Qualitative content analysis is a method for systematically describing the meaning of qualitative data. This is done by assigning successive parts of the material to the categories of a coding frame."* Much like Arcot and Bruno (ARCOT e BRUNO, 2006; ARCOT e BRUNO, 2007) and Faure-Grimaud (ARCOT, BRUNO e FAURE-GRIMAUD, 2010) I classified the explanations by *"searching for the presence of verifiable and specific elements relating to the company's circumstances in their narrative statements"* and I tried not to *"make any judgment as to whether the explanations provided are valid from a business perspective",* although some subjectivity and interpretation are expected in this kind of analysis (BERGMAN, 2015). I also did not check for the veracity of the justification provided considering that it is extremely difficult to verify the statements and assessing whether companies do in fact comply can be indeed very subjective (KEAY, 2014). Instead I focused on the characteristics and nature of the explanations as will be seen in the taxonomy presented later in this document.

16 randomly selected recommended practices were first analyzed in order to establish the coding frame for the explanations contained in such recommendations, initially based on the categories defined by Seidl, Sanderson and Roberts (2013) and Hooghiemstra and Van Ees (2011) and expanded considering the specificities of the Brazilian explanations. The inferred categories were then revised and corrected accordingly.

The explanations of the remaining 27 recommendations were categorized according to the established taxonomy. After the explanations were sorted by recommended practice and categorized, a second round of analysis of these same explanations was carried out, this time sorted by the defined categories of explanations

in order to further test the distinctiveness and completeness of the taxonomy. Any doubt or discrepancy was discussed and reconciled with a second researcher. After 15 days, all the explanations were read a third time in order to confirm the previous category fit.

The coding of the passages took into consideration the classification, “No” (N) or “Partial” (P), provided by the company for each explanation. If, for example, the company considered itself partially compliant (P) for a specific explanation, but the researcher considered it as not compliant (N) the explanation was downgraded from P to N according to the researcher’s discretion. This step was very important for coding accuracy and consistency between companies’ explanations and for the subsequent quantitative analysis in this study.

3.2.2. Hypotheses, Model and Description of Variables

In order to complement the study on the taxonomy of explanations and further investigate Brazilian companies’ first-year report on the code, I set forth to investigate the relationship between different corporate characteristics and the quality of governance practices and disclosure experienced by companies in Brazil. This analysis is conducted by means of linear regressions of an Index that aims to capture the quality of companies’ adherence/disclosure on the Brazilian code against firm-characteristics’ explanatory and control variables.

Dependent Variable

The majority of the literature on the adherence of companies to their respective codes follows a “one size fits all” approach when they do not account for the flexibility allowed by the comply-or-explain philosophy, in other words, these studies treat deviations from the code as a sign of bad governance (ARCOT e BRUNO, 2011) and do not consider that departing from code provisions for good reasons is legitimate (INWINKL, SOFIA e WALLMAN, 2015) and in many cases, the preferred choice. These studies find inconclusive results as to whether a higher level of strict code compliance leads to better company performance. On the other hand, studies that considered not only the level of adherence to recommendations but tried to additionally account for the quality of explanations found that better adherence/disclosure indices lead to better performance (ARCOT, BRUNO e FAURE-GRIMAUD, 2010; ARCOT e BRUNO, 2011; ROSE, 2016).

In light of these findings, I argue that, a code compliance index must capture not only the level of strict compliance to the code provisions but also the characteristics of the explanations. Similarly to Arcot and Bruno (2011) and Hooghiemstra (2012) I develop an index that aims to measure the level of adherence to the code and the quality of explanations provided. Since the development of such index is rather arbitrary, I developed four different indices to be tested. The description of such indices is presented in the following section, since they are dependent on the taxonomy of explanations developed in this study. At this point it is enough to say that a company receives the highest score for determined recommended practice in case it fully complies with it or provides an explanation that is specific to the company's circumstances. Progressive lower scores are attributed to less informative explanations.

Independent Variables

Arcot and Bruno (2011), when trying to explain what determines the informativeness of companies' disclosure on the British code, find that companies with dominant family shareholders tend to omit or provide less informative explanations. Hooghiemstra (2012) on the other hand, finds that companies with concentrated ownership have better disclosure scores since *"the more concentrated ownership is, the better shareholders are positioned to monitor managers".* In Brazil, in contrast, a study about the compliance rates on mandatory executive compensation disclosure finds that companies that present more concentrated control rights are more likely not to comply. (BARROS, DA SILVEIRA, *et al.*, 2015).

Hooghiemstra and Van Ees (2011) show that firm size is positively associated with compliance with the recommendations of the Dutch code. They argue that as larger firms have greater agency problems, are more visible to media attention and face more scrutiny from the investor community, they are expected to disclose higher quality information. Besides, code recommendations are generally based on best practices of such large companies, which makes these companies more likely to comply. In the Brazilian side, a recent article reports a positive relationship between firm size and a comprehensive corporate governance quality index (LEAL, CARVALHAL e IERVOLINO, 2015).

Hooghiemstra (2012) suggests that *"evidence concerning the association between debt and disclosure is inconclusive",* however his study finds a significantly

negative association between leverage and informativeness of explanations for non-compliance. Arcot and Bruno (2007) argue that highly levered companies are more monitored, which in turn can lead to better disclosure.

Finally, some studies on the quality of comply-or-explain disclosure find that performance and adherence/disclosure on codes of good governance are positively associated (ARCOT e BRUNO, 2007; ARCOT, BRUNO e FAURE-GRIMAUD, 2010; ROSE, 2016).

Based on these previous studies, I hypothesize that the quality of adherence/disclosure is positively associated with firm size and performance and negatively associated with ownership concentration and leverage:

$$INDEX_i = \alpha + \beta_1 * Own.Concentration_i + \beta_2 * Size_i + \beta_3 * Leverage_i + \beta_4 * Performance_i + \sum_{=5}^{n} \beta_n * Control_i$$

Table 1 shows a summary of all variables and selected measures. Return on Assets (ROA12) and Tobin's Q (Q) are used as proxies for performance. Ownership concentration (VOT1) is represented by the voting share percentage of the largest shareholder. The size (LNSize) of the company is measured by the natural logarithm of the book value of total assets. Leverage (LevTotal) is measured as total liabilities (short- and long-term debt) divided by total assets.

Table 1: Summary of variables and selected measures

Variable	**Name of variable**	**Operational Definition**
Dependent variable		
INDEX (A, B, C and D)	Disclosure/adherence quality	Quality of adherence/disclosure on the Brazilian code of good governance (defined in detail in the next section)
Independent variables		
Q	Tobin's Q	Tobin's Q ratio is the market value of the assets of the company divided by the book value of assets. The market value of assets is the market value of total equity plus the book value of total debt and liabilities (source: own calculations from Economatica data)

ROA12	Return on Assets	Return on assets defined as last 12 months consolidated net income divided by total assets as of October 31st. (source: Economatica)
VOT1	Share of largest shareholder	Percentage of voting shares held by the largest shareholder (source: B3)
LevTotal	Debt Ratio	The debt ratio is total liabilities and debt divided by total assets (source: own calculations from Economatica data)
LNSize	Firm size	Natural logarithm of book value of total assets in thousands of Brazilian reais on October 31st (source: own calculations from Economatica data)
Control variables		
D_ADR	Presence of ADRs	Dummy variable equal to 1 if the firm issues ADRs and zero otherwise (source: CVM report)
D_NMN2	Participation in Bovespa's premium listings	Dummy variable equal to 1 if the firm is listed in the two most demanding lists: Level 2 or Novo Mercado at Bovespa (source: CVM report)
STATE	State-owned companies	Dummy variable equal to 1 if the firm is state-owned (source: CVM report)
OBLIG	Obligatory disclosure	Dummy variable equal to 1 if the firm is obliged to disclose on the comply-or explain form (source: CVM report)
BETA	Risk beta	Market risk (source: Economatica)
VOL	Volatility	(source: Economatica)
Ind. dummy	Industry dummies	Ten industry dummy variables using Bovespa classification. (source: Economatica)

**all accounting data as of 2018 October 31st*

Control Variables

The control variables are described in Table 1. I control for mechanisms that proxy the quality of corporate governance practices. One of them is the issuance of *American Depositary Receipts* (ADRs) since cross-listed companies seem to tend to give an average higher quality of explanation than those that are not cross-listed (AGUILERA e CUERVO-CAZURRA, 2004; ARCOT e BRUNO, 2006). The ADR control variable (D_ADR) takes the form of a dummy variable. Alternatively, companies' participation in premium listing segments (D_NMN2) is controlled through a dummy variable that assumes the value 1 if the company is listed in one of the two most demanding listing segments of the Brazilian stock exchange B3 (Novo Mercado

or Level 2). Leal, Carvalhal and Iervolino (2015) find that a corporate governance index is higher for firms listed in the premium corporate governance segments. The last two dummy variables represent if the company was obliged to report on the code (OBLIG) and if the company is state-owned (STATE). Finally, I control for market risk, measured by beta (BETA) and volatility (VOL) and I include ten industry dummies to control for possible industry effects.

4 RESULTS

By studying the strict compliance rates of Brazilian companies it can be noted that no company has complied with all code provisions, the most conforming company adhered to 98% of the code provisions (it did not comply with only one recommendation) while the least compliant conformed to only 16% (36 recommendations not followed). The average number of deviations reported by companies is 15.9 of 43 provisions or 37%, which is higher than the 4.2% average number of deviations from the Dutch code (HOOGHIEMSTRA e VAN EES, 2011), 4.7% from UK's code and 6.3% from Germany's code (SEIDL, SANDERSON e ROBERTS, 2013). This difference could be partially explained if we consider this is the first year when Brazilian companies are required to report and UK, Germany and The Netherlands have issued their respective codes at least more than a decade ago, giving companies more time to mature their governance practices as provisioned.

Table 2 shows the recommendations that were most and least followed by companies in Brazil. One of the most followed recommended practice concerns board duality (2.3.1). This recommendation requires the roles of chairman and chief executive officer not to be exercised by the same individual, nowadays a provision that finds almost universally acceptance as good governance (AGUILERA e CUERVO-CAZURRA, 2009). On the other hand, the least-complied-with recommended practice is 2.2.1, which requires the majority of the board members to be external and one third to be independent. Interestingly, the majority of the companies that deviate from this provision claim to be aligned to their listing segments that require fewer independent members at the board than the code itself requires (20% instead of one third, respectively). This suggests that Brazilian companies may be taking the code recommendations for granted or that they may be overwhelmed by an ever-growing pile of regulations in the country.

Table 2: Most and least-complied-with recommended practices

Most-complied-with recommended practices	
2.9.3 - The board meeting minutes should be clearly drafted and record the decisions taken, the persons present, the dissenting votes and the vote abstentions	98%
2.3.1 - The CEO should not accumulate the position of chairman of the board of directors.	95%

1.3.2 - The minutes should allow for the full understanding of the discussions held at the meeting, even if drafted in the form of a summary of events and bring the identification of the votes cast by the shareholders.	94%
5.2.1 - The company's governance rules should ensure the separation and clear definition of roles and responsibilities associated with the mandates of all governance agents. The decision-making levels of each instance must also be defined, in order to minimize potential foci of conflicts of interest.	94%
3.2.1 - There should be no reserve of top-management or management positions for direct indication by shareholders.	90%

Least-complied-with recommended practices

2.4.1 - The company shall implement an annual process for evaluating the performance of the board of directors and its committees as collegiate bodies, the chairman of the board of directors, the board members individually considered, and the governance secretariat, if any.	34%
2.2.2 - The board of directors must approve an indication policy that establishes: (i) the process for the appointment of the members of the board of directors, including an indication of the participation of other company bodies in said process; (ii) that the board of directors should be composed in view of the availability of time for its members to perform their functions and the diversity of knowledge, experiences, behaviors, cultural aspects, age group and gender.	32%
4.1.1 - The statutory audit committee shall: (i) have among its duties to advise the board of directors on the monitoring and control of the quality of financial statements, internal controls, risk management and compliance; (ii) tbe formed in the majority by independent members and coordinated by an independent director; (iii) have at least one of its independent members with proven experience in the corporate accounting, internal control, financial and audit areas cumulatively; and (iv) have its own budget for the contracting of consultants for accounting, legal or other matters, when the opinion of an external expert is required.	31%
5.3.2 - The board of directors shall approve and implement a related party transactions policy, which shall include, among other rules: (i) a provision that prior to the approval of specific transactions or guidelines for contracting transactions, the board of directors shall request market alternatives to the transaction with related parties in question, adjusted by the risk factors involved; (ii) waiver of forms of remuneration of advisors, consultants or intermediaries that generate conflicts of interest with the company, the administrators, the shareholders or classes of shareholders; (iii) prohibition of loans to the controller and administrators: (iv) the hypothesis of transactions with related parties that must be based on independent appraisal reports prepared without the participation of any party involved in the transaction in question, be it bank, lawyer, specialized consulting firm, among others, based on realistic assumptions and information endorsed by third parties; (v) that corporate restructurings involving related parties should ensure equitable treatment for all shareholders.	30%
2.2.1 - The by-laws should establish that: (i) the board of directors is composed of a majority of external members, with at least one third of independent members; (ii) the board of directors shall evaluate and disclose annually who the independent directors are, as well as indicate and justify any circumstance that might compromise their independence.	18%

However, as argued previously, analyzing strict adherence to code recommended practices is not enough if we are to capture the flexibility allowed by the

comply-or-explain philosophy. Explanations are a crucial part of companies' compliance statements and it is very important to characterize those explanations as they provide evidence on whether firms are abusing the choice not to comply and can be of considerable aid to interested parties, such as code developers, regulators and shareholders, specially. In light of such significance the developed taxonomy of explanations is presented as an important result of this study. In the sequence I present descriptive statistics and the results for the linear regressions according to the aforementioned suggested model.

4.1 Types of Explanation

The analysis of the explanations of Brazilian companies resulted in a similar taxonomy as developed by Seidl, Sanderson and Roberts (2013). They identified three main categories of explanations, similarly present in the Brazilian case: *Deficient Justification*, *Principled Justification* and *Context-Specific Justification.* This study promotes their sub-category *"Description of Alternative Practice"* to main category, since different expressions of this type of explanation are described. Table 3 presents the taxonomy of explanations and a definition of each category and sub-category. APPENDIX B shows a map of the taxonomy for illustration purposes. See APPENDIX C for examples of each type of explanation identified.

Differently from the German and British case, Brazilian companies are required to fulfill a dedicated report with their compliance statements, in that way, Brazilian companies are not able to provide no explanation in case of no compliance. Plus, in some cases, after carefully reading the explanation, the researcher deemed the company compliant and the justification was labeled *Explains but Actually Practices.* This possibly happened due to misinterpretation of the recommended practice by the respondent company.

Deficient Justification

A *Deficient Justification* is when the company discloses deviation ("N" or "P") without providing real reasons for not following the recommended practice. It contains seven sub-categories: (1) adoption of recommendation under evaluation, (2) alternative practice under development, (3) declaration of alignment to another norm, (4) declaration of future compliance, (5) empty justification, (6) pure disclosure and (7) unrelated to recommendation. The sub-categories *Pure Disclosure* and *Empty*

Justification are derived from the German and British study (SEIDL, SANDERSON e ROBERTS, 2013). *Pure Disclosure* is when the company only states that it does not comply with the recommendation, for example: *“The Company Bylaw does not define which transactions with related parties must be approved by the Board of Directors* (recommendation 5.3.1)”. *Empty Justification* occurs when the company provides some kind of commentary for non-compliance that, although it may seem like a justification, it does not contain any explanatory power, for instance: *“The Company does not have a succession plan for the CEO. The Company understands that a succession plan for the CEO is not necessary in the moment as a result of the decision-making process of the Company's Board of Directors, which takes place collegially.* (recommendation 2.5.1)”. In this case, although the company appears to make an effort to explain its reasons for not complying, the justification makes use of standard language and carries no meaning whatsoever. *“The Company follows best practice, so far, there has been no case of allegation of conflict and/or vote cancelling due to conflict of interests. There are no formal rules, but the Company follows best practice*. (recommendation 5.2.3)” is another example of a boilerplate explanation.

Additionally, Brazilian companies provided different types of deficient justifications. Some companies declared that the adoption of the code recommended practice is being evaluated by the company: *“Currently these meetings are not provided for in the Board rules. The Company is reviewing this document and evaluates the application of such practice* (recommendation 2.9.2)”. Other companies simply declared to be aligned to another norm likely as a form of legitimating its non-compliance: *“There is currently no policy governing the composition of the Board of Directors. The company adopts the rules set forth in the Brazilian Corporate Law and B3’s Corporate Governance Level 2 Regulation.* (recommendation 2.2.2)”.

