APPENDICES

Appendix 1: IFC Corporate Governance Progression Matrix [Listed Companies]

Attributes	LEVEL 1 Acceptable CG Practices	LEVEL 2 Extra Steps to Ensure Good CG	LEVEL 3 Major Contribution to Improving CG Nationally	LEVEL 4 Leadership
A. Commitment to Corporate Governance	› The basic formalities of corporate governance are in place. › The company has a written articulated set of policies or corporate governance code addressing, at a minimum, the rights and treatment of shareholders, the role of the board, and transparency and disclosure. › The company has a written code of ethics, approved by the board.	› The company has a designated officer responsible for ensuring compliance with the company's corporate governance policies and code and also a compliance officer for its code of ethics. › The company periodically discloses to shareholders its corporate governance code and practices, and the extent to which such practices conform to the country's voluntary code of best practices.	› The company meets all applicable recommendations of the country's voluntary code of best practices. › The board has a corporate governance committee.	› The company is publicly recognized as a national leader and among the global leaders in corporate governance.
B. Structure and Functioning of the Board Of Directors	› The board meets regularly, and deliberates independently of executive management. › Board members are given sufficient time and information for analysis and deliberation so they can exercise their duties of oversight and developing company direction and strategy. › The board includes directors who are neither executives of the company and its affiliates, nor a controlling shareholder.	› Two or more board members are independent of management and controlling shareholders. › The board has an audit committee with a majority of independent directors. › Board composition (competencies/skill mix) adequate for its oversight duties. Annual board and director evaluation conducted.	› The audit committee is composed entirely of independent directors. › A board committee composed entirely of independent directors is required to approve all material transactions with affiliates of the controlling shareholders, directors or management. › Other board specialized committees address special technical topics or potential conflicts of interest (e.g., nominations, compensation, risk). › The board is fully elected on an annual basis.	› The company's board is composed of a majority of independent directors.
C. Control Environment and Processes	› The company has in place an appropriate system of internal controls and internal audit that regularly interfaces with the external auditors and is accountable to the board.	› The company's financial statements are audited in accordance with International Standards on Auditing. › The board monitors the company's risk management and compliance policies and procedures.	› The company has a comprehensive compliance program that is annually reviewed.	› Internal controls, internal audit and external audit practices are in accordance with highest international standards.
D. Transparency and Disclosures	› Financial statements are prepared in accordance with an internationally recognized system of accounting, and audited by a recognized independent external auditing firm. › The company complies with all disclosure requirements under applicable laws, regulations and listing rules (fair disclosure). Investors and financial analysts are treated equally regarding information disclosure.	› The company publishes meaningful quarterly reports, containing segment reporting as well as results per share. Its practices go beyond local listing requirements. › The company prepares and presents all financial statements and reporting in accordance with IFRS or U.S. GAAP.	› The company discloses its code of ethics, the main provisions of its implementation program and the degree of compliance experienced in its annual report. › All disclosure and communications with shareholders are made available on the Internet in a timely fashion.	› Financial and non-financial disclosure practices are in accordance with highest international standards.
E. Treatment of Minority Shareholders	› Minority shareholders are provided with adequate notice and an agenda of all shareholders' meetings; and are permitted to participate and vote at shareholders' meetings. › All shareholders of the same class are treated equally with respect to voting rights, subscription rights and transfer rights. › Holders of all securities of the same type and class are treated equally with respect to information disclosure (fair disclosure). › Shareholders are provided with accurate and timely information regarding the number of shares of all classes held by controlling shareholders and their affiliates (ownership concentration).	› Effective representation of minority shareholders is provided by cumulative voting or similar mechanisms. › The company has clearly articulated and enforceable policies with respect to treatment of minority shareholders in changes of control. › The company has a well understood policy and practice of full and timely disclosure to shareholders of all material transactions with affiliates of the controlling shareholders, directors or management (conflicts of interest); and complete, timely and accurate disclosure is made of all material shareholder agreements. › The annual report discloses the principal risks to minority shareholders associated with the identity of the company's controlling shareholders; the degree of ownership concentration; cross-holdings among company affiliates; and any imbalances between the controlling shareholders' voting power and	› The company has effective shareholder voting mechanisms in place to protect minority shareholders against unfairly prejudiced actions of controlling shareholders when ownership is especially concentrated or controlling shareholders may have strong conflicts of interest (e.g., super-majority or "majority of minority" provisions).	› The company's history of equitable treatment of shareholders demonstrates consistent conformance with international market expectations.

