

**IBRI – BRAZILIAN INSTITUTE OF INVESTOR RELATIONS**



May 29th, 2018

To

**MSCI Equity Index Committee**

7 World Trade Center

250 Greenwich Street

New York, NY 10007

**SR. MIGUEL LARA**

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**SR. HENRY A. FERNANDEZ**

Chairman, Chief Executive Officer and Director

The **IBRI** (Brazilian Institute of Investor Relations), based in the city of São Paulo (Brazil) - Street Boa Vista, number 254 – Respectfully presents this document based on consultation on the **TREATMENT OF UNEQUAL VOTING STRUCTURES IN THE MSCI EQUITY INDEXES**

To MSCI,

The Brazilian Institute of Investor Relations (IBRI) aims to foster a discussion related to the changes in the capital market. IBRI believes that the Investor Relations (IR) professional plays a crucial role in the implementation of practices of corporate governance within companies, acting in such a way that enables all shareholders and investors to have voice as well as providing transparent and homogeneous information to all interested stakeholders for the investment decision-making.

In this sense, IBRI took note of the proposed index organisation based on the voting rights of shareholders. IBRI has been traditionally supporting market initiatives aimed at creating greater transparency and further levels of Governance. Therefore, the existence of different indexes helps the investors' understanding on the existence of different corporate structures.

In Brazil, structures with different classes of shares are adopted by companies that are solid, profitable and globally recognised by their commitments to the society, employees and minority shareholders, that is, they possess the best adopted worldwide practices of corporate governance. To endorse such theory:

- Since 2001, companies listed on the Brazilian stock exchange have the option to be listed on the "Novo Mercado" (New Market): Level 2, Level 1 or in the Traditional segment - where the first one demands additional requirements related to corporate governance, including the obligation of "one share, one vote" and the last one needs fewer requirements. However, some companies have their corporate governance positively recognised by the market, regardless their listing segment.
- Several managers of passive index funds and important agents of the global capital market have already positioned themselves citing the relevance of the debate encouraged by this public consultation and proposing that:
  - ✓ The index providers allow investors a greater power of choice in the allocation of assets; and
  - ✓ The topic should be addressed and discussed by regulators.

Considering the above-mentioned, IBRI's vision is that the proposal turns the access to different emerging markets limited to shareholders of funds referenced to the MSCI index, so that an index such as the ACWI (All Country World Index) may not actually represent all countries in an efficient way, not taking part in profitable and solid companies once the companies will probably not change their shareholding structures for such fact.

In this regard, IBRI understands that the "one share, one vote" structure, uniquely, is not a guarantee that a company has good practices of corporate governance. The IR professional has common interests with all stakeholders; considering the fact that the shareholders have more or fewer voting rights does not mean that their concerns will

not be addressed by the companies mainly because such shareholders and investors are important for the liquidity and the capital structure of these institutions.

It is important to highlight that the main benchmark of the Brazilian stock exchange, named "Ibovespa", owns more than 30% of its composition in non-voting shares, which represents relevant segments of the market such as energy, retail, telecommunications and financial services.

### **Proposal**

IBRI's proposal is to create an index only including common share and an index with different classes of shares, that is, shares with different voting rights ("one share, one vote" index), allowing funds and investors to choose which index they prefer to allocate their resources.

**Edmar Prado Lopes** – Chairman of the Board of Directors

**Guilherme Setubal Souza e Silva** – Chief Executive Officer