Declaration of Future Compliance is when the company simply declares that it will apply the recommendation in the near future: *“The company will create a policy for hiring extra-audit services from its independent auditors that will be approved by the Board of Directors* (recommendation 4.3.1)*”.* Similarly, *Alternative Practice Under Development* regards to when the company declares that an alternative practice is going to be created, however company will continue to be non-compliant in the future: *“The Company Bylaws do not contemplate this subject, which will be the object of a specific Policy* (recommendation 5.3.1)”. The last category, *Unrelated to*

Recommendation is when the company provides an explanation that is not specific or is unrelated to the code recommendation for which it is justifying.

Description of Alternative Practice

This category is a special form of deficient justification. Even though it provides more information than a deficient justification by means of describing an alternative solution to the recommended practice, it fails to provide a company-specific rationale for non-compliance. I identified four different sub-categories: (1) alternative practice in line with another norm, (2) alternative practice deemed in line with the Code, (3) temporary alternative practice, (4) pure description of alternative practice.

In *Pure Description of Alternative Practice* firms solely describe an alternative solution, policy or practice to the code provision, for example: *"Although there is no formal manual with guidelines for shareholder participation in general meetings, prior to the meetings, in compliance with legal deadlines, the Company publishes a detailed management proposal and meeting agenda, as well as guidance to shareholders for participation in the meeting. Since 01/01/2018, the Company adopts the possibility of remote voting and publishes on its website the ballot paper, in accordance with CVM rules* (recommendation 1.3.1)". In explanations under the category *Alternative Practice in Line with Another Norm,* companies describe an alternative practice that it explicitly declares to be compliant with another norm or law, for example: *"The Company follows the general rule set forth in article 254-A of the Brazilian Corporate Law (80% as minimum price) regarding the parameters of the takeover bid in case of change of control. Any such OPA must be analyzed and approved at the Shareholders' Meeting and by the Board of Directors, and previously approved by ANEEL [Electric Power National Agency] and CVM.* (recommendation 1.5.1)".

In *Temporary Alternative Practice*, on top of describing an alternative solution to the governance issue the recommendation tries to address, the company declares its intention or efforts to be compliant in the future, for instance: *"The Company has the practice to continuously communicate [with shareholders] its business conduct, not only in general meetings. We have an active Investor Relations department, and we promote events for the presentation of matters pertinent to the Company's business. Annually, during the ordinary meeting, the board of directors and the Chairman present an overview of the financial results and make themselves available for clarification of doubts. Currently, QGEP does not prepare a manual for participation in general*

meetings, only the management proposal. However, with the increase in the liquidity of the Company, accompanied by a growing number of shareholders in the last year, QGEP believes that investing in the elaboration of a manual for better clarification and shareholder participation incentive is justified and commits itself, therefore, in the adoption of this practice of corporate governance. (recommendation 1.3.1)".

Finally, in *Alternative Practice Deemed in Line with the Code,* the company describes an alternative practice and clearly states that this practice is believed to be aligned to the code recommendation or principle: "*The Company does not have a structured program for the integration of new members of the Board of Directors. Currently, the presentation of new members of the Board of Directors to the Company's key people and their facilities is done on demand and involves the requested areas. In addition, the members of the Board of Directors are invited to participate in the strategic planning events, in which the strategic and financial aspects of the Company are addressed, enabling a better understanding of the business and strategic ambitions. The Company understands that the Company's current practice is sufficient for the members of the Board of Directors to be familiar with the Company's culture, people, environment, structure and business model.* (recommendation 2.6.1)". This category finds equivalence in the Dutch study (HOOGHIEMSTRA e VAN EES, 2011) where it's named *"Alternative policy in line with the Dutch code".*

Table 3:Taxonomy of explanations

Categories of explanation	**Sub-categories of explanation**	**Description**
Deficient justification Company discloses deviation without providing reasons for deviating	Adoption of recommendation under evaluation	Company declares that the application of the code recommendation is under evaluation
	Alternative practice under development	Company declares that an alternative practice to the recommendation is under development
	Declaration of alignment to another norm	Company only declares that it follows other law or norm although the company is not prevented to comply due to that specific law or norm.
	Declaration of future compliance	Company only declares that it will be compliant in the future.
	Empty Justification	Company provides an explanation that seems like a justification for its deviation, but which does not possess any explanatory power, or the company provides a commentary but no explanation whatsoever

	Pure Disclosure	Company only declares that it deviates from the code provision and may, in some cases, repeat words from the code recommendation. But no explanation is given.
	Unrelated to recommendation	Company provides an explanation that is unrelated to that specific code recommendation (sometimes it can be due to misinterpretation) or nonspecific, in many cases being related to the principle in general or other recommendation; or company provides just a copy of the explanation given for any other recommendation.
Description of Alternative Practice Company presents an alternative solution to the governance problem that the code provision addresses but does not provide any justification for having chosen the stated solution. It's a type of deficient explanation	Alternative practice in line with another norm	Company describes an alternative practice and declares that the stated practice is in line with other norm or law
	Alternative practice deemed in line with the Code	Company does not comply with the recommendation, because the firm has an alternative (corporate) policy or practice that it deems to be in line with the spirit of the code.
	Temporary alternative practice	Company describes an alternative practice and explicitly declares its intention to apply the recommended practice in the future, although the company does not present any justification for having chosen the current stated solution.
	Pure description of alternative practice	Company presents an alternative solution to the governance problem that the code provision addresses but does not provide any justification for having chosen the stated solution.
Principled justification Company justifies deviation with reference to problems with the specific code provision as such	Exemption deemed granted by another norm	Company justifies deviation by pointing out that other laws or norms grant the company exemption although the company is not prevented to comply due to that specific law or norm.
	Ineffectiveness / Inefficiency	Company declares that it does not apply the recommended practice because company believes the practice is ineffective or inefficient
	Practice judged redundant	Company declares that it does not apply the recommended practice because company believes the practice is redundant or that other practices are already enough to meet the recommendation objectives
Context-specific justification Company justifies deviation with reference to its specific situation	Board Composition or Size	Company justifies that the recommendation is not applicable or inappropriate to implement due to the board composition or size
	Size of Operations	Company justifies deviation with regard to the (small) size of its operations due to which the application of the code provision appears inappropriate or impossible.

Company Structure	Company justifies deviation by regarding the code provision as inappropriate or impossible to implement given its specific company structure, including the control characteristics of the company
Industry Specificities	Company justifies deviation with regard to the specificities of the industry and/or activities in which it is involved which means the code provision is inappropriate or impossible to implement.
Internal Standards	Company justifies that the recommendation is not applicable or inappropriate to implement due to internal standards
International Context	Company justifies deviation with regard to specific aspects of its international operations which means the code provision is inappropriate or impossible to implement.
Legal / Contract Requirements	Company justifies deviation, because it wishes to respect existing laws, contracts and/or agreements due to which the application of the code provision is inappropriate or impossible.
Other	Other company-specific justifications
Transitional	Company justifies deviation with regard to a transitional situation facing the company, as a consequence of which an application of the code has not been possible, yet or is temporarily not possible

Principled Justification

Principled justification are the explanations where the *"company contends that a provision does not reflect best practice"* (SEIDL, SANDERSON e ROBERTS, 2013) or that the recommendation does not bring any advantage for shareholders or other interest parties. In the Brazilian case, three sub-categories were found: (1) exemption deemed granted by another norm, (2) ineffectiveness / inefficiency and (3) practice judged redundant, the first and the third ones are specific to the Brazilian case.

In *Exemption Deemed Granted by Another Norm* companies claim that other Brazilian norm or law allows the company to be non-compliant or to follow a different practice, for example: *"These points are laid down in the By-law. The Company follows Novo Mercado rules, according to which there is no obligation to have an internal regulation for the board of directors. The attributions and functioning of the Board of Executive Officers are provided for in its bylaw (Chapter IV, Section III), so that the Company understands that this is sufficient to regulate matters involving the Board of Executive Officers* (recommendation 3.1.2)" or "*The Company does not have an*

internal audit area directly linked to the board. There is no legal or regulatory provision until the approval of the new rule of Novo Mercado on 03/05/2017 that granted a deadline until 2020 for companies already listed in the new market to adapt to the new rules. Being a listed company in the Novo Mercado, the Company will adapt in the foreseen period. The Company only adopts management or governance practices not required by law or regulation when it understands that its adoption creates value for the company. (recommendation 4.4.1)".

The category Ineffectiveness/Inefficiency has an equivalent sub-category in Seidl, Sanderson and Roberts (2013) study. In this case, companies object that the recommended practice is not effective or efficient: *"[...]The Company understands that the accounting rules regarding the independence of auditors, are detailed and critically focused on the identification of conflicts, and the stipulation of a specific mandatory timing in this case, without a rationale to justify it, may create an unnecessary or an innocuous limiter in case the 3-year limit is irrelevant given the high risk of self-review and loss of the necessary professional skepticism for such activity. Besides, the CAE may establish policies to hire employees and former employees of the independent audit firm that meet this criterion, if necessary. See CAE Internal Rules for more details* (recommendation 4.3.1)".

In *Practice Judged Redundant* company justifies that it believes the recommendation repeats requirements from other (sometimes higher) instances or that existing mandatory practices are sufficient to meet the recommendation objectives: *"In relation to the Recommended Practice, the Company does not have a manual for participation in general meetings, since the information necessary to facilitate and stimulate participation in general meetings is already provided in the administration proposal and in the ballot paper, when applicable. In this way, the Company understands that an additional document, repeating information, would not be useful to investors* (recommendation 1.3.1).

The differences in these sub-categories are very subtle and sometimes the explanations could be framed in a *Deficient Justification* or *Description of Alternative Practice* sub-category. However, the researcher decided for the present classification since the rejection of the code provision is strongly expressed in these explanations.

Context-Specific Justification

Context-specific justifications represent the genuine explanations expected from companies according to the comply-or-explain philosophy. In these explanations, companies provide justifications that are related to their particular circumstances and where application of the recommended practice is not optimal or is impossible. Nine categories were identified: (1) board composition or size, (2) size of operations, (3) company structure, (4) industry specificities, (5) internal standards, (6) international context, (7) legal / contract requirements, (8) other and (9) transitional.

Board composition or size is when companies justify that the recommendation is not applicable or inappropriate to implement due to the board composition or size. Recommendation 2.9.2, which requests exclusive board meetings for external members of the board, has some examples, for instance: *"The annual calendar does not provide for exclusive meetings for external directors without the presence of executives and other guests since the board of directors is composed entirely of independent and external directors. However, the Board of Directors holds exclusive meetings whenever necessary."* In *Size of Operations* companies justify that, due to the (small) size of their structure and operations, applying the provision isn't the best option nor practical: *"Due to the reduced company structure, there is no integration program of the new Board members. Presentations are held at the 1st meeting of the new member.* (recommendation 2.6.1)". Size represents one of the reasons regulators and interested parties have foreseen as adequate (EUROPEAN COMMISSION, 2014).

Another reason considered aligned to the comply-or-explain philosophy relates to *Company Structure*: *"Due to the characteristics of the Company, a mixed capital and state controlled company, the appointment of the CEO is made by the Controlling Shareholder, with the Board of Directors being responsible, according to the duties set forth in art. 30 of Copel's Bylaws, to elect, dismiss, accept resignation, substitute the Company's officers, and assign them duties. The Company also has a Disclosure and Evaluation Committee, which is a permanent statutory body, auxiliary to the shareholders, which will verify the compliance of the nomination and evaluation process of the Directors, tax advisors and members of statutory committees, under the terms of current legislation. The duties, operation and procedures shall comply with the legislation in force and shall be detailed by specific internal regulations (recommendation 2.5.1)".* In this case, the justification relates to the control

characteristics of the company. Another example is: *“EXPLAINS: BB does not have a Conduct Committee directly linked to the Board of Directors. However, it has State Ethics Committees in each State of the Federation and in the Federal District, with the following objectives: disseminating the ethical principles adopted by the Bank in the jurisdictions of the State, deciding on the application of guidance measures and sanctions, and proposing improvements in business processes involving corporate ethical precepts. Each State Committee is composed of three members, among them a representative elected by the officials [*...] (recommendation (5.1.1)*”.* Company’s *Internal Standards* are also used to explain deviations: *“The Company does not make contributions and donations.* (recommendation 5.5.1)”. In this case, the recommended practice is not applicable because of the company’s internal standard.

Companies sometimes justify deviation regarding their industry or international contexts. On *Industry Specificities* a company states: *“[...]The Board of Executive Officers implements and maintains effective mechanisms, processes and programs to monitor and disclose the Company's financial and operating performance. However, the Company's activities do not pose a risk to society and/or the environment, and therefore, risks of this order are not monitored by the Board of Executive Officers* (recommendation 3.1.1*)”.* Another company justifies deviation regarding its international equity market activities: *“Due to the trading of ADRs on the New York Stock Exchange, the Company's Fiscal Council has functions similar to those of an audit committee, as described in item 4.1. of the Internal Regulations of the Fiscal Council available on the Company's Investor Relations website. There is also an Internal Audit Department, whose current situation is described in item 5.1 of the Company's Reference Form published on the CVM's website on 08/28/2018* (recommendation 4.1.1)”.

In *Legal/Contract Requirements* company does not comply because it wishes to respect existing laws, contracts and/or agreements due to which the application of the code provision is inappropriate or impossible. This category was derived from Dutch’s (HOOGHIEMSTRA e VAN EES, 2011) categories *“Existing contracts argument”* and *“Legal argument”.* See for instance this explanation: “*EXPLAINS: As provided for in Law N 4.595/64 (article 21, paragraph 1) and in BB Bylaws (article 24), the President of the Bank is appointed by the President of the Republic, and it is not for the Board of Directors to maintain a succession plan for this position. However, it is important to highlight the succession plan for the other senior management positions*

of the Bank. Between May 2016 and December 2017, BB implemented the BB Managers Program in partnership [...] (recommendation 2.5.1)"

Transitional explanations take place when the company faces a temporary situation whereby application of the practice has not been possible yet. For example: *"BRF's Bylaws paragraph 2 of article 24 establishes that the CEO should not accumulate the position of Chairman of the Board of Directors, but authorizes, in the event of vacancy - exceptionally - the temporary accumulation of the positions of Chairman and Chief Executive Officer. This provision is in line with the provisions of the Novo Mercado Regulation. Currently, due to the vacancy in the position of CEO, the Chairman of the board is temporarily accumulating the role of Chief Executive Officer* (recommendation 2.3.1)". *Other* refers to company-specific situations that do not fit in any other sub-category: *"The Company has a percentage of 12.22% of its share capital in free float, and in the last 10 years no relevant negotiations were observed in relation to these securities; in case of negotiations, CVM's corporate law and normative instructions will be respected* (recommendation 5.4.1)".

In order to further illustrate and delineate the distinctive explanation categories, two recommendations are drawn from the Code and different explanations for each one of them are presented (see Table 4 and Table 5).

Table 4: Explanations for recommendation 3.3.1

3.3.1: "The CEO shall be yearly evaluated in a formal process conducted by the board of directors based on the verification of the achievement of the financial and non-financial performance goals established by the board for the company."

Type of explanation	Example
Deficient Justification	
Adoption of recommendation under evaluation	The Company does not have a formal evaluation process of the CEO, conducted by the Board of Directors. However, aiming at the continuous improvement of its corporate governance practices, the Company evaluates the possibility of implementing a Management Performance Evaluation Policy, in accordance with the practices recommended in the Brazilian Corporate Governance Code and in order to comply with the rules of B3's Novo Mercado.
Declaration of alignment to another norm	The Company has a process for evaluating the performance of the Board of Executive Officers, as a collegiate body, as well as the directors, individually considered, including the Chief Executive Officer, and which observes Federal Law 13.303 / 16.
Declaration of future compliance	The formal CEO performance evaluation process is being implemented by the Company.