Appendix 2: Organizations Involved In Corporate Governance[1]

ARGENTINA

Bolsa de Comercio de Buenos Aires
www.bcba.sba.com.ar

Cámara de Sociedades Anónimas
www.camsocanon.com

Centro para la Estabilidad Económica
www.cefargentina.org

Comisión Nacional de Valores Buenos Aires
www.cnv.gov.ar

Fondos Argentina
www.fondosargentina.org.ar

Fundación Empresarial para la Calidad y la Excelencia
www.fundece.org.ar

Instituto Argentino de Responsabilidad Social Empresarial
www.iarse.org

Instituto Argentino para el Gobierno de las Organizaciones
www.iago.org.ar

Mercado de valores de Buenos Aires
www.merval.sba.com.ar

BOLIVIA

Bolsa de Valores de Bolivia
www.bbv.com.bo

Superintendencia de Bancos y Entidades Financieras de Bolivia
www.sbef.gov.bo

BRAZIL

Associação de Investidores no Mercado de Capitais
www.amecbrasil.org.br

BM&FBOVESPA Bolsa de Valores, Mercadorias e Futuros
www.bmfbovespa.com.b

Centro de Estudos em Governança Corporativa
www.ceg.org.br

Comissão de Valores Mobiliários
www.cvm.gov.br

Instituto Brasileiro de Governança Corporativa
www.ibgc.org.br

CHILE

Centro de Gobierno Corporativo y Mercado de Capitales
www.cgcuchile.cl

Centro para el Gobierno de la Empresa
www.gobiernodelaempresa.cl

Superintendencia de Pensiones
www.spensiones.cl

Superintendencia Valores y Seguros
www.svs.cl

COLOMBIA

Asociación Colombiana de Administradoras de Fondos de Pensiones y Cesantías
www.asofondos.org.co

Asociación Nacional de Empresarios de Colombia
www.andi.com.co

[1] Note that this list is not intended to be exhaustive, it reflects organisations active in the area of corporate governance in the region.

