

# Brazil 2024 proxy voting guidelines update

In this document, Morrow Sodali summarizes the material updates announced by Glass Lewis and ISS for their voting policies for the 2024 proxy season in Brazil.

The updated policies will generally be applied for shareholder meetings taking place from February 2024 onwards.

## Glass Lewis

### DIRECTOR ACCOUNTABILITY FOR CLIMATE-RELATED ISSUES

Glass Lewis considers climate risk a significant concern for all companies due to its broad impact on the economy and society. They advocate for boards to evaluate their operational resilience under lower-carbon scenarios, with a particular focus on companies whose greenhouse gas emissions pose a financially material risk. **Glass Lewis urges these high-risk companies to provide transparent and comprehensive disclosure about how they are addressing and overseeing climate-related risks.** Glass Lewis will scrutinize the climate-related disclosures of large-cap companies and others where emissions or climate impact present significant financial risks, evaluating alignment with Task Force on Climate-related Disclosures (TCFD) recommendations. Additionally, Glass Lewis will assess **whether these companies have disclosed clear board-level oversight responsibilities for climate-related issues.**

In summary, Glass Lewis included a new discussion on director accountability for climate related issues, such as:

- Companies with significant greenhouse gas (GHG) emissions must provide comprehensive disclosure on climate risks and mitigation strategies.
- Boards of such companies should have explicit oversight responsibilities for climate-related issues.
- Glass Lewis's updated 2024 policy will now apply to most large-cap companies in industries where GHG emissions are deemed financially material by the Sustainability Accounting Standards Board (SASB), as opposed to the 2023 policy, applicable only to most significant emitters.

### CYBER RISK OVERSIGHT

Glass Lewis highlights the increasing risk of cyber-attacks for both companies and consumers, leading to potential consequences such as data breaches, reputational damage, financial penalties, and operational disruptions.

**Glass Lewis believes that cyber risk is material for all companies, and it is critical that companies evaluate and mitigate these risks to the greatest extent possible.**

In its updated policy, Glass Lewis outlines that, where a company has been materially impacted by a cyber-attack, shareholders are expected to receive periodic updates communicating the company's ongoing process towards resolving and remediating the impact of the attack. In such cases, Glass Lewis may, thus, recommend voting against certain directors if board oversight, response, or disclosure concerning cybersecurity-related issues are considered insufficient, or are not provided to shareholders.

### INTERLOCKING DIRECTORSHIPS

Interlocking Directorships are when directors accept positions on multiple boards, thereby potentially creating conflicts of interest. Glass Lewis 2024 updated policy now specifies that **both public and private companies are considered under such policy**. Other types of interlocking relationships and multiple board interlocks among non-insiders for evidence of a pattern of poor oversight will also be reviewed, on a case-by-case basis, under Glass Lewis' guidelines on conflict of interest.

### DIRECTOR ATTENDANCE

Glass Lewis has stated in their assessment of director attendance that their **typical recommendation is voting against the re-election of directors that attended fewer than (i) 75% of board meetings; or (ii) an aggregate of 75% of board and applicable committee meetings**. Exceptions may continue to be granted for directors in their first year or under disclosed mitigating circumstances.

### ACCOUNTS AND REPORTS

Under updated policy, **in instances where the statutory auditor has refused to provide an unqualified opinion or there are other legitimate concerns regarding the integrity of the financial statements or reports**, Glass Lewis will assess reasoning provided by the statutory auditor as well as other relevant disclosures on a case-by-case basis and **may recommend against approving a company's accounts and reports proposal**. Further, Glass Lewis clarified that, where the statutory auditor has included an emphasis of matter or raised concerns regarding the going concern basis of a company in its report on the financial statements, **and there are no other** legitimate concerns regarding the integrity of the financial statements and reports, Glass Lewis will generally not recommend voting against such proposals to approve a company's accounts and reports.

Approval of the accounts also ratifies the acts of the members of the board of directors. However, given this would not release directors in instances of error, bad faith, fraud or misrepresentations of accounting, Glass Lewis further notes that when there are significant concerns regarding a board's actions during the prior fiscal year and they find a material risk to shareholder value resulting from such actions (or inaction), they will recommend voting against this proposal.

## ISS

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### VOTING ON DIRECTOR NOMINEES UNDER UNCONTESTED ELECTIONS

ISS updated its policy to include the latest changes in Brazilian regulation, following the approval of a new Business Development Law in 2021, (Law 14,195), which mandates, among other changes, a minimum board independence to all publicly traded companies. The new law was regulated by the Brazilian Securities Regulator (CVM) in 2022 (Resolution 168), setting **a minimum board independence level of 20 percent for all publicly traded boards**.

However, given ISS' benchmark policy already provisions for higher board independence levels, there are no changes to the policy itself - **boards of issuers belonging to the Novo Mercado and Nivel 2 listing segments must be at least 50-percent independent**, while companies listed under **Nivel 1 or the Traditional segment must have at least one-third of the board or two directors, whichever is higher, classified as independent**.

### MANAGEMENT COMPENSATION

ISS updated its policy last year, giving companies a one-year grace period to adjust their disclosure to improve transparency of the distribution of the global remuneration cap for the company's administrators (statutory executives, board members and, when applicable, fiscal council members) shareholders are asked to approve for the current fiscal year, given the board of directors carries the discretion to allocate the approved remuneration amongst the different administrators' bodies and there is no mandatory individual compensation package disclosure.

Under this policy update, which goes into effect as of February 1, 2024, **ISS will generally recommend against the annual binding say-on-pay proposal of companies that report a problematic pay practice, in the absence of a compelling rationale and in cases where there are governance concerns regarding the companies’ compensation practices.** Such as when:

- The company fails to present a detailed remuneration proposal, or the proposal lacks clarity;
- The figure provided by the company for the total compensation of its highest-paid executive is not inclusive of all elements of the executive’s pay;
- There are governance concerns regarding the company’s compensation practices; or
- **When the figure reported by the company as the highest compensation paid to a non-executive director is larger than the highest executive remuneration disclosed for the most recent fiscal year, in the absence of a compelling rationale.**

Proposals that represent a significant increase in the amount approved at the previous AGM (year-over-year increase), will be analyzed on a case-by-case basis, jointly considering some or all of the following factors, as relevant:

- Whether there is a clearly stated and compelling rationale for the proposed increase;
- Whether the remuneration increase is aligned with the company’s long-term performance and/or operational performance targets disclosed by the company;
- Whether the company has had positive TSR for the most recent one- and/or three-year periods;
- Whether the relation between fixed and variable executive pay adequately aligns compensation with the company’s future performance.

Same rationale will apply, on a case-by-case basis, when companies **propose to amend previously-approved global compensation caps**, paying particular attention as to whether the company has presented a compelling rationale for the request.

Morrow Sodali will continue to monitor changes in ISS and GL policies and how those changes may affect our clients and will keep you informed.

Please contact your Morrow Sodali representative with any questions.

**ABOUT MORROW SODALI**

Morrow Sodali is a leading provider of strategic advice and shareholder services to corporate clients around the world. The firm provides corporate boards and executives with strategic advice and services relating to corporate governance, shareholder and bondholder communication and engagement, capital markets intelligence, proxy solicitation, shareholder activism and mergers and acquisitions.

From headquarters in New York and London, and offices and partners in major capital markets, Morrow Sodali serves more than 1,000 corporate clients in 80+ countries, including many of the world’s largest multinational corporations. In addition to listed and private companies, its clients include financial institutions, mutual funds, ETFs, stock exchanges and membership associations.

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