Empty Justification	The CEO is periodically evaluated by the board of directors, including the evaluation in terms of monitoring the Company's system of financial and non-financial goals.
Unrelated to recommendation	The Bank will implement, as of the current fiscal year, an evaluation process for Statutory Directors and Committees.
Description of Alternative Practice	
Alternative practice deemed in line with the Code	Currently, the Company does not have a formal method to evaluate the CEOs by the Board of Directors, considering that the internal processes are well structured and fulfill this function. The Company has internal annual evaluations, based on the achievement of the goals of directors and executive officers, as follows: Management Cycle (November to January): done by annualizing the performance and delivery of each leader using the 9box methodology. Cycle of merit (March): remuneration and career progression based on the highlights of the management cycle. Additionally, there is the annual cycle of contracting definition and performance evaluation based on quantitative and qualitative targets, which supports payment of variable compensation.
Temporary alternative practice	The Company has a formal process of annual and individual self-assessments made by the members of the Board of Directors, who also evaluate the performance of the Board and the Board of Executive Officers, contemplating a questionnaire for each body. These questionnaires evaluate the Board of Directors and the Board of Executive Officers and their activities as collegiate bodies. However, EDP Brasil will include, in the next round of evaluations carried out by the board of directors, the evaluation of the CEO, under the terms required in this recommendation.
Pure Description of Alternative Practice	The Company's performance evaluation cycle for the leadership level (manager positions up) happens every two years. The Chief Executive Officer is evaluated by the members of the Board of Directors in the same tool as the other managers. The Company's evaluation is based on organizational competencies, as well as a set of KPIs (financial and non-financial) for all leadership.
Context-specific justification	
Size of Operations	The Company does not adopt a formal procedure due to a very small administrative structure and due to the transparency applied in practice.
Company Structure	The Company does not have a CEO. The Board of Directors is composed of Chief Financial Officer, Commercial Officer, Administrative Officer and Investor Relations Officer.
International Context	The Chairman of the Board of Directors annually conducts the formal evaluation of the members of the Board of Executive Officers, including the CEO. This evaluation also considers financial and non-financial results, thus complying with the Code. Although the other members of the Board of Directors do not currently participate in this evaluation, the process is aligned with the methodology and systems adopted globally by the controlling group, ENGIE, following good practices of people management and performance.

Transitional	The analysis of the results of the Board of Directors is carried out by the Board of Directors based on indicators established in the Company's strategic planning, which guides all areas of the company, with the purpose of improving their performance and generating results. Considering that the CEO was elected in 2018, and the necessity of performing his duties at least a year prior to the application of the evaluation, the Company must implement said process by June 2019. Concerned with methodology to be applied in this process, a specialized company will be hired for the evaluation.

Table 5: Different explanations for recommendation 1.5.1

1.5.1: The company's by-laws should establish that:
(i) transactions in which the share control is sold, directly or indirectly, must be accompanied by a public offering for the acquisition of shares ("OPA") addressed to all shareholders at the same price and conditions as those obtained by the selling shareholder;
(ii) managers must express their views on the terms and conditions of corporate reorganizations, capital increases and other transactions that give rise to a change of control, and determine whether they ensure fair and equitable treatment of the company's shareholders.

Type of explanation	**Example**
Deficient Justification	
Alternative practice under development	…the Company does not have mechanisms that require its management to express its opinion on the terms and conditions of corporate reorganizations, capital increases and other transactions that give rise to a change of control, including whether they ensure fair and equitable treatment of shareholders. The Company intends to include in the Board of Directors internal regulations that the board should manifest itself in case a corporate event with this bias is verified; this regiment is in the preparation phase and will be finalized until the Company's Ordinary General Meeting to be held in 2021, pursuant to the Novo Mercado Regulation.
Declaration of alignment to another norm	The Company's Bylaws do not contain specific provisions regarding the obligation to hold a Public Offer for Acquisition of Shares (OPA) in case shareholder control is sold. Accordingly, the rules related to the public offerings for the acquisition of shares set forth in article 254-A of Law 6404/76 are applicable to the Company. See item 18.2 of the Company's Reference Form.
Empty Justification	With respect to item (i), the Company adopts the recommended practice in its entirety. With regard to item (ii), there is no statutory provision. However, administrators appreciate the terms and conditions when proposing corporate reorganizations or capital increases outside the authorized capital limit, for approval by the shareholders at general meetings.
Pure Disclosure	The Company's Bylaws provide for the sale of the share control to be accompanied by a public offering for the acquisition of shares addressed to all shareholders of the Company at equal price conditions (i) but does not provide for the management to express their views on the subject (ii).
Unrelated to recommendation	The company does not have defense mechanisms to avoid opportunistic acquisition.

Description of Alternative Practice	
Alternative practice in line with another norm	The Company follows the general rule set forth in article 254-A of the Brazilian Corporate Law (80% as minimum price) regarding the parameters of the takeover bid in case of change of control. Any such OPA must be analyzed and approved at the Shareholders' Meeting and by the Board of Directors, and previously approved by ANEEL [Electric Power National Agency] and CVM.
Alternative practice deemed in line with the Code	With respect to item (ii), the Company's Bylaws stipulate in items (xvii) and (xviii) of article 16 that the Company's Board of Directors must express its opinion on proposals for the transformation, opening of capital, merger, incorporation of shares or spin-off of the Company and/or its subsidiaries, as well as its liquidation or dissolution, and also on capital increase and/or issuance of Company shares, meaning, therefore, the management's obligation to comment on such transactions, in all situations, including those that give rise to the change of control. Although it is not stated in the Company's Bylaws that the directors must indicate whether they ensure fair treatment of the Company's shareholders, the Company understands that this requirement is observed, since (a) the directors must observe the fiduciary duties established in the Brazilian Corporate Law ("Lei das SA"), notably loyalty and diligence, in the best interest of the Company, which means ensuring fair and equitable treatment to the Company's shareholders; as well as (b) the directors have the power to deliberate on such transactions delegated by the General Shareholders' Meeting and, therefore, comply with the common decision of the Company's shareholders.
Pure Description of Alternative Practice	The Company partially adopts the practices described in items (i) and (ii) and, therefore, presents its justification below: Item (i): First, it should be clarified that if the Company's share control is directly or indirectly disposed of, acquirer must make a public offering for the acquisition of shares as a result of the control sale (OPA Tag Along), obliging it to acquire the shares with voting rights, pursuant to the Brazilian Corporate Law and CVM Instruction 361/02. Accordingly, as mentioned in item 1.1, the Company's Bylaws guarantee holders of common shares (ON) not members of the controlling block to receive 100% of the amount paid per common share held by the controlling shareholders, in case of OPA Tag Along, adopting the practice set forth in item 1.5.1 (i) of the Corporate Governance Code. However, the Company partially adopts the practice of this item (i), since the holders of preferred shares (PN) are entitled to tag along 80% of the amount paid to the controlling shareholders in the disposal of control of the Company, once that such shareholders, by virtue of the bylaws, are already entitled to rights and financially superior advantages than those conferred to holders of common shares - for example, dividends and / or interest on own capital attributed to preferred shares is 10% higher than that attributed to common shares. Item (ii): Although there is no statutory clause determining that the directors express their opinion on the terms and conditions of transactions that imply a change of control, the Internal Regulation of the Board of Directors, in item xxiii of Article 2, mentions that the Board of Directors should express its opinion on corporate events that may give rise to the change of control, stating whether they ensure fair and equitable treatment to the Company's shareholders. In view of this, the Company understands that it partially adopts the practice of this item (ii), due to the fact that said forecast is not statutory, but will be duly observed and practiced, when applicable, by the members of the Company's Board of Directors.

Principled justification	
Exemption deemed granted by another norm	The company's by-laws comply with the criteria established in the Brazilian Corporate Law and the Novo Mercado Regulation, which require that the directors must express their views on the terms and conditions of corporate reorganizations, capital increases and other transactions that give rise to a change of control, and to establish whether they provide fair and equitable treatment to the Company's shareholders, therefore, the Company does not have this provision expressed in its bylaws, even though the practice is in line with the legal provision.
Ineffectiveness / Inefficiency	With respect to item (i), the Company fully adopts the recommended practice, pursuant to Article 10 of the Bylaws. Regarding item (ii), although directors, in the fulfillment of their fiduciary duties, propose and evaluate the terms and conditions of corporate reorganizations and capital increases before recommending shareholders' approval at General Meetings, there is no provision, in the Company's Bylaws, for the directors to express their opinion on whether or not the operations ensure fair and equitable treatment of the Company's shareholders. Finally, it should be noted that, because the Code does not specify what "other transactions" should be assessed by the Board of Directors, the Company does not have the necessary information to confirm whether or not its management complies with the guidance.
Practice Judged Redundant	The Company's Bylaws provide for the provisions in item (i). The Company understands that there is no need for the By-Laws to provide for the provisions of item (ii), since, as regards to the change of control, the Company complies with the rules of the Novo Mercado and B3 Regulations, so that the rights of the minority are already protected by applicable laws and regulations.
Context-specific justification	
Company Structure	As provided in art. 8 of the Bylaws, the State of Minas Gerais will always have the majority of shares with voting rights. Therefore, transfer of ownership control is not possible.
Legal / Contract Requirements	Banrisul's bylaws, in its Article 85, ensure 100% tag along for all shareholders, fully complying with the provisions of item 1.5.1(i). With respect to item 1.5.1(ii), the change of control of Banrisul is subject to the provisions of § 22 of article 22 of the Constitution of the State of Rio Grande do Sul, which is reflected in Article 85 of the Bylaws of the Company.

In line with the findings of other countries' studies, the majority of explanations are not context-specific (less than 10%). See Table 6 for the frequency of types of explanations. RiskMetrics Group (2009) finds that, for 18 European countries, 34% of the explanations can be classified as specific, while in Germany (SEIDL, SANDERSON e ROBERTS, 2013) only 23.8% of explanations fall into this category. The only exception is UK reporting 52.2% (SEIDL, SANDERSON e ROBERTS, 2013) of specific explanations. The maturity of the code, given UK is one of the first countries to apply the comply-or-explain philosophy, may partially explain this difference, however other reasons cannot be excluded since many other country and code

characteristics, such as the content of provisions, regulatory environment, market development, can influence this outcome. *Company Structure, Transitional* and *Size of Operations* represent the majority of company-specific justifications. Akin to UK and Germany findings, few explanations were related to company's industry and international contexts. The low level of company-specific reasons may cast doubt on the effectiveness of the comply-or-explain philosophy and heighten a heated debate as to whether regulatory enforcement is necessary, as suggested by some scholars (MACNEIL e LI, 2006; HOOGHIEMSTRA e VAN EES, 2011; KEAY, 2014).

Table 6: Distribution of types of explanations

Type of explanations	**Distribution**
Deficient justification	*45.43%*
Adoption of recommendation under evaluation	1.69%
Alternative practice under development	1.05%
Declaration of alignment to another norm	2.97%
Declaration of future compliance	12.80%
Empty Justification	15.76%
Pure Disclosure	7.33%
Unrelated to recommendation	3.84%
Description of Alternative Practice	*41.59%*
Alternative practice in line with another norm	3.32%
Alternative practice deemed in line with the Code	5.18%
Temporary alternative practice	7.27%
Pure description of alternative practice	25.83%
Principled justification	*3.49%*
Exemption deemed granted by another norm	0.47%
Ineffectiveness / Inefficiency	0.64%
Practice judged redundant	2.39%
Context-specific justification	*8.32%*
Board Composition or Size	0.47%
Size of Operations	1.05%
Company Structure	2.79%
Industry Specificities	0.52%
Internal Standards	0.23%
International Context	0.29%
Legal / Contract Requirements	0.76%

Other	0.70%
Transitional	1.51%
Explains but actually practices	*1.16%*

Deficient Justifications account for over 45% of the justifications, RiskMetrics Group (2009) finds that *"Invalid"* and *"General"* explanations describe 35% of justifications provided by European countries. The majority of Brazilian deficient explanations fall into the *Empty Justification* sub-category, which means that a large proportion of the companies provide boilerplate explanations. Empty justifications represent more than 15% of the explanations, a higher fraction than found in UK and Germany (9.4 and 8.8% respectively). The second most common deficient sub-category is *Declaration of Future Compliance.* Surprisingly the third most frequent deficient justification is *Pure Disclosure*. Since Brazilian companies fulfill a separate report where companies are obliged to select an answer ("N", "P" or "S") and providing no explanations is not an option, one would expect companies to provide at least some kind of commentary instead of just repeating that they are not compliant.

Even though describing an alternative solution adopted to satisfy the code seems to be appreciated by stakeholders (INWINKL, SOFIA e WALLMAN, 2015) and encouraged by regulators as an important part of a suitable explanation (FRC - FINANCIAL REPORTING COUNCIL, 2012; EUROPEAN COMMISSION, 2014; GT INTERAGENTES, 2016), this type of explanation still falls short to provide the genuine, context-specific justification aligned to the comply-or-explain philosophy. In the Brazilian case, almost 42% of explanations describe alternative practices while in UK and Germany this category accounts for 16.7% and 8.3% of the justifications, respectively. This difference may be attributed to the fact that in the Brazilian code (GT INTERAGENTES, 2016), a large share of the principles (see the "guidelines" of the Brazilian principles), highlights the importance of describing mitigating or alternative solutions.

Principled Justifications represent only 3.5% of explanations provided, which may indicate that companies are, for the most part, not rejecting the Brazilian code recommendations. Nevertheless, it is interesting to note that the majority of principled justifications is under the sub-category *Practice Judged Redundant.* This may be explained by the fact that, as mentioned before, Brazilian companies are subject to many different regulations and requirements, such as the requirements from

BM&FBovespa listing segments, the Reference Form and innumerous laws. If we consider all the explanations that fall into categories where another law or norm is mentioned (*Declaration of Alignment to Another Norm, Alternative Practice in Line with Another Norm, Exemption Deemed Granted by Another Norm* and *Practice Judged Redundant*), in almost 10% of the explanations the company explicitly declares that their practices are aligned to another requirement.

Another interesting finding is the fact that in 26.2% of the explanations, companies state they are still adjusting their current practices and in the near future they will comply or have an alternative procedure (*Adoption of Recommendation Under Evaluation, Declaration of Future Compliance, Alternative Practice Under Development, Temporary Alternative Practice* and *Transitional*). This finding may be explained by the newness of the Brazilian code, which was put into effect only in 2016. Still, a large proportion of the explanations mention their future compliance is related to the requirements' deadline of another regulation (for example, Novo Mercado new rules), which may be a further indication that Brazilian companies are not paying due attention to the Brazilian code.

4.2 Hypotheses Testing and Descriptive Statistics

4.2.1. Index Development

For the sake of capturing the level of compliance plus the quality of explanations provided by Brazilian companies I developed four different indices aiming to discern whether some changes in the way explanations are graded may affect regression outcomes. Although is pretty clear that, for instance, context-specific justifications should be better graded than deficient justifications or a description of alternative practice, the same cannot be said when, for example, comparing an explanation describing an alternative practice against a principled justification or a declaration of future compliance as opposed to no explanation at all. Index A is described in Table 7, the other three indices are presented at APPENDIX D and omitted here for brevity.

To create the indices other studies were taken into consideration (ARCOT e BRUNO, 2007; ARCOT e BRUNO, 2011; HOOGHIEMSTRA, 2012). Hooghiemstra (2012) for instance, gives 4 points for compliance or firm-specific explanations, 2 points for a generic explanation and 1 point for no explanation, a grading system that attributes the highest score to full compliance or context-specific explanations and progressive lower scores to less informative explanations. Although such index is a

good start point, it fails to capture the particularities of the Brazilian case, including the fact that Brazilian companies may indicate that they are partially (“P”) compliant with a recommendation. Therefore, building on that, completely new indices were developed to try to account for the diversity of explanations provided by Brazilian companies.

Taking Index A as an example, I give 6 points in case of compliance with a provision and 6 points as well if the non-compliance is explained in detail (context-specific). I give 5 points when the company explains and actually complies with the recommended practice (the company is penalized by 1 point). Explanations where the company describes an alternative practice or gives a principled justification are graded 4, in case the company partially complies with the recommendation, or 1, in case the company does not comply entirely. Finally, in case the company provides a deficient justification I give 3 points for partial compliance and 0, for non-compliance. An additional 1 point is given in case the explanation indicates future compliance (*Declaration of future compliance and Temporary alternative practice*).

Index B differs from Index A in the following aspects: I assign one more point for companies describing alternative practices or providing principled justifications and I do not penalize companies that explain but actually practice. The most important difference between Index A and indices C and D is that, for the last two, context-specific justifications or compliance are graded 7 (as opposed to 6 in Index A). In contrast to indices A and B, indices C and D present a higher score for description of alternative practices than principled justifications. In Index D I give no additional points for indication of future compliance.