Asociación Nacional de Fiduciarias
www.asofiduciarias.org.co

Asociación Nacional de Instituciones Financieras
www.anif.com.co

Auto-regulador del Mercado de Valores
www.amvcolombia.org.co

Bolsa de Valores de Colombia
www.bvc.com.co

Cámara de Comercio de Medellín
www.camaramedellin.com.co

Confederación Colombiana de Cámaras de Comercio
www.confecamaras.org.co

Superintendencia Financiera de Colombia
www.superfinanciera.gov.co

Superintendencia de Sociedades
www.supersociedades.gov.co

COSTA RICA

Bolsa de Valores de Costa Rica
www.bolsacr.com

Superintendencia General de Valores
www.sugeval.fi.cr

DOMINICAN REPUBLIC

Superintendencia de Valores de la República Dominicana
www.siv.gov.do

ECUADOR

Bolsa de valores de Quito
www.bolsadequito.com

Buen Gobierno Corporativo
www.gobiernocorporativo.com.ec

Superintendencia de Compañías
www.supercias.gov.ec

EL SALVADOR

Bolsa de Valores de El Salvador
www.bves.com.sv

Superintendencia de Valores
www.superval.gob.sv

MEXICO

Asociación de Bancos de México
www.abm.org.mx

Asociación Mexicana de Intermediarios Bursátiles
www.amib.com.mx

Bolsa Mexicana de Valores
www.bmv.com.mx

Centro de Excelencia en Gobierno Corporativo
www.uas.mx/cegc

Comisión Nacional Bancaria y de Valores
www.cnbv.gob.mx

Consejo Coordinador Empresarial
www.cce.org.mx

NICARAGUA

Bolsa de Valores de Nicaragua
www.bolsanic.com

Superintendencia de Bancos y Otras Instituciones Financieras
www.siboif.gob.ni

PANAMA

Asociación de Administradoras de Fondos de Pensión
www.asociacionafp.com.pe

Bolsa de valores de Panamá
www.panabolsa.com

Comisión Nacional de Valores
www.conaval.gob.pa

Instituto de Gobierno Coporativo Panamá
www.igc-panama.org

PERU

Bolsa de valores de Lima
www.bvl.com.pe

Comisión Nacional Supervisora Empresas y Valores
www.conasev.gob.pe

Procapitales
www.invertir.org.pe/procapitales.asp

USA

Center for International Private Enterprise
www.cipe.org

Council of the Americas
www.counciloftheamericas.org

Council of Institutional Investors
www.cii.org

Latin American Venture Capital Association
www.lavca.org

EStandards Forum (Financial Standards Foundation)
www.estandardsforum.org

VENEZUELA

Asociación Venezolana de Ejecutivos
www.ave.org.ve

Comisión Nacional de Valores
www.cnv.gov.ve

INTERNATIONAL

Corporación Andina de Fomento
www.caf.com

Global Corporate Governance Forum
www.gcgf.org

Ibero-American Federation of Exchanges
www.fiabnet.org

Instituto Iberoamericano de Mercados de Valores
www.iimv.org

InterAmerican Development Bank
www.iadb.org

International Corporate Governance Network
www.icgn.org

International Finance Corporation
www.ifc.org/corporategovernance

International Monetary Fund
www.imf.org

Organisation for Economic Co-operation and Development (OECD) Companies Circle
www.oecd.org/daf/companiescircle

OECD Latin American Roundtable on Corporate Governance
www.oecd.org/daf/corporate-affairs/round-tables

World Bank
www.worldbank.org

World Federation of Exchanges
www.world-exchanges.org

Appendix 3: Corporate Governance Benchmark Questionnaire[1]

Also available at: *www.oecd.org/daf/companiescircle*

1 The Benchmark Questionnaire was developed by Better Governance Consulting Services—a Brazilian-based company—with the support of IFC, OECD and GCGF.

Appendix 3: Corporate Governance Benchmark Questionnaire

Main Topic	Theme	#
Commitment to Corporate Governance	"One Share=One Vote"	1
		2
	Shareholders' Agreement	3
		4
	Internal Regulations	5
	Succession Planning	6
		7
	Annual General Meeting	8
		9
		10

This 100-point benchmarking questionnaire was designed to serve as a reference for self-evaluating corporate governance practices in listed companies. This Guide starts from the idea that an individual company's approach depends on its own unique set of circumstances but considers that there are similarities across companies perceived as valuable by the market agents. In this context, this self-assessment tool may facilitate identifying gaps and help improve decision-making. It can certainly serve to orient the discussion among companies' leaders.

Question	Yes	No	NA	Comments
Does the company only have common shares*?	O	O	O	
If the company has preferred shares*, are there voting rights on relevant questions, such as merger, split-up, purchase of relevant assets, approval of relevant contracts between companies in the same group and the like?	O	O	O	
In case the company has a shareholders' agreement, is it disclosed to all other shareholders?	O	O	O	
Does the shareholders' agreement bind or restrict any of the directors' voting rights?	O	O	O	
Does the company have a corporate governance code, policy, charter or guidelines that outline the governance practices of the company and, in particular, the role of the board?	O	O	O	
Does the company have a written policy on succession planning approved by the board —for, at minimum, the CEO position?	O	O	O	
Does the board have an updated and formal succession plan for the CEO?	O	O	O	
Are public notices posted for annual general meetings within the 30-day minimum time period?	O	O	O	
Are reports and other documents related to the agenda available to all shareholders on the date that the agenda is first posted?	O	O	O	
Does the company send a detailed proxy statement to its investors in advance of the shareholders' meeting?	O	O	O	

* See Glossary.