Table 7: Description of the adherence/disclosure index

Index	Compliance	Base score	Explanation provided	Additional score by type of explanation	Final score
A	S (yes)	6	-	-	6
	P (partial)	3	Context-Specific	3	6
		3	Explains but practices	2	5
		3	Alternative practice	1	4
		3	Principled	1	4
		3	Deficient	0	3
	N (no)	0	Context-Specific	6	6
		0	Explains but practices	5	5
		0	Alternative practice	1	1
		0	Principled	1	1

	0	Deficient	0	0
		*Additional for indication of future compliance**		1
		MAX SCORE BY COMPANY		258

** For explanations in the sub-categories Declaration of Future Compliance and Temporary Alternative Practice*

4.2.2. Descriptive Statistics

For the regression analysis the full sample of 108 reporting companies was utilized. In the full sample (Table 8), the studied variable (Index A), in its percentage form, ranged from 29.07% to 98.84%, with an average (median) of 79.58% (81.40%). The alternative scores' mean and median are presented in Table 8.

The mean (median) of the share of the largest shareholders (VOT1) is 45.26% (48.74%) and indicates that ownership is concentrated, as expected. 88% of the reporting companies were required by CVM to report (OBLIG). Only 11% of the companies are state-owned (STATE). Companies that issue ADRs represent 19% of the sample while companies listed in the Novo Mercado and Level 2 listing segments account for 73% of the sample. Additional descriptive statistics are found on APPENDIX E.

Table 8: Summary statistics for the full sample

Variable	**Mean**	**Median**	**Maximum**	**Minimum**	**Std. Dev.**	**Normality**	**N**
Panel A: Percentage indices alternatives							
INDEXA	79.58	81.40	98.84	29.07	11.78	4.31**	108
INDEXB	82.44	84.11	98.84	31.40	11.26	5.143**	108
INDEXC	79.96	81.73	98.67	29.90	11.71	4.301**	108
INDEXD	81.04	83.39	98.67	31.23	11.81	4.552**	108
Panel B: Dummy variables							
OBLIG	0.88	1	1	0	0.33	-	108
STATE	0.11	0	1	0	0.32	-	108
D_ADR	0.19	0	1	0	0.39	-	108
D_NMN2	0.73	1	1	0	0.45	-	108
Panel C: Explanatory and control variables							
LNSize	16.37	16.37	21.20	9.85	1.88	3.10**	108
VOT1	45.26	48.74	100.00	0.00	27.24	2.656**	108
Q	1.65	1.25	12.03	0.62	1.33	8.2**	103
ROA12	2.40	3.99	29.05	-189.18	20.37	8.953**	108
LevTotal	70.88	54.55	1192.27	0.00	121.54	9.218**	108
BETA	0.86	0.80	3.20	-1.00	0.63	1.33*	101

VOL	36.66	34.60	68.20	17.10	10.24	2.589**	100

4.2.3. Regressions

Linear regression models were estimated on the four indices. The results shown in Table 9 are for Index A, regression results for the indices B, C and D are presented on APPENDIX F. For the other three indices, equivalent results were found and models where the industry dummies were used yielded no different results; the findings with industry dummies are omitted here for brevity and are available with the author. BETA and VOL have a 0.40 correlation and were not used together in the regression models (correlations for other variables are available with the author). ADR and NMN2 are proxies for corporate governance practices and used interchangeably in the models. ROA12 and Q are proxies for performance and are also not used in the same model.

Table 9: Linear regression results, Index A

	Model 1 Coef/Sig	**Model 2** Coef/Sig	**Model 3** Coef/Sig	**Model 4** Coef/Sig
OBLIG	7.4	7.79	7.3	7.61
STATE	5.45**	5.30**	5.54**	5.28**
ADR	1.77	2.24	-	-
NMN2	-	-	0.53	0.95
LNSize	2.18**	1.99**	2.46**	2.4**
VOT1	-0.06*	-0.07**	-0.05	-0.06*
Q	2.63**	-	2.66**	-
ROA12	-	0.18	-	0.17
LevTotal	0.01	0.02	0.01	0.02
BETA	0.57	-	0.62	-
VOL	-	0.03	-	0.04
Const	34.63**	39.62**	29.56**	32.14**
F	6.36**	5.03**	6.45**	5.05**
R2	0.29	0.26	0.29	0.25
Ramsey RESET F	0.73	0.36	0.63	0.35

** significance at the 10% level*

*** significance at the 5% level*

The results in models 1, 2, 3 and 4 show support for the hypothesis that firm size is related to adherence/disclosure quality. Specifically, there is an indication of a significant (at the 5% level) positive association between LNSize and Index A, which

is in line with prior Brazilian studies but not aligned to the Dutch study (HOOGHIEMSTRA, 2012) where no correlation was found. Models 1 and 3 find support for the hypothesis that performance is related to adherence/disclosure. Tobin's Q (Q) shows a significant positive correlation at the 5% level. However, models 2 and 4 find no significant correlation between Return on Assets (ROA12) and Index A. Equivalent positive associations between performance and LNSize, Tobin's Q and ROA12 are found for the other three indices.

Models 1, 2 and 4 show indicative support for the hypotheses that ownership concentration is associated with the level of companies' adherence/disclosure on the code. They show a significant negative relationship between VOT1 and Index A, which goes against Dutch companies' results (HOOGHIEMSTRA, 2012) but is in line with the Brazilian reality. Similar results are found for the other indices, except that a significant negative association between VOT1 and Index B is shown in model 3 as well. Regarding the predicted association between adherence/disclosure quality and leverage, the results reported in the four models do not indicate any statistically significant relationship between LevTotal and all four indices.

As far as control variables are concerned, the only significant association is found for state-owned companies. All four models find a positive significant (at the 5% level) correlation between state-owned companies (STATE) and Index A. Significant positive correlations are also found when we look at the other three indices' regression results.

4.2.4. Robustness check

In order to validate the findings presented above, I alternatively estimated a linear regression on a gross index (GIndex) similar to the one found in IBGC research (INSTITUTO BRASILEIRO DE GOVERNANÇA CORPORATIVA, 2018). This index measures straight compliance rates, the percentage of "Yes" (S) answers each company provides. That means partial compliance (P) or different types of explanations are not accounted for. Like indices A, B, C and D, the answers for the recommended practices where a "Not Applicable" option was available and for recommendation 5.5.2 were not considered in GIndex.

Table 10 presents results for the gross index. Comparing these results from those of Index A (Table 9), we can notice that results are very similar. On top of the correlations found for Index A and the other three indices developed, GIndex also

shows significant correlations with ROA12 and BETA. GIndex and ROA12 are positively correlated (5% level), which means that companies with a better 12-month return on assets tend to strictly comply more. GIndex and Beta are negatively correlated (10% level).

Table 10: Linear regression results, GIndex

	Model 1 Coef/Sig	**Model 2** Coef/Sig	**Model 3** Coef/Sig	**Model 4** Coef/Sig
OBLIG	-2.95	-2.73	-3.02	-2.87
STATE	-1.14	1.17	-1.19	1.14
ADR	1.23	1.76	-	-
NMN2	-	-	0.21	2.18
LNSize	3.00**	2.82**	3.19**	3.29**
VOT1	-0.06*	-0.07**	-0.06*	-0.06*
Q	3.33**	-	3.35**	-
ROA12	-	0.33**	-	0.32**
LevTotal	0.05	0.07*	0.05	0.06
BETA	-2.09*	-	-2.07*	-
VOL	-	0.1	-	0.12
Const	33.14**	31.00**	29.98**	21.37
F	8.60**	5.95**	8.38**	5.72**
R2	0.3	0.24	0.3	0.24
Ramsey RESET F	0.63	0.26	0.42	0.38

** significance at the 10% level*

*** significance at the 5% level*

However, the most important difference between indices A, B, C and D and GIndex is that GIndex has no significant correlation with state-owned companies (STATE), which is in line with prior studies in Brazil (SILVEIRA e BARROS, 2008; SILVEIRA, LEAL, *et al.*, 2010). A possible explanation for this difference is the fact that state-owned companies are more regulated, therefore, in many cases, they are not *allowed* to comply with determined provisions simply because legislation does not permit compliance or because their structure prevents them to comply.

This makes state-owned companies more inclined to provide context-specific explanations (increasing their indices A, B, C and D scores), specially explanations falling into the categories *Legal / Contract Requirements* and *Company Structure*. For example, one state-owned company provides the following explanation for

recommendation 2.5.1 that requires companies to maintain a succession plan for the CEO: *“The Company, as a joint-stock company, does not have succession plans for senior management. The Company has a Statutory Members Eligibility Policy, whose purpose is to define the principles, criteria and prohibitions to be observed for the appointment of members of the Board of Directors, the Fiscal Council, the Executive Board and the Statutory Audit Committee of COPASA MG.”* A state-owned bank provides a similar justification for the same recommendation: *“The Company has a succession policy established in accordance with parameters defined by Resolution No. 4,538 / 2016 of the National Monetary Council. Regarding the CEO, the choice is made by the Controlling Party following the criteria established by the legislation and specific rules to which the bank as a financial institution is subject to. As to the succession, it is important to note that the tenure of a financial institution administrator is subject to prior approval by the Central Bank of Brazil, whose proceeding follows a specific procedure established by rules of the National Monetary Council, and that the term of the replaced administrator extends until the tenure of the elected, thus avoiding risks for the continuity of the Company's management.”*

State-owned companies score better on indices A, B, C and D apparently because they explain better or have more valid justifications, since legal constraints and structural requirements are considered valid justifications under the comply-or explain philosophy, and probably not because they have superior practices than private-owned companies.

5 CONCLUSION AND AREAS FOR FUTURE RESEARCH

This study proposed to investigate the first year of comply-or-explain disclosure in Brazil and, as a consequence, how companies reacted to the introduction of this form of soft law. Using qualitative content analysis (SCHREIER, 2013; BERGMAN, 2015; MAIER, 2018) a first approach in this study analyzed the content and the quality of explanations provided by Brazilian companies in case of non-compliance adopting, as a starting point, previous studies' taxonomies on the matter and expanding those works. Following the developed taxonomy of explanations, this study empirically examined the association between a number of firm characteristics and the quality of governance practices and disclosure experienced by companies in Brazil. I hypothesized that an Index measuring adherence/disclosure quality is positively related to firm size and performance, and negatively related to leverage and ownership concentration.

I find that companies in Brazil provide, for the most part, uninformative explanations not aligned to the comply-or-explain philosophy, showing a great emphasis in describing alternative practices to the provision but not giving reasonable explanations for not following the recommendation, which confirms and expands the findings of studies in other countries (ARCOT e BRUNO, 2006; RISKMETRICS GROUP, 2009; HOOGHIEMSTRA e VAN EES, 2011; SEIDL, SANDERSON e ROBERTS, 2013). An important practical implication may be that results further fuel heated arguments on the effectiveness of the comply-or-explain principle, as some authors suggest the need of a regulatory body (KEAY, 2014) and others that recommendations of the codes should be migrated into hard law (MACNEIL e LI, 2006). However, it is still too early to judge the outcomes of comply-or-explain in Brazil since this is the first year when companies reported.

In that sense, this study can be of great help for practitioners, since it is identified where the explanations fail (and various examples of the types of explanations are presented) and companies can improve their justifications with assistance of regulatory bodies, shareholders and market-wide monitors, such as the IBGC, that may be incentivized by this study to play a more active role in the future, both as guides and monitors. RiskMetrics Group (2009) argue that *"the comply-or-explain regime should*

not be abandoned. It should be strengthened" and despite mixed results, some articles show that companies that explain better their deviations are better governed, which indicate that these companies seem to take the time to really evaluate their governance choices.

Like other authors (ARCOT, BRUNO e FAURE-GRIMAUD, 2010; INWINKL, SOFIA e WALLMAN, 2015) I argue that comply-or-explain should be termed comply-and-explain or apply-or-explain since both compliance and context-specific explanations are valid in light of the philosophy and explanations should not be seen as second to compliance. Besides, perhaps more importantly, I argue that explanations should also be provided by companies in case of compliance, a propostition that appeared to have been partially captured by the Brazilian code since companies are required to comment on the application of determined provisions.

The empirical examination finds evidence suggesting that the quality of adherence/disclosure of Brazilian companies is positively associated with firm size and Tobin's Q, as expected. I also find a negative association between ownership concentration and adherence/disclosure quality, which is in line with prior studies in Brazil (BARROS, DA SILVEIRA, *et al.*, 2015).

State-owned companies show a positive correlation with the adherence/disclosure index. However, when testing for a gross index (GIndex) that measures strict compliance to code recommendations I find no relationship between this index and state-owned companies. This result can be explained by the fact that state-owned companies have more valid reasons to depart from recommendations as a function of their more regulated environment, such as *Legal / Contract Requirements* and *Company Structure* justifications, and not by contending that state-owned companies are better governed.

In sum, the results of this study suggest that most companies do not properly explain deviations from the Brazilian corporate governance code, and that certain firm characteristics relating to firm size, ownership concentration and performance are associated with a firm's decision to provide either generic and uninformative explanations, or more context-specific explanations. It's important to notice that no definitive conclusions can be drawn on this empirical analysis considering only one year was analyzed.

I invite researchers to expand this work by evaluating Brazilian companies' report on comply-or-explain in the future. A longitudinal study in the coming years can

enlighten our understanding of how companies deal with the code, investigating the relationship between the compliance rates and the quality of explanations can also expand our view on the determinants of good quality reports on the code.

Like all such studies limitations can also serve as an agenda for future research. First, I did not examine firm's comments on compliance. The analysis of such comments can bring unforeseen results as one might find that companies that state compliance are not compliant at all. For example, correlation between Index A and GIndex is high. This is expected because a great part of Index A is composed by GIndex itself. The more companies answer "Yes" the more this correlation will hold true. By evaluating the commentaries given in case the company answers "Yes" a researcher may be able to infer that the company is not really compliant despite its formal answer, which could make these indices depart from each other and may be a great avenue for future research on the Brazilian code. Another point is that I did not check for the veracity of explanations. A comprehensive study of companies' public information, such as the Reference Form, can strengthen the results of this study.

A final aspect of the present study worth mentioning is the qualitative judgment of the explanations and the consequent subjectivity, which I tried to minimize by using objective criteria and discussions with another researcher. Nevertheless, it is believed that another researcher's point of view would not alter the analysis significantly.