Appendix 3

Benchmark Questionnaire

Main Topic	Theme	#
Commitment to Corporate Governance (continued)	Annual General Meeting (continued)	11
		12
		13
	Code of Conduct	14
		15
		16
Structure and Functioning of the Board of Directors and interface with management*	Chairman and CEO	17
		18
	Number of Members	19

Question	Yes	No	NA	Comments
Can shareholders vote by proxy* or other methods instead of personal attendance at shareholders' meetings?	O	O	O	
Is there a mechanism to permit nominations to the board by minority shareholders, such as cumulative voting*, block voting and the like?	O	O	O	
Is there a mechanism allowing minority shareholders to introduce proposals for discussion and vote at shareholders' meetings?	O	O	O	
Does the company have a code of conduct/ethics prepared by management and approved by its board of directors*?	O	O	O	
In the annual report, does the company disclose its code of ethics, the main provisions of its implementation program and its degree of compliance?	O	O	O	
Does the company have a designated officer or specific committee responsible for ensuring compliance with the company's corporate governance policies and code and with its code of ethics / conduct, reporting to its board of directors?	O	O	O	
Are the positions of chairman of the board and CEO occupied by different people?	O	O	O	
If the CEO is a formal member of the board, does the board hold regular executive sessions without the presence of executives?	O	O	O	
How many members sit on the company's board of directors?				

Main Topic	Theme	#
Structure and Functioning of the Board of Directors and interface with management* (continued)	Independent Directors	20
		21
		22
		23
		24

Question	Yes	No	NA	Comments
Does the board of directors have at least two board members who are independent of management and controlling shareholders?	O	O	O	
Is the board of directors comprised of a majority of independent members?	O	O	O	
Using the next column to insert numbers, detail the composition of the board of directors by type of director:				
a. independent directors				
b. outside directors representing controlling shareholders				
c. inside directors (executives of the company)				
Using the next column to insert numbers, describe the composition of the board of directors by type of director:				
a. directors appointed by controlling shareholders				
b. directors appointed by other shareholder groups				
c. directors appointed by employees				
d. other				
For family-controlled firms, describe the composition of the board of directors, Using the next column to insert numbers:				

Main Topic	Theme	#
Structure and Functioning of the Board of Directors and interface with management* (continued)	Independent (continued)	Directors
		25
	Term of Office	26
		27
		28
	Compensation	29
		30

Question	Yes	No	NA	Comments
a. directors from the controlling family				
b. directors representing the controlling family but not family members				
c. independent directors				
d. others				
If applicable, does any minority shareholder (such as an institutional investor) or block of them actually appoint any director in the board?	○	○	○	
Is the board fully elected on an annual or bi-annual basis?	○	○	○	
Is re-election permitted only after a formal performance evaluation of the directors?	○	○	○	
Is there a formal procedure for selection of new directors that prevents, or at least limits, the intervention of executives in this process?	○	○	○	
Does the company disclose the compensation and benefits of the management team (money, shares, total package and the like)?	○	○	○	
Does the company disclose the compensation and benefits of directors (money, shares, total package and the like)?	○	○	○	

Main Topic	Theme	#
Structure and Functioning of the Board of Directors and interface with management* (continued)	Compensation (continued)	31
	Budget of the Board and External Consultants	32
		33
	Committees	34
		35
		36
		37
		38
	Corporate Secretary	39