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APPENDIX A

Table 11: Summary of articles on the quality of 'comply-or-explain' disclosure

Article	Research Setting	Sample	Non-compliance disclosure measure
MacNeil and Li (2006)	UK	18 FTSE100 "serial noncompliers" in 2004	Not systematic
Pass (2006)	UK	70 non-compliance explanations in 2005 of 50 FTSE 250 randomly drawn companies	Acceptable/unacceptable explanations
Arcot and Bruno (2006)	UK	A total of 1287 company-year explanations from 245 non-financial companies for the period 1998-2004.	1. No explanation 2. General explanation: general or non-specific (to the company) 3. Inline explanation: general in nature but repeats words from the combined code provision. 4. Limited explanation: more information than General or Inline but still falls short of being unique to the company's circumstances. 5. Transitional explanation: transitional situation facing the company due to which it is temporarily not compliant. 6. Genuine explanations: judged as in the spirit of the combined code.
Arcot and Bruno (2007)			
Risk Metrics Group (2009)	18 EU Member States	1,141 explanations of 270 companies in 18 Member States in 2008	1. Invalid: explanations which only indicate a deviation without further explanation. 2. General: explanations of a general nature in which the company mostly indicates disagreement with the code provision without identifying a company specific situation 3. Limited: explanations in which companies do not explain the reasons for deviating from the code, but where additional information is given such as an alternative procedure 4. Specific: explanations relating to a specific company situation 5. Transitional: it's indicated that the code provision from which they currently deviate will be applied at a later stage

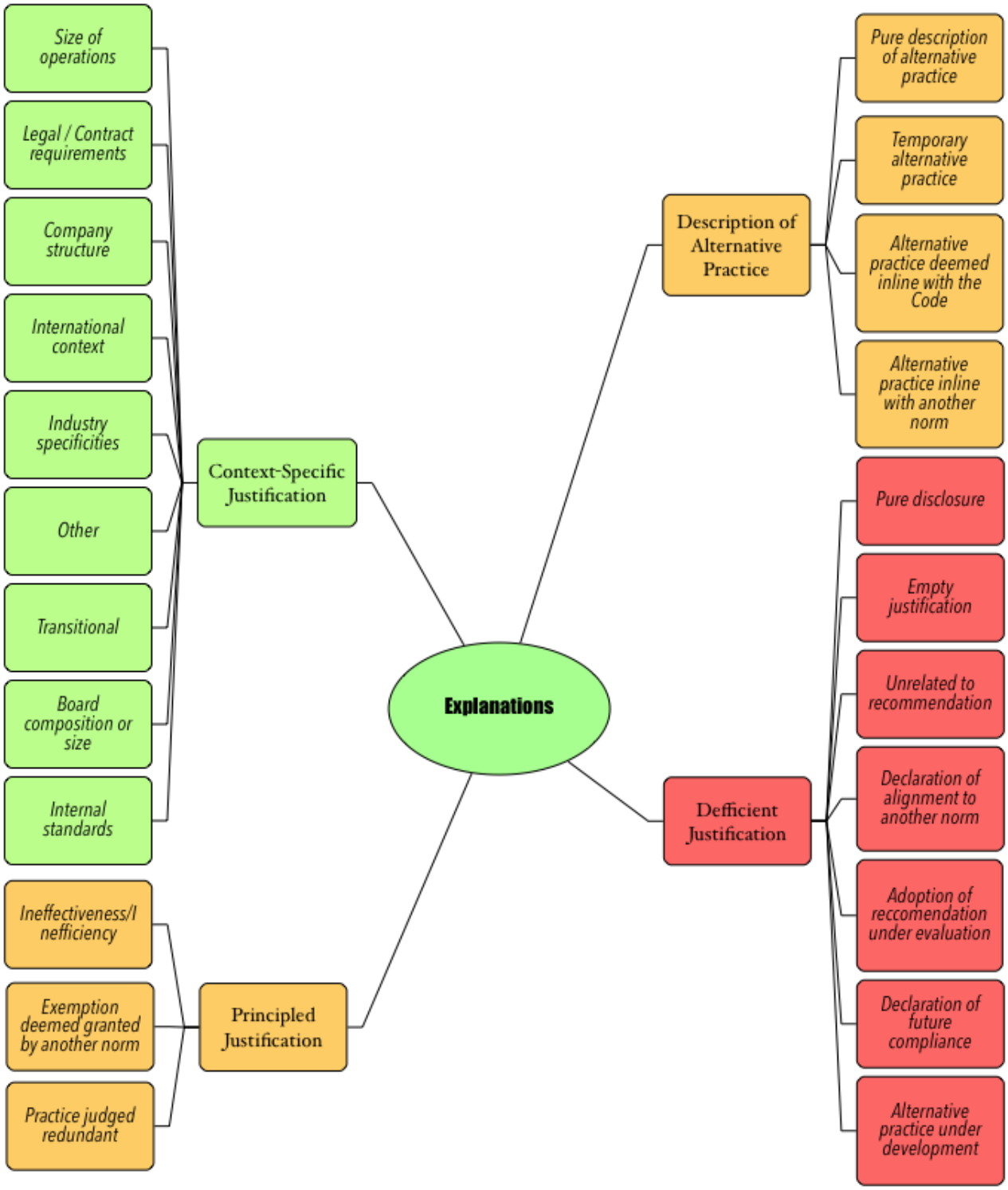
Arcot, Bruno and Faure-Grimaud (2010)	UK	A total of 1287 company-year explanations from 245 non-financial companies for the period 1998-2004.	(i) No explanation; (ii) General explanation; (iii) Specific explanation
Cankar, Deakin and Simoneti (2010)	Slovenia	Explanations provided by 26 comanies in 2004 and 2006	Not systematic
Hooghiemstra and Vas Ess (2011)	Netherlands	70 explained deviations in 2005 of 126 listed Dutch firms	T1 Existing contracts argument T2 Legal argument Content T3 Temporary deviation T4 Alternative policy in line with the Dutch code T5 Alternative, internal standard T6 Contextual argument: the firm argues that the provision advocates an approach that is unusual in the countries and/or industries in which the firm operates. T7 Size argument T8 Privacy argument: the firm argues that the provision addresses an area which is part of a director's private domain. T9 Miscellaneous arguments
Hooghiemstra (2012)	Netherlands	Longitudinal study of 331 firm-year observations of 85 Dutch listed firms 2005-2009	Score based on (i) No explanation (1 point); (ii) Generic explanation (2 points); (iii) Firm-specific explanation (4 points)

Seidl, Sanderson and Roberts (2009 and 2013)	UK and Germany	715 non-compliance explanations in 2006 of 257 listed companies in Germany and UK	1. Deficient justification: company discloses deviation without providing reasons. Deviations may be either temporary or persist over time and are not aligned with the functioning of the comply-or-explain code regime. Pure disclosure: Company only declares that it deviates from the code provision. No explanation is given. Description of alternative practice: Company presents an alternative solution to the governance problem that the code provision addresses but does not provide any justification for having chosen the stated solution. Empty justification: Company provides an explanation that seems like a justification for its deviation, but which does not possess any explanatory power. 2. Context-specific justification: company justifies deviation with reference to its specific situation. These are considered genuine explanations and aligned with the comply-or-explain philosophy Size of company or board Company structure International context of company Other company specific reasons Industry specificities Transitional: Company justifies deviation with regard to either (a) the novelty of the code provision or (b) the fact that the company is a new entrant to the particular stock exchange, as a consequence of which an application of the code has not been possible, yet. 3. Principled justification: company contends that a provision does not reflect best practice and justifies deviation with reference to problems with the specific code provision. Effectiveness/ efficiency: Company justifies deviation by pointing out that an application of the code provision will be sub-optimal generally—not just for its own operations General implementation problems Conflicts with laws or societal norms

Shrives and Brennan (2015)	UK	646 explanations for non-compliance on two accounting periods (2004/5 and 2011/12) of FTSE350 companies	1. Location: evaluate whether explanations are given as a part of a corporate governance statement, subsumed within another part of the annual report and therefore more difficult to locate or dispersed throughout the corporate governance statement or annual report. 2. Comprehensiveness: analyze whether explanations can be easily recognized and correctly related to their respective labels 3. Mimetic behavior: examines the extent to which companies appear to copy other companies' explanations in relation to the code provision which requires that the roles of chair and chief executive not to be exercised by the same person 4. Length: encompasses subcategories identified on the basis of the number of words contained 5. Complexity: analyzes legibility and use of passive voice, the latter emphasizes the risk that non-compliance will be attributed to no one in particular and thus readers are unlikely to know anything about the processes that have led to non-compliance. 6. Specificity: this category encompasses three sub-categories, identified as specific (delivers details regarding non-application of corporate governance principles and contains the reasons for deviating), general (does not strive to refer to specific company conditions) and unsatisfactory (no reason is provided and there is a lack of any explanation thereof whatsoever). 7. Attestation: this category examines the extent to which auditors see an absence of application of corporate governance code principles as well as of company explanations and subsequent acknowledge their findings in their respective reports.
Rose (2016)	Denmark	155 companies reporting on the fiscal year 2010	Explains/Explains poorly
Bradbury, Ma and Scott (2018)	Australia	Explanations of 130 firms for not having na audit committee in 2011	4 types of non-compliance explanations 1. Firm Size 2. Board Size 3. Complexity 4. Efficiency

APPENDIX B

Figure 1:Taxonomy of explanations map



APPENDIX C

Table 12: Examples of each category of explanation

Categories of explanation	Sub-categories of explanation	Examples
Deficient justification Company discloses deviation without providing reasons for the deviation	Adoption of reccomendation under evaluation	A Aliansce não possui um plano estruturado de sucessão do diretor-presidente, mas está avaliando a sua elaboração. (recommendation 2.5.1)
		A Companhia não possui até o momento mecanismos de avaliação de quaisquer órgãos ou comitês que compõem a estrutura administrativa da Companhia, conforme explicitado no item 12.1 do Formulário de Referência. A Companhia está avaliando a implementação de um processo que avalie os membros do CA. (recommendation 2.4.1)
		Atualmente tais reuniões não estão previstas no Regimento Interno do Comitê de Administração. A Companhia está reavaliando tal documento, e avalia a aplicação de tal prática. (recommendation 2.9.2)
		Atualmente, a Companhia não adota mecanismos de administração de conflitos de interesse nas votações submetidas à assembleia geral. Entretanto, a Companhia está discutindo seus procedimentos internos a fim de verificar a aplicabilidade de mecanismos com o objetivo de receber e processar alegações de conflitos de interesses e de anulação de votos proferidos em conflito. (recommendation 5.2.3)
	Alternative practice under development	A Companhia não possui atualmente um Comitê de Conduta, porém, há atualmente estudos para estruturação e implementação de um Órgão Colegiado para cuidar das apurações das denúncias. (recommendation 5.1.1)

	Em linha com o permitido pelo novo regulamento do Novo Mercado, criação de um comitê de auditoria encontra-se em andamento, com implementação formal até 2021, porém este não será estatutário. (recommendation 4.1.1) O Estatuto Social da Companhia não contempla este tema, que será objeto de Política específica. (recommendation 5.3.1) A Política de Transações com Partes Relacionadas e Conflitos de Interesses, aprovada em 22 de junho de 2015 e disponível na CVM (Comissão de Valores Mobiliários) e no website da Companhia (www.saomartinho.com.br/ri), atende as prática recomendadas, exceto itens "iii" e "v", que não estão expressos na política, mas são observados pela Companhia como boa prática de governança corporativa. Até a Assembleia Geral Ordinária de 2021, a Política será atualizada para conter todos os requisitos exigidos pelo Regulamento do Novo Mercado. (recommendation 5.3.2)
Declaration of alignment to another norm	Atualmente não há política que regule a composição do Conselho de Administração. A Companhia adota as regras previstas na Lei das S.A. e Regulamento do Nível 2 de Governança Corporativa da B3. (recommendation 2.2.2) Conforme informado no item 5.2.1 acima, a Companhia não possui uma política estruturada para identificação e administração de conflitos de interesse nas Assembleias Gerais, aplicando-se as regras constantes na legislação brasileira, caso ocorra qualquer conflito de interesses. (recommendation 5.2.3) O Estatuto Social da Companhia determina, em seu art. 17, alínea "aa", que o Conselho de Administração dê seu parecer em relação a OPAs fazendo referência aos itens previstos no Regulamento do Novo Mercado. (recommendation 1.6.1) A Companhia atende às exigências do Nível I de Governança da B3. (recommendation 1.1.1)

Declaration of future compliance	Atualmente, a Companhia não publica um manual para participação nas assembleias gerais. Não obstante, a Companhia pretende disponibilizar um Manual da Proposta de Administração já para a ocasião da próxima assembleia geral, cujo objetivo é facilitar o entendimento dos acionistas sobre os itens a serem debatidos na Assembleia e dos processos para a participação, facilitando e estimulando a participação de todo e qualquer acionista que tenha interesse. (recommendation 1.3.1) A Companhia irá criar uma política de contratação de serviços extra-auditoria de seus auditores independentes, que deverá ser aprovada pelo Conselho de Administração. (recommendation 4.3.1) Atualmente não existe aprovada na Companhia uma Política de Remuneração da Diretoria. Pretendemos criá-la e aprová-la até a realização da AGO de 2021. (recommendation 3.4.1) A Companhia não possui uma política de contribuição voluntária, todavia devido a importância da prática recomendada, o Conselho de Administração está trabalhando na elaboração dessa política e espera conclui-la em 2019. (recommendation 5.5.1)
Empty Justification	A Companhia não possuí mecanismos formais de avaliação de desempenho dos membros do Conselho de Administração, pois entende que a composição do seu Conselho de Administração, incluindo as premissas de competência e experiência de seus membros, bem como a transparência das suas atividades e sua proximidade com os acionistas da Companhia, permitem uma supervisão adequada de suas atividades e desempenho. Neste sentido, a Companhia julga não ser necessária a adoção de um processo periódico de avaliação de desempenho do Conselho de Administração. (recommendation 2.4.1) A Companhia entende que as reuniões exclusivas para membros externos devem ocorrer conforme a indicação e necessidade de tais conselheiros. Para tanto, a Companhia disponibiliza, a todo e qualquer momento, toda a estrutura necessária para a realização da reunião exclusiva entre os conselheiros externos quando os mesmos entenderem ser importante que ela ocorra. (recommendation 2.9.2)

	A Companhia segue as melhores práticas, não tendo ocorrido, até o momento, nenhum caso de alegação de conflito e/ou de anulação de voto por conflito de interesses. Não há regras formalizadas, mas a Companhia segue as melhores práticas. (recommendation 5.2.3) A Companhia não possui plano de sucessão do diretor presidente. A Companhia entende que atualmente um plano de sucessão do diretor presidente não é necessário em decorrência do processo de tomada de decisão da Diretoria da Companhia, que se dá de maneira colegiada. (recommendation 2.5.1)
Pure Disclosure	O Estatuto Social da Companhia não define quais transações com partes relacionadas devem ser aprovadas pelo Conselho de Administração. (recommendation 5.3.1) A Companhia não adota essa prática. (recommendation 2.9.2) Atualmente o Conselho de Administração não define um calendário anual com agenda temática com assuntos relevantes à administração. (recommendation 2.9.1) O capital social poderá ser representado por ações ordinárias ou preferenciais, podendo essas ser de classes diversas, respeitando-se o limite legal entre as espécies de ações. (recommendation 1.1.1) A companhia não tem comitê de conduta, nem canal de denúncias, mas tem um código de conduta aprovado em 01/12/2008. (recommendation 5.1.1)
Unrelated to recommendation	O Banco implementará a partir do exercício em curso processo de avaliação de Administradores e Comitês Estatutários. (recommendation 3.3.1) Vide item 2.1. b. A política de gerenciamento de riscos será revisada e formalmente aprovada pelo Conselho de Administração até a Assembleia Geral Ordinária de 2021. (recommendation 4.5.3)

		A Companhia, reconhecidamente uma True Corporation, em razão da pulverização de suas ações e ausência de acionista controlador, entende que a avaliação do Conselho de Administração é realizada a cada dois anos, quando da eleição pelos próprios acionistas, principais interessados e impactados pelas atividades realizadas pelo referido Conselho. (recommendation 2.2.2) A Companhia não adota uma política formalizada de remuneração submetida à aprovação do conselho de administração. A remuneração da diretoria é estabelecida na assembleia geral ordinária. (recommendation 3.4.3)
Description of Alternative Practice Company presents an alternative solution to the governance problem that the code provision addresses but does not provide any justification for having chosen the stated solution. It's a type of defficient explanation	Alternative practice in line with another norm	A despeito de inexistir previsão expressa nesse sentido em seu Estatuto Social, a Telefônica Brasil S.A. cumpre integralmente a regulamentação aplicável referente a eventual conflito de interesses envolvendo acionistas. Eventuais situações de conflito de interesses nas votações deverão ser analisadas/identificadas pelo presidente da assembleia, que deverá adotar as medidas cabíveis, inclusive no sentido de anular eventuais votos proferidos em conflito. (recommendation 5.2.3) O capital social da Companhia é composto por ações ordinárias e ações preferenciais na proporção de distribuição de 2/3 (dois terços) de ações ordinárias e 1/3 (um terço) de ações preferenciais, sendo que cada ação ordinária dá direito a um voto nas Assembleias Gerais e, apesar do estatuto social da Companhia conferir direito de voto às ações preferenciais somente em determinadas deliberações da Assembleia Geral, essas gozam de prioridade no reembolso do capital social, bem como todos os demais direitos conferidos às ações ordinárias, em conformidade com o previsto na Lei nº 6.404, de 15 de dezembro de 1976, conforme alterada ("Lei das Sociedades por Ações"). A Companhia não adota a prática recomendada quanto à composição do capital social somente em ações ordinárias em razão da estrutura de capital adotada historicamente ter se demonstrado adequada e eficiente para sua atuação, bem como estar em conformidade com a legislação e regulamentação atualmente vigentes, inclusive com as regras aplicáveis ao segmento de listagem Nível 2 ("Nível 2") da B3 S.A. - Brasil, Bolsa, Balcão ("B3"), no qual as ações da Companhia encontram-se listadas. Para mais informações sobre os direitos políticos e econômicos de cada espécie de ações da Companhia, ver item 18.1 do Formulário de Referência versão 1.0 entregue em 29 de maio de 2018. (recommendation 1.1.1)