Question	Yes	No	NA	Comments
Does the company have a formal and transparent procedure in place to develop compensation policies and set compensation packages for management?	○	○	○	
Does the board of directors have its own budget approved by the shareholders?	○	○	○	
Are directors entitled to consult with outside professionals (lawyers, auditors, specialists, among others) paid by the company, to get specific advice on relevant matters?	○	○	○	
Does the board have committees comprised solely of directors, such as audit committees, compensation committees and governance committees?	○	○	○	
Do the committees have bylaws*/statutes that define their make-up and methods of operation?	○	○	○	
Are the committees chaired by independent directors?	○	○	○	
Do the bylaws prohibit executive/ senior manager membership on board committees?	○	○	○	
Is there a provision that a board committee comprised entirely of independent directors is required to approve all material transactions with affiliates of the controlling shareholders, directors or management?	○	○	○	
Does the company have a corporate secretary, whose responsibilities include the organization and functioning of the board of directors?	○	○	○	

Main Topic	Theme	#
Structure and Functioning of the Board of Directors and interface with management* (continued)	Corporate Secretary (continued)	40
	Conflict of Interest	41
		42
		43
		44
	Board Meetings	45
		46
		47
		48
	Evaluation of the Board and of Directors	49

Question	Yes	No	NA	Comments
Is acting/serving as corporate secretary the exclusive role of this employee?	○	○	○	
Do the bylaws prohibit loans to the controlling shareholder and related parties?	○	○	○	
In the last five years, has the company been investigated by a regulator or a stock exchange for treatment of shareholders?	○	○	○	
Are there formal rules on dealing with conflicts of interest within the board of directors and among members of the management team?	○	○	○	
Is there a written policy on negotiation and approval of related parties' transactions (RPTs)?	○	○	○	
Does the board meet with frequency: a maximum of once a month or a minimum of six times per year?	○	○	○	
Does the board have an annual meetings agenda?	○	○	○	
Is there an annual calendar of board meetings, detailing board topics for each meeting? Example: human resources will be reviewed at the February meeting; risk management will be reviewed at the May meeting.	○	○	○	
Do directors receive all documentation at least seven days in advance of the meeting?	○	○	○	
Does the board of directors formally evaluate its performance or formally review its effectiveness?	○	○	○	

Main Topic	Theme	#
Structure and Functioning of the Board of Directors and interface with management* (continued)	Evaluation of the Board and of Directors (continued)	50
		51
	Evaluation of Officers	52
		53
		54
		55
	Officer Nominations	56
Control Environment and Processes: Internal Control (IC), Internal Audit (IA) and External Audit (EA)	Internal Controls	57
		58
	Audit Committee	59
		60

Question	Yes	No	NA	Comments
Does the board of directors formally evaluate the individual performance of the directors?	O	O	O	
Does an independent third party conduct board and director evaluations?	O	O	O	
Does the board of directors conduct an annual formal evaluation of the CEO?	O	O	O	
Does an independent third party conduct the CEO evaluation?	O	O	O	
Do officers participate in self-evaluations and evaluate the effectiveness of their peers?	O	O	O	
Does the company use economic value added metrics in order to evaluate performance (ex. EVA, GVA, etc)	O	O	O	
Does the board approve the slate of officers nominated by the CEO?	O	O	O	
Does the company have an appropriate system of internal controls and internal audit that regularly interfaces with the external auditors and is accountable to the board?	O	O	O	
Does the board systematically monitor the company's risk management and compliance policies and procedures?	O	O	O	
Does the company have an audit committee?	O	O	O	
Is the audit committee made up of non-executive directors?	O	O	O	

Main Topic	Theme	#
Control Environment and Processes: Internal Control (IC), Internal Audit (IA) and External Audit (EA) (continued)	Audit Committee (continued)	61
		62
		63
		64
	Independent Auditing	65
		66
		67
		68
		69