	A Companhia segue a regra geral prevista no art 254-A da Lei das SA *80% como preço mínimo) no que se refere aos parâmetros da OPA em caso de alienação de controle. Qualquer OPA deste tipo deverá ser analisada e aprovada pelo Conselho de Administração e Assembleia de Acionistas, além de previamente aprovadas pela ANEEL e CVM. (recommendation 1.5.1) O principal objetivo da prática de remuneração da Companhia é estabelecer um sistema de remuneração da administração que auxilie no alinhamento dos interesses dos administradores com os dos acionistas. São tomadas como referências as melhores práticas de mercado, com foco em estimular o alinhamento dos objetivos à produtividade e à eficiência, mantendo a competitividade no mercado de atuação. Essa prática, que está sendo consolidada em forma de Política, busca também atrair e reter profissionais qualificados alinhados com o interesse da Companhia e seus colaboradores. A remuneração dos administradores, membros do Conselho Fiscal e do Comitê de Auditoria, proposta anualmente pelo acionista controlador, se justifica pela valorização e incentivo do bom desempenho pessoal e profissional dos Diretores, Conselheiros e membros do Comitê de Auditoria, bem como pelo alinhamento com as políticas motivacionais adotadas pela Companhia e com as políticas públicas. Conforme Regimento Interno do Conselho de Administração, a remuneração mensal dos membros desse Conselho obedece ao que dispõe o artigo 152 da Lei Federal nº 6.404/1976, exceto no que se refere à participação nos lucros, a qual é vedada pelo artigo 31 do Decreto Estadual nº 47.154/2017. A remuneração de cada Conselheiro corresponde a 20% da média dos honorários pagos aos Diretores, sendo que 50% do valor equivalem a uma parcela fixa mensal e os outros 50% são pagos de acordo com a participação dos Conselheiros nas reuniões mensais. (recommendation 2.7.1)

	O Estatuto Social da Companhia não prevê que o Conselho de Administração deve emitir parecer em relação a OPAs envolvendo valores mobiliários de emissão da Companhia. No entanto, o Regimento Interno do Conselho de Administração, no item "xxii" do Artigo 2º, prevê que o Conselho deve se manifestar em relação a qualquer oferta pública tendo por objeto ações ou valores mobiliários conversíveis ou permutáveis por ações da Companhia, o qual deverá conter, entre outras informações, opinião da Administração sobre eventual aceitação da OPA e sobre o valor econômico da Companhia. Dessa forma, uma vez que o Conselho de Administração manifestar-se-á sobre os termos e condições de eventual OPA, a Companhia entende que a prática mencionada é adotada, apesar de não estar prevista em seu Estatuto Social. O Estatuto Social e o Regimento Interno do Conselho de Administração da Bradespar S.A. estão disponíveis no website da CVM e no website da Companhia. (recommendation 1.6.1)
Alternative practice deemed in line with the Code	Atualmente a Companhia não possui um método formal de avaliação dos diretores-presidentes pelo Conselho de Administração, por considerar que os processos internos são bem estruturados e cumprem essa função. A Companhia possui avaliações internas, anuais, com base no atingimento de metas de diretores e diretores executivos, da seguinte forma: Ciclo de gestão (novembro a janeiro): feito anualizando a performance e entrega de cada líder usando a metodologia 9box. Ciclo de mérito (março): progressão de remuneração e carreira com base nos destaques do ciclo de gestão. Adicionalmente existe o ciclo anual de definição contratação e avaliação de desempenho baseado em metas quantitativas e qualitativas, que sustenta pagamento da remuneração variável. (recommendation 3.3.1)
	A Companhia não possui programa de integração de novos membros do Conselho de Administração previamente estruturado. Atualmente, a apresentação de novos membros do Conselho de Administração às pessoas chave da Companhia e às suas instalações é feita sob demanda e, envolvendo as áreas solicitadas. Ainda, os membros do Conselho de Administração são convidados a participar dos eventos de planejamento estratégico, nos quais são abordados os aspectos estratégicos e financeiros da Companhia, possibilitando uma melhor compreensão dos negócios e ambições estratégicas. A Companhia entende que prática atual da Companhia é suficiente para que os membros do Conselho de Administração estejam familiarizados com a cultura, pessoas, ambiente, estrutura e modelo de negócios da Companhia. (recommendation 2.6.1)

	A Companhia não possui uma política de indicação formalizada, nem previsão no Estatuto Social que estabeleça que o Conselho de Administração: (i) seja composto em sua maioria por membros externos, tendo, no mínimo, um terço de membros independentes: (ii) deva avaliar e divulgar anualmente quem são os conselheiros independentes, bem como indicar e justificar quaisquer circunstâncias que possam comprometer sua independência. Não obstante, o Conselho de Administração é formado em sua totalidade por membros externos (incluindo o Presidente Executivo do Conselho, dado que como os demais não é diretor nem empregado da organização). Dos 8 (oito) membros que compõem o Conselho, 4 (quatro) são atualmente independentes (1/2). Assim, a prática da Companhia supera as exigências do Código e também do Regulamento do Novo Mercado, segmento em que a Companhia está listada. Além disso, o Conselho de Administração é composto tendo em vista a disponibilidade de tempo de seus membros para o exercício de suas funções e a diversidade de conhecimentos, experiências, comportamentos, aspectos culturais, faixa etária e gênero, como se pode verificar no item 12.5/6 do Formulário de Referência 2018 - versão 5, divulgado em 5 de outubro de 2018, que contém o nome, currículo e percentual de participação nas reuniões. Com relação à indicação dos conselheiros independentes, por estar listada no segmento do Novo Mercado da B3, o Estatuto Social da Companhia utiliza os critérios estabelecidos pelo Regulamento do Novo Mercado. Nesse sentido, a Companhia entende que a sua prática atende ao objetivo do princípio 2.2 do Código, ainda que não possua uma política de indicação formalizada ou previsões estatutárias alinhadas à prática recomendada. Para adoção das práticas recomendadas até 2020 a Companhia pretende formalizar uma política de indicação que siga com as práticas recomendadas pelo Código além de cumprir o Regulamento do Novo Mercado. (recommendation 2.2.1)
Temporary alternative practice	Atualmente, a Companhia não possui um regimento interno da Diretoria. Todavia, de forma a observar as recomendações previstas no Código Brasileiro de Governança, a administração da Companhia almeja, até a Assembleia Geral Ordinária da Companhia a realizar-se em 2021, formalizar um regimento interno da Diretoria contendo, além das disposições previstas no Estatuto Social da Companhia, os aspectos relativos ao funcionamento da Diretoria e às ações de seus diretores, conforme atualmente definidas pelos Diretores Co-Presidentes da Companhia. Não obstante, a Companhia destaca que todas as informações básicas referentes ao funcionamento da Diretoria, estão devidamente previstas no item 12.2 do seu Formulário de Referência (versão 6.0, entregue em 07.11.2018). (recommendation 3.1.2)

Atualmente, a Companhia não possui um Comitê de Auditoria, de modo que confia ao Conselho Fiscal Estatutário algumas das atribuições usualmente delegadas a tal Comitê. Assim, além das responsabilidades usuais e previstas na lei, cabe hoje ao Conselho Fiscal avaliar os sistemas de gestão de risco e de controles internos, bem como opinar sobre quaisquer propostas, submetidas ao Conselho de Administração, de contratação de serviços adicionais de empresa prestadora de serviço de auditoria das demonstrações financeiras. Ainda que esses mecanismos venham se mostrando eficazes para a gestão do tema, a Companhia julga relevante a atuação de um Comitê de Auditoria, e está trabalhando na sua estruturação, que deve vigorar a partir de 2019. (recommendation 4.1.1)

A Companhia ainda não possui um comitê de conduta instalado, porém, encontra-se trabalhando na estruturação de tal comitê e na definição de sua composição, funcionamento e atribuições. Não obstante, atualmente as atividades de implementação, disseminação, treinamento, revisão e atualização do Código de Conduta são conduzidas pela área de Governança, Riscos e Compliance, com o apoio da área de Recursos Humanos. Por outro lado, a gestão do Canal de Manifestação da Companhia e a condução de apurações de eventuais infrações ao Código de Conduta são de responsabilidade da área de Auditoria Interna, com apresentações periódicas ao Conselho de Administração sobre manifestações, apurações e medidas corretivas. (recommendation 5.1.1)

A Companhia mantém como prática a comunicação sobre a condução de seus negócios não restrita às reuniões assembleares. Possuímos um departamento de Relações com Investidores ativo, e promovemos eventos para exposição de assuntos pertinentes aos negócios da Companhia. Anualmente, a diretoria e o Presidente do Conselho apresentam durante a assembleia ordinária uma visão geral dos resultados financeiros e se colocam à disposição para esclarecimento de dúvidas. Atualmente, a QGEP não prepara manual para participação nas assembleias gerais, apenas a proposta da administração. No entanto, com o aumento da liquidez da Companhia, acompanhada de uma base crescente de pessoas físicas no último ano, a QGEP acredita que o investimento na elaboração de um manual de assembleia para melhor esclarecimento e incentivo à participação de acionistas se justifica e se compromete, portanto, na adoção da referida prática de governança corporativa. (recommendation 1.3.1)

		Embora não haja uma política de contração de serviços extra auditoria formalmente aprovada, o Regimento Interno do Comitê de Auditoria (item 7.1) estabelece que compete ao Comitê de Auditoria avaliar a independência dos auditores independentes e manifestar-se previamente sobre a contratação de outros serviços a serem prestados pelos auditores independentes. (recommendation 4.3.1)
	Pure Description of Alternative Practice	Apesar de não haver formalmente um manual com orientações para participação dos acionistas nas assembleias gerais, previamente à realização das assembleias, atendendo os prazos legais, a Companhia publica minuciosa proposta da administração e pauta da assembleia a ser realizada, bem como orientação aos acionistas para participação na assembleia. Desde 01/01/2018, a Companhia adota a possibilidade de voto à distância e publica em seu site o boletim de voto à distância, em conformidade com as normas da CVM (http://ri.grendene.com.br/PT/Informacoes-Financeiras/Atas-e-Editais). (recommendation 1.3.1)
		Embora a Companhia não possua um programa de integração, a Companhia adota processos informais de familiarização dos novos membros do conselho de administração com a cultura, o ambiente, as instalações, as políticas de governança, os demais administradores e o modelo de negócio da Companhia, para que possam desempenhar suas funções com excelência e contribuir para a efetividade das discussões. O Conselho de Administração da Companhia coloca à disposição dos novos conselheiros um memorando que contém informações pertinentes e relevantes para exercício de suas funções. Além disso, a Companhia promove a integração dos novos conselheiros com os integrantes da Diretoria Executiva, por meio de encontros formais dos novos conselheiros com os integrantes da diretoria. (recommendation 2.6.1)

		Apesar de não estar diretamente vinculada ao Conselho de Administração, a Eletropaulo possui uma área de Compliance independente e autônoma, composta por colaboradores dedicados, responsável por gerir o Programa de Integridade da Companhia (incluindo a implementação, disseminação, treinamento, revisão e atualização do código de conduta e a gestão do canal de denúncias). Essa área se reporta funcionalmente ao Diretor de Auditoria, e está abaixo do Comitê de Auditoria, órgão de assessoramento do Conselho de Administração da Companhia Cabe também, conforme previsto no Estatuto Social da Companhia, artigo 15, incisos xviii e xix, "(xviii) monitorar o cumprimento das leis, regulamentos e sistemas de conformidade (compliance) pela organização" e "(xix) monitorar os aspectos de ética e conduta, incluindo a efetividade do código de conduta e do canal de denúncias (abrangendo o tratamento das denúncias recebidas) e eventual existência de fraude". (recommendation 5.1.1)
Principled justification Company justifies deviation with reference to problems with the specific code provision as such	Exemption deemed granted by another norm	A Companhia não tem uma área de auditoria interna vinculada diretamente ao conselho de administração. Não existe previsão legal e nem regulatória até a aprovação da Nova Regra do Novo Mercado em 03/05/2017 que concedeu prazo até 2020 para as empresas já listadas no novo mercado se adaptem às novas regras. Sendo empresa listada no Novo Mercado a Companhia vai se adaptar no prazo previsto. A Companhia somente adota práticas de gestão ou governança não exigidas na legislação ou na regulação quando entende que sua adoção cria valor para a companhia. (recommendation 4.4.1) O estatuto da companhia segue os critérios estabelecidos na da Lei das SA e no Regulamento do Novo Mercado, que exige que os administradores devam se manifestar sobre os termos e condições de reorganizações societárias, aumentos de capital e outras transações que derem origem à mudança de controle, e consignar se elas asseguram tratamento justo e equitativo aos acionistas da companhia, portanto a Companhia não possui essa previsão expressa em seu estatuto, não obstante a prática estar alinhada com a previsão legal. (recommendation 1.5.1)

	Por tratar-se de um instrumento legítimo, regulamentado pela Lei das S.A., a Companhia desde a sua abertura de capital em 1940, desenhou a sua estrutura acionária prevendo a emissão de ações ordinárias e preferenciais. Assim, por razões históricas a Companhia emite ações preferenciais sem direito a voto, mas que possuem prioridade no recebimento de dividendos e no reembolso de capital. Portanto, os acionistas da Companhia que são detentores de ações preferenciais possuem vantagens em seus direitos econômicos comparativamente aos detentores de ações ordinárias. Importante ressaltar que as ações detidas pelos acionistas minoritários, sejam ordinárias ou preferenciais, têm o direito de tag along de 100% do preço pago pelas ações do bloco de controle, conforme artigo 5, § 1º do Estatuto Social da Companhia, mitigando a assimetria de direitos políticos e econômicos das ações. (recommendation 1.1.1) Estes pontos estão previstos no Estatuto. A Companhia observa as normas do Novo Mercado, segundo as quais não há a obrigatoriedade da existência de um regimento interno próprio para a diretoria. As atribuições e funcionamento da diretoria estão previstos no seu estatuto social (Capítulo IV, Seção III), de forma que a Companhia entende ser suficiente a regulamentação das questões que envolvem a Diretoria. (recommendation 3.1.2)
Ineffectiveness / Inneficiency	A Companhia não possui política formalizada para a contratação de serviços extra-auditoria de seus auditores independentes. Contudo, não contrata para realização de serviços extra-auditoria, a mesma empresa responsável pela auditoria independente. A Companhia entende que as regras contábeis a respeito da independência de auditores, são detalhistas e debruçam-se de forma crítica para identificação de conflitos, e a estipulação de um timing obrigatório específico para este caso, sem um racional que o justifique, pode criar um limitador desnecessário - ou o inverso - um limitador inócuo, caso o prazo de 3 anos seja irrelevante dado o alto grau de risco de auto revisão e perda do necessário ceticismo profissional para tal atividade. Além disso, o CAE poderá estabelecer políticas para a contratação de funcionários e ex-funcionários da firma de auditoria independente que atendam a este critério, caso haja necessidade prática. Vide Regimento Interno do CAE para mais detalhes. (recommendation 4.3.1)

No que diz respeito ao item (i), a Companhia adota integralmente a prática recomendada, nos termos do Artigo 10 do Estatuto Social. No que diz respeito ao item (ii), apesar de os administradores, no cumprimento dos seus deveres fiduciários, proporem e apreciarem os termos e condições das reorganizações societárias e aumentos de capital para recomendação de aprovação pelos acionistas em Assembleias Gerais, não há no Estatuto Social da Companhia, previsão da manifestação dos administradores sobre as operações assegurarem ou não tratamento justo e equitativo aos acionistas da Companhia. Finalmente, cabe destacar que, pelo fato de o Código não especificar quais seriam as "outras transações" que devem ser apreciadas pelo Conselho de Administração, a Companhia não tem as informações necessárias para confirmar se a sua administração cumpre ou não com a orientação. (recommendation 1.5.1)

De acordo com o disposto no Artigo 18 do Estatuto Social da Companhia, o conselho de administração da Companhia reunir-se-á pelo menos bimestralmente. As reuniões do Conselho de Administração são convocadas pelo Presidente, ou por pelo menos 2 conselheiros efetivos, mediante convocação escrita, contendo, além do local, data e hora da reunião e a ordem do dia. As reuniões do Conselho de Administração serão convocadas com no mínimo 5 dias de antecedência. Independentemente das formalidades de convocação, são consideradas regulares as reuniões a que comparecerem todos os membros do Conselho de Administração. O Calendário anual de reuniões do Conselho de Administração não indica quais assuntos serão tratados em cada uma delas dado o enorme dinamismo das atividades e situações envolvendo a Companhia e suas subsidiárias. Porém, a agenda de cada reunião é comunicada aos seus membros com a antecedência exigida no Estatuto Social, de forma que todos os seus membros tenham tempo hábil de se preparar para tais conclaves. O detalhamento das matérias de cada reunião ordinária com tanta antecedência em um calendário anual é algo difícil de se antecipar e que não traz os equivalentes benefícios aos acionistas e ao mercado em geral. Tanto é assim as reuniões do Conselho de Administração são itens facultativos (e não obrigatórios) dos calendários anuais dos segmentos diferenciados de governança corporativa da B3, como o Novo Mercado, onde a Companhia é listada. (recommendation 2.9.1)