Question	Yes	No	NA	Comments
Is the audit committee made up solely of independent directors?	○	○	○	
Does the audit committee regularly meet with the CEO, other officers, and auditors?	○	○	○	
Does the audit committee meet jointly and separately with the internal and external auditors?	○	○	○	
Does the audit committee evaluate the quality of information from subsidiaries, associated companies and third parties, which may impact on the consolidated financial statements?	○	○	○	
Does the board of directors/audit committee select the independent auditors and periodically formally evaluate its work?	○	○	○	
Are the auditors hired for a pre-established period, with the possibility of contract renewal following a formal and documented evaluation by the audit committee and/or board of directors?	○	○	○	
Does the company require rotation of audit firms?	○	○	○	
If the company doesn't require rotation of audit firms, does it require rotation of audit partner?	○	○	○	
Have the independent auditors reported any disagreement with the firm's financial statements in the past five years?	○	○	○	

Main Topic	Theme	#
Control Environment and Processes: Internal Control (IC), Internal Audit (IA) and External Audit (EA) (continued)	Independent Auditing (continued)	70
	Internal Auditing	71
		72
		73
	Other Fiscal Body	74
	Risk Management	75
		76
		77
Transparency and Disclosure	Disclosure	78

Question	Yes	No	NA	Comments
In case the independent auditor provides other professional services, are the audit committee and/or board of directors aware of all the services and fees?	O	O	O	
Does the internal audit unit report directly to the audit committee or to the board of directors?	O	O	O	
Does the internal audit unit have an audit charter that is approved by the audit committee or by the board?	O	O	O	
Are work plans and programs consistent with relevant local or international internal control frameworks and internal auditing standards?	O	O	O	
If the company does not have an audit committee, has it established a permanent and independent body with a similar function?	O	O	O	
Does the board periodically review the company's risk management systems?	O	O	O	
Do the board and management appropriately assess risks when planning new strategies, activities and products?	O	O	O	
In the annual report, does the company disclose the main risk factors that can impact the firms' cash flow?	O	O	O	
Does the annual report* set aside a specific chapter/section for the company's corporate governance practices that are in place or that will be implemented soon?	O	O	O	

Main Topic	Theme	#
Transparency and Disclosure (continued)	Disclosure **(continued)**	79
		80
		81
		82
		83
		84
		85
		86

Question	Yes	No	NA	Comments
Do the bylaws, annual report or other corporate document explain the company's corporate governance model?	○	○	○	
Does the company periodically disclose to shareholders its corporate governance code and practices, and the extent to which such practices conform to the country's voluntary code of best practices?	○	○	○	
Does the company disclose its code of ethics, the main provisions of its implementation program and the degree of compliance experienced in its annual report?	○	○	○	
Does the annual report provide information about the compensation of the directors and officers on an individual or aggregate basis?	○	○	○	
Does the company publish meaningful quarterly reports, containing segment reporting (reports by business units) as well as results per share?	○	○	○	
Are all disclosure and communications with shareholders made available on the Internet in a timely fashion?	○	○	○	
Does the company have a well-understood policy and practice of full and timely disclosure to shareholders of all material transactions with affiliates of the controlling shareholders, directors or management?	○	○	○	
Are shareholders provided with accurate and timely information on the Web site regarding the number of shares held by controlling shareholders and their affiliates (ownership concentration)?	○	○	○	

Main Topic	Theme	#
Transparency and Disclosure (continued)	Disclosure (continued)	87
		88
		89
	Use of insider information	90
		91
Treatment of Minority Shareholders	Corporate Control Acquisition	92
		93
		94
	Family Issues (if company is controlled by or founder or family)	95
		96