	A Companhia entende que segue parcialmente as práticas descritas neste Item 2.2.1. O Estatuto Social segue os parâmetros do Regulamento do Nível 2 de Governança da B3 S.A. - Brasil, Bolsa, Balcão, nível no qual as ações ordinárias de emissão da Companhia são negociadas. Desta forma, o Artigo 15 do Estatuto Social estabelece que o Conselho de Administração deve ser composto por, no mínimo, 20% de membros independentes, cuja independência é avaliada pelos acionistas quando da eleição dos membros do Conselho de Administração em Assembleia Geral, em linha com o que preconizam a legislação e a regulamentação aplicáveis. Além disso, embora o Estatuto Social da Companhia não possua reserva de cadeiras para conselheiros externos, estes representam a maioria da composição do Conselho de Administração da Companhia. Cumpre destacar, no entanto, que a Companhia presta todas as informações a ela disponibilizadas sobre os candidatos em documentos anexos às propostas da administração divulgadas por ocasião da convocação das Assembleias Gerais. A Companhia entende que atribuir ao Conselho de Administração a avaliação de independência de seus próprios membros pode gerar insegurança jurídica e questionamentos sobre a legitimidade de referida avaliação e sobre a idoneidade do processo. Por estes motivos, a Companhia não vê benefícios em atribuir tal avaliação ao Conselho de Administração e, portanto, o Estatuto Social não estipula qualquer regra neste sentido. (recommendation 2.2.1)
Practice Judged Redundant	A Diretoria não possui regimento interno próprio, uma vez que sua estrutura, seu funcionamento e seus papéis e responsabilidades estão estabelecidos e descritos de modo claro e completo em lei, no estatuto social e nas políticas e códigos da Companhia. (recommendation 3.1.2) Em relação à Prática Recomendada, a Companhia não possui um manual de participação em assembleias gerais uma vez que as informações necessárias para facilitar e estimular a participação nas assembleias gerais já são fornecidas na proposta da administração e no boletim de voto a distância, quando aplicável. Desta forma, a Companhia entende que um documento adicional, repetindo informações, não teria utilidade aos investidores. (recommendation 1.3.1) A Seção IV do Capítulo IV do Estatuto Social da Companhia dispõe detalhadamente sobre a estrutura, funcionamento, papéis e responsabilidades da Diretoria e seus membros, entendendo o Emissor não haver necessidade de um regimento interno que replique o teor do referido documento. (recommendation 3.1.2)

	As diretrizes gerais para as transações que envolvam a Companhia ou suas sociedades subsidiárias e pessoa que possa ser considerada Parte Relacionada são estabelecidas pela Política de Transações com Partes Relacionadas. A Administração entende que a previsão do assunto em documento específico, com diretrizes estabelecidas por um órgão da administração, já é suficiente para atender o melhor interesse da Companhia. (recommendation 5.3.1)
Board Composition or Size	Por inexistirem conselheiros externos junto à Companhia, não há reuniões específicas neste sentido. (recommendation 2.9.2) O calendário anual não prevê reuniões exclusivas para os Conselheiros externos sem a presença dos executivos e demais convidados uma vez que o conselho de administração é composto em sua totalidade por conselheiros independentes e conselheiros externos. Entretanto, o Conselho de Administração realiza reuniões exclusivas sempre que necessário. (recommndation 2.9.2) A Companhia não possui, atualmente, um programa de integração de novos membros do conselho de administração, pois, devido à cultura organizacional, o Conselho é composto, em sua maioria, por administradores de outras sociedades do mesmo grupo econômico. Além disso, após a eleição de novos conselheiros, incluindo membros independentes, a Companhia entrega a cada um deles um "kit" com os seguintes documentos: (i) o Código de Conduta Ética da Bradespar S.A.: (ii) o Instrumento de Políticas de Divulgação e Negociação de Valores Mobiliários: (iii) o Regimento Interno do Conselho de Administração da Bradespar S.A.: (iv) Estatuto Social: (v) Política Indicativa de Remuneração Anual ao Acionista da Bradespar S.A.: e (vi) Regulamento do Nível 1 de Governança Corporativa da B3. Ainda, assinam os respectivos termos de anuência às políticas e aos códigos da Companhia, conforme aplicável. A entrega deste kit, bem como a reunião do Conselho de Administração que ocorre logo após a realização da assembleia geral ordinária, constitui a primeira etapa para a integração de novos conselheiros à Companhia. A partir de então, a interação normal das atividades cotidianas de conselheiro levará à uma integração natural do novo membro ao Órgão. Por fim, conforme exposto acima, a Companhia entende que a sistemática adotada atualmente para condução de novos conselheiros já os habilita para uma integração natural ao Órgão. (recommendation 2.6.1)

Size of Operations	Devido a estrutura reduzida da companhia, não há programa de integração dos novos membros do Conselho. As apresentações são realizadas na 1Âª reunião do novo membro. (recommendation 2.6.1) A Companhia não possui Comitê de Conduta especificamente responsável pelo monitoramento do cumprimento e da eficiência dos seus mecanismos e procedimentos internos de integridade por entender que, em razão de sua estrutura enxuta, tal função cabe ao seu Conselho de Administração. Adicionalmente, a Companhia não realiza treinamentos sobre o seu Código de Conduta, tendo em vista que seus funcionários (Diretores e Conselheiros, conforme item 14.1 da versão 6 do Formulário de Referência de 2018) devem assinar o Termo de responsabilidade e compromisso com as recomendações do Código de Conduta Ética da Bradespar, por meio do qual se comprometem a adotar e seguir todas as diretrizes e práticas do Código de Conduta Ética. (recommendation 5.1.1) A Companhia atualmente não tem medidas formais de compliance em razão de sua reduzida atividade operacional. (recommendation 4.5.2)
Company Structure	A Companhia não tem Comitê de Auditoria. No entanto, a equipe de auditoria independente se reporta ao Conselho de Administração, que monitora a efetividade do trabalho dos auditores independentes, bem como sua independência. (recommendation 4.3.2) A Companhia é uma holding de participações cuja atuação da Diretoria ocorre de maneira eventual, razão pela qual não foram estabelecidas metas para a Diretoria. Em caso de necessidade, a Companhia aprovará respectivas metas consonância com as melhores práticas de governança corporativa estabelecidas pelo IBGC. (recommendation 3.3.2)

Em função da característica da Companhia, de economia mista e com controle acionário do Estado, a indicação da posição de diretor-presidente é feita pelo Controlador, cabendo ao Conselho de Administração, conforme atribuições previstas no art. 30 do Estatuto Social da Copel, eleger, destituir, aceitar renúncia, substituir os diretores da Companhia, fixando-lhes atribuições. A Companhia possui ainda um Comitê de Indicação e Avaliação, que é órgão estatutário de caráter permanente, auxiliar dos acionistas, que verificará a conformidade do processo de indicação e de avaliação dos Administradores, conselheiros fiscais e membros de comitês estatutários, nos termos da legislação vigente. As atribuições, o funcionamento e os procedimentos deverão observar a legislação vigente e serão detalhados por regimento interno específico. (recommendation 2.5.1)

EXPLICA: O BB não possui um Comitê de Conduta vinculado diretamente ao Conselho de Administração (CA). No entanto, conta com Comitês Estaduais de Ética em cada Estado da Federação e no Distrito Federal, atuando com os seguintes objetivos: disseminar os preceitos éticos adotados pelo Banco nas dependências jurisdicionadas do Estado, decidir sobre a aplicação de medidas de orientação e sanções, e propor melhorias nos processos empresariais envolvendo preceitos éticos corporativos. Cada Comitê Estadual é formado por três membros, tendo dentre eles um representante eleito pelos funcionários com prerrogativas de estabilidade provisória e inamovibilidade, com mandato de três anos. Há, ainda, o Comitê Executivo de Ética e Disciplina, vinculado diretamente ao Conselho Diretor, com prerrogativas de deliberar sobre conflitos e dilemas éticos de caráter institucional, julgar processos disciplinares, elaborar recomendações de conduta às Unidades Organizacionais, propor melhorias nos processos empresariais envolvendo preceitos éticos corporativos, entre outras atribuições. Além disso, no BB, o Código de Ética e as Normas de Conduta, aprovados pelo CA, buscam conjuntamente promover princípios éticos e orientar as ações da alta administração, dos funcionários (no Brasil e no exterior), dos colaboradores, e daqueles que estejam atuando ou prestando serviços em nome do Banco do Brasil ou para o BB, cabendo-lhes conhecer e zelar pelos preceitos contidos nos documentos. Disponível em: https://www.bb.com.br/pbb/pagina-inicial/sobre-nos/etica-e-integridade/etica/ (recommendation (5.1.1)

Industry Specificities	A execução da política de gestão de riscos é compartilhada entre a Diretoria e o Comitê de Auditoria da Companhia, órgão responsável por sua definição e revisão. A Diretoria implementa e mantém mecanismos, processos e programas eficazes de monitoramento e divulgação do desempenho financeiro e operacional da Companhia. Contudo, a atividade da Companhia não apresenta risco à sociedade e/ou ao meio ambiente e, portanto, riscos desta ordem não são acompanhados pela Diretoria. (recommendation 3.1.1) Apesar da não adoção de uma política de destinação de resultados, a Companhia adota prática consolidada e constante desde a sua abertura de capital, em 2006. Em anos em que não se vislumbrava necessidade de acúmulo de caixa, houve distribuição praticamente integral dos resultados distribuíveis do exercício. Em anos em que se vislumbrou tal necessidade, seja por perspectiva de aquisições ou necessidade de reforço do capital de giro ou investimentos da Companhia, houve distribuição muito próxima do mínimo legal. No segmento capital intensivo como é o caso do segmento de atuação do grupo, e considerando a característica dos mercados de crédito e de capitais brasileiros, é importante ter flexibilidade e agilidade para decisão em relação à melhor estrutura de capital e política de destinação de resultados. Pois, com o intuito de aproveitar oportunidades de investimento que possam surgir e minimizar risco de diluição aos acionistas, pode ser necessário fazer um movimento rápido de alocação de recursos de magnitude relevante. (recommendation 1.7.1) A Companhia possui como principal atividade participar, como sócia ou acionista, de outras sociedades. Portanto, os riscos aos quais está exposta são relacionados aos riscos de seus investimentos. Diante disso, considerando que a Companhia atualmente possui apenas um investimento - i.e. participação na Vale S.A. (Vale) - monitora os seus riscos por meio das políticas internas e órgãos da própria investida. Tal monitoramento é feito pelos representantes da Companhia que ocupam cargos no Comitê de Governança, Conformidade e Risco e no Conselho de Administração da Vale. A Vale possui Política de Gestão de Risco Corporativo, aprovada por seu Conselho de Administração em 22 de dezembro de 2005 e alterada em 25 de agosto de 2011, com a definição dos riscos para os quais se busca proteção, os instrumentos utilizados e a estrutura organizacional[...] (recommendation 4.5.1)

	Internal Standards	A Companhia adota política formal de gestão de riscos corporativos desde 2010, tendo a última revisão sido aprovada pelo Conselho de Administração em 14 de abril de 2016. No entanto tal política inclui parte dos requisitos recomendados pelo Código, conforme esclarecido a seguir. A Política visa, entre outros, a estabelecer diretrizes, conceitos e competências na gestão de riscos corporativos. Os riscos para os quais se busca proteção e os instrumentos utilizados para tanto não são previamente definidos na Política, pois estão contemplados na metodologia de gestão de riscos da Companhia, desenvolvida com base na aplicação do modelo do COSO "Enterprise Risk Management - Integrated Framework" de forma flexível às características e peculiaridades da Sabesp e de seu ambiente de negócios. A estrutura organizacional para gerenciamento de riscos é definida no art. 34 do Estatuto Social, que prevê a existência de uma área vinculada ao Diretor-Presidente e liderada por diretor estatutário indicado pelo Conselho de Administração, para desenvolver as atividades de conformidade e gestão de riscos. Atualmente, a área de gestão de riscos é composta por 8 profissionais, com formação em processamento de dados, matemática, engenharia e administração, sendo que alguns deles possuem pós-graduação, mestrado e/ou doutorado. Com relação aos limites de exposição a riscos, a Política estabelece como diretriz que estes devem ser definidos por níveis de alçada, considerando o impacto e a probabilidade de ocorrência. (recommendation 4.5.1) A Companhia não realiza contribuições e doações. (recommendation 5.5.1)
	International Context	Em virtude da negociação das ADRs referenciadas em ações da Companhia na NYSE - New York Stock Exchange, o Conselho Fiscal da Companhia tem funções semelhantes a de um audit committee, conforme descritas no Item 4.1. do Regimento Interno do Conselho Fiscal disponível no site de Relação com Investidores da Companhia. Há, também, a Gerência de Auditoria Interna, cuja atualçao está descrita no item 5.1 do Formulário de Referência da Companhia publicado no site da CVM em 28/08/2018. (recommendation 4.1.1) O Presidente do Conselho de Administração conduz, anualmente, a avaliação formal dos membros da Diretoria Executiva, incluindo o Diretor-Presidente. Essa avaliação também considera resultados financeiros e não financeiros, atendendo, assim, ao Código. Embora os demais membros do Conselho de Administração não participem atualmente dessa avaliação, o processo está alinhado com a metodologia e os sistemas adotados globalmente pelo grupo controlador, ENGIE, seguindo as boas práticas de gestão de pessoas e performance. (recommendation 3.3.2)

O capital social da Companhia é formado por ações ordinárias e ações preferenciais. A totalidade das ações preferenciais é, desde a abertura do capital da Companhia, de titularidade da acionista 1700480 Ontario Inc., integrante do bloco de controle da Companhia, que em razão de restrições impostas pela legislação canadense foi impedida de ser titular de mais de 30% das ações com direito a voto capazes de eleger membros do Conselho de Administração. As ações preferenciais de emissão da Companhia não estão admitidas à negociação em qualquer mercado regulamentado. As ações preferenciais de emissão da Companhia (i) possuem os mesmos direitos de voto conferidos às ações ordinárias, exceto com relação à eleição e à destituição de membros do Conselho de Administração, e (ii) nos termos do Artigo 5º, Parágrafo 3º, do Estatuto Social da Companhia, são livremente conversíveis em ações ordinárias, na proporção de 1:1, mediante solicitação do respectivo titular de ações preferenciais, e sujeitos à aprovação em Assembleia Geral de Acionistas a ser convocada especialmente para este fim. O controle da Companhia é exercido por seus acionistas controladores Multiplan Planejamento, Participações e Administração S.A. e 1700400 Ontario Inc., nos termos do acordo de acionistas celebrado em 04 de julho de 2007 ("Acordo de Acionistas"), integralmente disponibilizado para acesso público por meio do Sistema Empresas.NET, acessível na página da CVM na rede mundial de computadores, e no site de relações com investidores da Companhia (http://ri.multiplan.com.br/), e, ainda, descrito no Item 15.5 do Formulário de Referência (versão 4.0, apresentada em 30 de outubro de 2018), em especial no subitem "Descrição das Cláusulas Relativas ao Exercício do Direito de Voto e do Poder de Controle". Assimetrias de direitos políticos e econômicos entre as espécies de ações existentes são mitigadas na medida em que (i) são conferidos aos titulares de ações preferenciais de emissão da Companhia os mesmos direitos de voto conferidos aos titulares de ações ordinárias, exceto com relação à eleição e destituição de membros do Conselho de Administração, e (ii) nos termos do Artigo 42 do Estatuto Social da Companhia, a alienação do controle acionário da Companhia deverá ser contratada sob condição de que o adquirente do controle se obrigue a lançar oferta pública de aquisição efetivar que tenha como objeto a totalidade das ações dos outros acionistas da Companhia, assegurando-lhes tratamento igualitário àquele dado ao acionista controlador alienante. (recommendaton 1.1.1)