Question	Yes	No	NA	Comments
Does the annual report disclose the principal risks to minority shareholders associated with the identity of the company's controlling shareholders?	○	○	○	
Does the company prepare and present all financial statements and reporting in accordance with IFRS or U.S. GAAP?	○	○	○	
Is the audit committee briefed on the major off-balance sheet items and their potential impact if taken into account on the financial statements?	○	○	○	
Does the company have a policy for disclosure of relevant information to the market?	○	○	○	
Is there a policy for the securities negotiation, including periods when share trading by managers or any other people with privileged information is forbidden?	○	○	○	
Does the company grant tag-along rights (a mandatory bid rule in case of control transfer) for minority shareholders* beyond what is legally required?	○	○	○	
Does the company grant 100 percent tag-along to non-voted shares?	○	○	○	
Is there a policy that demands shareholders' approval before adopting a poison pill*?	○	○	○	
Do shareholders have a family board?	○	○	○	
Are the activities of the family board formalized in any document?	○	○	○	

Main Topic	Theme	#
Treatment of Minority Shareholders (continued)	Family Issues (continued)	97
		98
		99
		100

Question	Yes	No	NA	Comments
Are there clear rules for family members who work in the company?	○	○	○	
Is there a clear separation of roles between the family board and the board of directors?	○	○	○	
Is there a family office in place to manage family businesses, wealth and other issues?	○	○	○	
If there is no family office, are personal expenses, investments or any other personal services handled outside of the company?	○	○	○	

Appendix 4: Indicative Independent Director Definition [International Finance Corporation]

The purpose of identifying and appointing independent directors is to ensure that the board includes directors who can effectively exercise their best judgment for the exclusive benefit of the Company, judgment that is not clouded by real or perceived conflicts of interest. IFC expects that in each case where a director is identified as "independent" the board of directors will affirmatively determine that such director meets the requirements established by the board and is otherwise free of material relations with the Company's management, controllers, or others that might reasonably be expected to interfere with the independent exercise of his/her best judgment for the exclusive interest of the Company. An indicative definition follows. In each case, the Company and IFC should consider changes tailored to those sorts of relationships that would impair a director's independence, taking into account the circumstances of the particular Company.

"Independent Director" means a Director who has no direct or indirect, material relationship with the Company other than membership on the Board and who:

a. is not, and has not been in the past five (5) years, employed by the Company or its Affiliates;
b. does not have, and has not had in the past five (5) years, a business relationship with the Company or its Affiliates (either directly or as a partner, shareholder (other than to the extent to which shares are held by such director pursuant to a requirement of Applicable Law in the Country relating to directors generally), director, officer or senior employee of a Person that has or had such a relationship);
c. is not affiliated with any non-profit organization that receives significant funding from the Company or its Affiliates;
d. does not receive and has not received any additional remuneration from the Company or its Affiliates other than his director's fee and such director's fee does not constitute a significant portion of his annual income;
e. does not participate in any share option [scheme]/[plan] or pension [scheme]/[plan] of the Company or any of its Affiliates;
f. is not employed as an executive officer of another company where any of the Company's executives serve on that company's board of directors;
g. is not, nor has been at any time during the past five (5) years, affiliated with or employed by a present or former auditor of the Company or any of its Affiliates;
h. does not hold a material interest in the Company or its Affiliates (either directly or as a partner, shareholder, director, officer or senior employee of a person that holds such an interest);
i. is not a member of the immediate family (and is not the executor, administrator or personal representative of any such Person who is deceased or legally incompetent) of any individual who would not meet any of the tests set out in (a) to (i) above (were he a director of the Company); and
j. has not served on the Board for more than [ten (10)] years.

For purposes of this definition "material interest" shall mean a direct or indirect ownership of voting shares representing at least [two percent (2%)] of the outstanding voting power or equity of the Company or any of its Affiliates.

Appendix 5: Methodology for Chapter 7 Analysis

This appendix details the methodology followed for all quantitative analyses presented in Chapter 7, which evaluates the general hypothesis that the adoption of good governance practices by Companies Circle members has positively influenced their overall performance. This is investigated by applying five different approaches. The data were collected from the Economatica® database, a system focused on Latin American companies widely used by market practitioners and academic researchers from the region. The system collects stock price and other corporate data directly from stock exchanges from the region, thus avoiding potential errors from data gathering. The peer group of Latin American companies represents all listed companies from the region covered by Economatica® and with active stocks as of March 2009.[1] To facilitate the comparisons, all data were collected in US dollars, converted by the official exchange rate as of the respective dates to which the data refer.[2] The methodological details are presented separately for each of the five approaches used in the chapter.