	Além das normas gerais estabelecidas pelo artigo 156 da Lei das S.A., o Banco está sujeito ao cumprimento da Lei do Sistema Financeiro Nacional nÂ° 4.595/64, e à Lei de Crimes Financeiros Lei nÂ° 7.492/86, que o sujeitam a políticas mais rigorosas de transações com partes relacionadas. Para maiores informações acerca do tratamento dispensado a transações com partes relacionadas, ver item 16.1 do Formulário de Referência. (recommendation 5.3.2) EXPLICA: Conforme previsto na Lei 4.595/64 (art. 21, §1º) e no Estatuto Social do BB (art. 24), a indicação do Presidente do Banco é de competência do Presidente da República, não cabendo ao Conselho de Administração manter plano de sucessão para este cargo. No entanto, cumpre ressaltar o plano de sucessão para os demais cargos da alta administração do Banco. Entre maio de 2016 e dezembro de 2017, o BB implementou o Programa Dirigentes BB, em parceria[...] (recommendation 2.5.1)
Legal / Contract Requirements	A Lei do Estado do Paraná nº 1384, de 10 de novembro de 1953 e suas alterações, regula a organização de sociedades de economia mista para a construção e exploração de centrais geradoras de energia elétrica e define a participação em parcerias preferencialmente de forma majoritária. Também veda a Copel de vender suas participações, caso tal ato ocasione a perda da condição de majoritário. A condição de mudança de controle só será possível num processo de privatização, após as devidas aprovações dos poderes Executivo e Legislativo do Estado do Paraná. (recommendation 1.5.1) A Petrobras é uma sociedade de economia mista regida pela Lei 9.478/97, denominada de Lei do Petróleo (que revogou a Lei 2.004/53). Assim, o capital social da Petrobras atende ao que dispõe a referida lei, em seu art. 62, parágrafo único, a saber: "Art. 62. A União manterá o controle acionário da PETROBRÃS com a propriedade e posse de, no mínimo, cinquenta por cento das ações, mais uma ação, do capital votante. Parágrafo único. O capital social da PETROBRÃS é dividido em ações ordinárias, com direito de voto, e ações preferenciais, estas sempre sem direito de voto, todas escriturais, na forma do art. 34 da Lei n° 6.404, de 15 de dezembro de 1976." Diante disso, os arts. 4º, 5º e 7º do Estatuto Social da Petrobras dispõem que o seu capital social é dividido em ações ordinárias, com direito de voto, e ações preferenciais, sem direito de voto, todas escriturais e inconversíveis umas nas outras. Da mesma forma, o controle da companhia é exercido pela União Federal, conforme prevê o art. 62, caput do citado diploma legal e art. 12 do Estatuto Social. (recommendation 1.1.1)

Other	A Companhia é uma holding de participações cujo Conselho de Administração tem sido reeleito anualmente, não tendo sido tal programa elaborado até a presente data. Em caso de necessidade em virtude de nova composição do Conselho de Administração, a Diretoria entende que referida prática será adotada de acordo com as melhores práticas de governança corporativa estabelecidas pelo IBGC. (recommendation 2.6.1) A Companhia possui um percentual de 12,22% de seu capital social em free float, sendo que nos últimos 10 anos não foram observadas negociações relevantes em relação a estes papéis, sendo respeitadas a legislação societária e instruções normativas da CVM. (recommendation 5.4.1) Devido a Reuperação judicial, a remuneração dos conselheiros foi retirada. (recommendation 2.7.1)
Transitional	Diante da operação de combinação de atividades da BM&FBOVESPA com a CETIP, a companhia realizou o primeiro processo de sucessão do cargo de principal executivo e ainda está em fase de integração das estruturas. Os órgãos de governança da Companhia deverão voltar a pautar a análise e formalização de plano sucessão do cargo de principal executivo nos próximos meses. Não obstante, ainda no âmbito desse processo, os planos de sucessão dos demais cargos existentes na Companhia já foram discutidos e definidos. (recommendation 2.5.1) Os critérios de avaliação de desempenho do Diretor-Presidente e dos demais Diretores foram formalizados no exercício social corrente, de modo que as avaliações referentes ao exercício social encerrado em 31 de dezembro de 2018 serão realizadas apenas em 2019, dentro dos quatro primeiros meses do ano. (recommendation 3.3.2) O § 2º do artigo 24 do Estatuto Social da BRF estabelece que o Diretor-Presidente não deve acumular o cargo de Presidente do Conselho de Administração, mas autoriza, no caso de vacância - de forma excepcional -, a acumulação temporária dos cargos de Presidente do Conselho de Administração e de Diretor Presidente. Tal previsão está em consonância com o disposto no Regulamento do Novo Mercado. Atualmente, em função de vacância no cargo de Diretor Presidente, o Presidente do Conselho de Administração está acumulando de forma temporária a função de Diretor Presidente. (recommendation 2.3.1)

	A unidade de integridade e gestão de riscos da COPASA MG foi instituída em 21.03.2018 e é denominada Superintendência de Conformidade e Riscos - SPCR, sendo ligada diretamente ao Diretor Presidente da Companhia, com vistas a garantir sua independência. A referida unidade é composta por 2 (duas) divisões: Divisão de Conformidade e Controles Internos e Divisão de Gestão de Riscos. O Regimento Interno da SPCR foi aprovado pelo Conselho de Administração em 21.03.2018. Considerando que a SPCR foi instituída no primeiro trimestre de 2018, ainda não houve avaliação da Diretoria Executiva e nem do Conselho sobre a eficácia das políticas e sistemas de gerenciamento de riscos e do Programa de Integridade. (recommendation 4.5.3)

APPENDIX D

Table 13: Alternative adherence/disclosure indices

Index	Compliance	Base score	Explanation provided	Additional score by type of explanation	Final score
B	S (yes)	6	-	-	6
	P (partial)	3	Context-Specific	3	6
		3	Explains but practices	3	6
		3	Alternative practice	2	5
		3	Principled	2	5
		3	Deficient	0	3
	N (no)	0	Context-Specific	6	6
		0	Explains but practices	6	6
		0	Alternative practice	2	2
		0	Principled	2	2
		0	Deficient	0	0
			*Additional for indication of future compliance**		1
			MAX SCORE BY COMPANY		258
C	S (yes)	7	-	-	7
	P (partial)	3	Context-Specific	4	7
		3	Explains but practices	4	7
		3	Alternative practice	2	5
		3	Principled	1	4
		3	Deficient	0	3
	N (no)	0	Context-Specific	7	7
		0	Explains but practices	7	7
		0	Alternative practice	2	2
		0	Principled	1	1
		0	Deficient	0	0
			*Additional for indication of future compliance**		1
			MAX SCORE BY COMPANY		301
D	S (yes)	7	-	-	7
	P (partial)	3	Context-Specific	4	7
		3	Explains but practices	3	6
		3	Alternative practice	3	6
		3	Principled	1	4
		3	Deficient	0	3
	N (no)	0	Context-Specific	7	7
		0	Explains but practices	6	6
		0	Alternative practice	3	3
		0	Principled	1	1
		0	Deficient	0	0
			*Additional for indication of future compliance**		0
			MAX SCORE BY COMPANY		301

** For explanations in the sub-categories Declaration of Future Compliance and Temporary Alternative Practice*

APPENDIX E

Table 14: Additional descriptive statistics, t-test and Wilcoxon

Variable	Grouping	Mean	Median	Normality	t-test	Wilcoxon	N
Index A	Voluntary	62.64	60.85	-1.18	-3.97**	-3.91**	13
	Mandatory	81.90	82.17	0.73	(vazio)	(vazio)	95
	Private	78.61	81.01	3.995**	-3.72**	-2.75**	96
	State-owned	87.34	88.175	1.09	(vazio)	(vazio)	12
	No ADR	78.12	79.46	3.77**	-3.75**	-2.86	88
	ADR	86.01	86.63	-0.01	(vazio)	(vazio)	20
	Not NM/N2	76.74	81.01	2.52**	-1.23		29
	NM/N2	80.63	81.78	1.67**	(vazio)	(vazio)	79
LNSize	Voluntary	13.64	13.77	-2.67	-5.25**	-4.66**	13
	Mandatory	16.74	16.64	3.09**	(vazio)	(vazio)	95
	Private	16.23	16.33	3.03**	-1.66*	-2.11**	96
	State-owned	17.38	17.47	0.48	(vazio)	(vazio)	12
	No ADR	15.93	16.16	3.84**	-5.95**	-5.44**	88
	ADR	18.30	17.76	1.36*	(vazio)	(vazio)	20
	Not NM/N2	16.45	17.37	1.79**	0.2	1.82*	29
	NM/N2	16.34	16.22	2.86**	(vazio)	(vazio)	79
VOT1	Voluntary	32.97	15.63	1.89**	-1.34	-1.73*	13
	Mandatory	46.95	48.74	2.48**	(vazio)	(vazio)	95
	Private	43.46	42.77	2.79**	-3.02**	-2.08**	96
	State-owned	59.74	50.98	2.82**	(vazio)	(vazio)	12
	No ADR	43	42.77	2.32**	-1.83**	-1.74*	88
	ADR	55.24	50.98	1.45*	(vazio)	(vazio)	20
	Not NM/N2	52.59	51	1.78**	-1.57	1.44	29
	NM/N2	42.58	41.2	2.63**	(vazio)	(vazio)	79
Q	Voluntary	2.86	1.22	3.39**	0.96	-0.19	8
	Mandatory	1.55	1.25	6.76**	(vazio)	(vazio)	95
	Private	1.68	1.32	8.00**	0.67	2.23**	91
	State-owned	1.44	1.01	3.83**	(vazio)	(vazio)	12
	No ADR	1.74	1.33	7.6**	2.32		83
	ADR	1.29	1.11	4.09**	(vazio)	(vazio)	20
	Not NM/N2	1.71	1.07	5.69**	0.17	-2.48**	24
	NM/N2	1.63	1.37	6.14**	(vazio)	(vazio)	79
ROA12	Voluntary	-12.49	2.08	4.04**	-1.10	-0.69	13
	Mandatory	4.44	4.16	3.99**	(vazio)	(vazio)	95
	Private	1.94	4.08	8.70**	-1.25	-0.1	96
	State-owned	6.08	3.09	3.00**	(vazio)	(vazio)	12
	No ADR	2.74	4.28	8.52**	0.63	1.76*	88
	ADR	0.91	2.18	2.81**	(vazio)	(vazio)	20

	Not NM/N2			6.12**	-1.18	-1.99**	29
	NM/N2	4.6	4.23	3.69**	(vazio)	(vazio)	79
LevTotal	Voluntary	188.77	52.29	4.05**	1.46	0.01	13
	Mandatory	54.75	55.53	1.39*	(vazio)	(vazio)	95
	Private	74.72	55.92	8.93**	2.31	1.98**	96
	State-owned	40.12	46.53	0.19	(vazio)	(vazio)	12
	No ADR	74.22	53.03	8.74**	1.12	-0.19	88
	ADR	56.17	63.68	1.09	(vazio)	(vazio)	20
	Not NM/N2	106.01	41.83	5.99**		-1.68*	29
	NM/N2	57.98	57.92	0.93	(vazio)	(vazio)	79
BETA	Voluntary	0.72	0.95	1.36*	-0.69	-0.41	6
	Mandatory	0.87	0.80	1.23	(vazio)	(vazio)	95
	Private	0.79	0.8	1.73**	-2.76**	-2.54**	89
	State-owned	1.33	1.25	-0.72	(vazio)	(vazio)	12
	No ADR	0.83	0.8	0.17	-0.81	-0.38	81
	ADR	1	0.85	0.92	(vazio)	(vazio)	20
	Not NM/N2	1.2	1.2	-2.28	2.77	2.82**	22
	NM/N2	0.77	0.8	2.27**	(vazio)	(vazio)	79

** significance at the 10% level*

*** significance at the 5% level*

Table 15: Additional descriptive statistics, Anova and Kruskal-Wallis

By quartile of Index A

Variable	**Quartile**	**Mean**	**Median**	**Normality**	**Anova (F)**	**Kruskal-Wallis**	**N**
LNSize	Lowest	15.11	15.48	2.73**	8.97**	20.96**	27
	2	16.19	16.27	1.78**	(vazio)	(vazio)	27
	3	16.72	16.78	0.16	(vazio)	(vazio)	27
	Highest	17.44	17.09	2.71**	(vazio)	(vazio)	27
VOT1	Lowest	45.3	44.48	0.23	0.55	1.29	27
	2	50.63	50.26	1.04	(vazio)	(vazio)	27
	3	43.76	43.23	1.67**	(vazio)	(vazio)	27
	Highest	41.36	48.27	1.69**	(vazio)	(vazio)	27
Q	Lowest	1.91	1.37	5.47**	0.51	0.85	23
	2	1.44	1.17	4.03**	(vazio)	(vazio)	26
	3	1.64	1.28	4.42**	(vazio)	(vazio)	27
	Highest	1.64	1.29	4.11**	(vazio)	(vazio)	27
ROA12	Lowest	-4.9	2.86	5.76**	1.68	4.1	27
	2	6.42	5.62	-0.66	(vazio)	(vazio)	27
	3	3.27	3.52	2.58**	(vazio)	(vazio)	27
	Highest	4.82	4.16	3.9**	(vazio)	(vazio)	27
LevTotal	Lowest	122.36	57.92	5.83**	2.34*	6.21	27
	2	50.89	46.2	-0.02	(vazio)	(vazio)	27

	3	63.94	67.59	2.07**	(vazio)	(vazio)	27
	Highest	46.33	48.77	0.8	(vazio)	(vazio)	27
BETA	Lowest	0.69	0.7	-1.55	1.26	3.82	21
	2	0.78	-0.75	0.34	(vazio)	(vazio)	26
	3	1.01	1	1.41*	(vazio)	(vazio)	27
	Highest	0.93	1	-1.28	(vazio)	(vazio)	27

** significance at the 10% level*

*** significance at the 5% level*

APPENDIX F

Linear regression results for the other three indices. Colored cells highlight the differences between these indices and Index A regression results in terms of significance.

Table 16: Linear regression results, Index B

INDEX B	Model 1 Coef/Sig	Model 2 Coef/Sig	Model 3 Coef/Sig	Model 4 Coef/Sig
OBLIG	8.18	8.51	8.07	8.35
STATE	4.07**	4.27*	4.13**	4.24**
ADR	1.7	2.11	-	-
NMN2	-	-	0.12	0.21
LNSize	1.88**	1.74**	2.13**	2.06**
VOT1	-0.05*	-0.06**	-0.05	-0.05*
Q	2.06**	-	2.09**	-
ROA12	-	0.15	-	0.14
LevTotal	0.01	0.02	0.01	0.02
BETA	0.87	-	0.88	-
VOL	-	0.03	-	0.03
Const	42.47**	46.43**	38.37**	41.17**
F	6.23**	4.84**	6.21**	4.73**
R2	0.3	0.27	0.29	0.26
Ramsey RESET F	1.23	0.2	1.02	0.13

** significance at the 10% level*

*** significance at the 5% level*

Table 17: Linear regression results, Index C

INDEX C	Model 1 Coef/Sig	Model 2 Coef/Sig	Model 3 Coef/Sig	Model 4 Coef/Sig
OBLIG	7.48	7.82	7.36	7.64
STATE	4.90**	4.79**	4.96**	4.76**
ADR	1.84	2.34	-	-
NMN2	-	-	0.13	0.45
LNSize	2.29**	2.15**	2.56**	2.52**
VOT1	-0.06*	-0.07**	-0.06*	-0.06*
Q	2.45**	-	2.49**	-
ROA12	-	0.2	-	0.19

LevTotal	0.01	0.03	0.02	0.03
BETA	0.59	-	0.6	-
VOL	-	0.03	-	0.04
Const	33.18**	36.74**	28.76**	30.33**
F	6.95**	5.49**	6.93**	5.43**
R2	0.3	0.27	0.29	0.27
Ramsey RESET F	0.93	0.35	0.84	0.32

** significance at the 10% level*

*** significance at the 5% level*

Table 18: Linear regression results, Index D

	Model 1	**Model 2**	**Model 3**	**Model 4**
INDEX D	Coef/Sig	Coef/Sig	Coef/Sig	Coef/Sig
OBLIG	8.08	8.32	7.9	8.13
STATE	4.45**	4.18*	4.43**	4.12*
ADR	2.05	2.52	-	-
NMN2	-	-	-1.06	-0.69
LNSize	2.41**	2.36**	2.62**	2.64**
VOT1	-0.05*	-0.06*	-0.05	-0.06*
Q	2.27**	-	2.33**	-
ROA12	-	0.22	-	0.21
LevTotal	0.02	0.04	0.02	0.04
BETA	0.53	-	0.39	-
VOL	-	0.03	-	0.03
Const	31.62**	33.45**	29.12**	32.14**
F	7.8**	6.02**	7.53**	5.78**
R2	0.31	0.29	0.31	0.29
Ramsey RESET F	0.89	0.37	0.78	0.22

** significance at the 10% level*

*** significance at the 5% level*