Approach 1 Comparison of selected operational indicators of the Companies Circle members against Latin American listed firms.

Related chart: Chart 1

Methodological details:

- Chart 1 compares mean results from the group of 14 Companies Circle members against the group of 1,078 Latin American listed companies.
- Data refer to the years 2005-2007.
- The numbers displayed in the chart refer to the three-year average of each group.
- To avoid any bias from extreme data, outliers from the Latin American group were excluded (2.5 percent highest and 2.5 percent lowest results).[3]

Approach 2 Evolution of the yearly economic profit (a simplified version of EVA®) of Companies Circle members against Latin American listed firms.

Related chart: Chart 2

Methodological details:

1 Not all Companies Circle members were used in all of the analyses. The Suzano Group is treated as two separate companies, Suzano Papel e Celulose and Suzano Petroquímica, since the two firms were listed separately on the stock exchange, although they participated in the Circle as a single company and both entities belonged to the same controlling group. Suzano Petroquímica was excluded from the 2008 data, following its 2007 acquisition by Petrobras. The analysis does not include Atlas, which was listed in Costa Rica before its 2008 acquisition by Mabe of Mexico, since the Economatica® database does not cover companies listed on the Costa Rican stock market.

2 For instance, when the market capitalization data of a Brazilian company are provided in relation to December 31, 1997, market capitalization is calculated in Brazilian Reals (BRL) at that time divided by the official BRL / USD exchange rate of December 31, 1997.

3 Outliers for Companies Circle members were not excluded because of the small sample size, which would potentially lead to greater distortions in the data. As a robustness test, all analyses were re-run excluding the highest and lowest performing members of the Companies Circle, obtaining similar overall results and conclusions. To further investigate the possible effect of outliers, median values for both groups were compared, in addition to mean values. In this case, the results even more clearly favored Companies Circle members.

- Chart 2 analyzes the evolution of the economic profit (through a proxy of EVA®) of the group of 14 Companies Circle members against the group of 1,078 Latin American listed companies from 1995 to 2007.
- Economatica® database supplied the financial data.
- Discount rates (cost of equity and cost of debt) were provided by Damodaran Online (www.stern.nyu.edu/~adamodar/).
- Emerging Market Bond Index (EMBI+)[4] data were provided by http://www.cbonds.info/.
- Tax rates for each country were provided by the KPMG Tax Rate Survey.
- The numbers in the chart refer to the average of all Companies Circle members and the average of all 1,078 Latin American companies provided by Economatica®.
- EVA® proxy was calculated as Net Income + Interest Expense * (1-Corporate Tax Rate)-WACC[5] * Invested Capital.
- Invested Capital was calculated as: Total Assets – Deferred Asset – Investments / holdings in affiliates / controlled firms – Long Term Liabilities + Short and Long Term Financial Debt + Short and Long Term Bonds Payable + Payable Debts with affiliates/controlled firms.
- WACC was estimated using book value of equity and book value of debt (short and long term, including bonds).
- Cost of debt and cost of equity were estimated as the industry's cost of equity and debt in the US (directly provided by Damodaran Online) plus country risk for the respective year (measured by the spread between each country's EMBI+ and US Treasury bonds).
- To avoid any bias from extreme data, outliers from the Latin American group were excluded (2.5 percent highest and lowest results).[6]

Approach 3 Comparison of selected market indicators of the Companies Circle members against Latin American listed firms.

Related chart: Chart 3

Methodological details:

- Chart 3 compares mean results from the group of 14 Companies Circle members against the group of 1,078 Latin American listed companies.
- Data refer to the years 2005-2007.
- The numbers presented on the chart refer to the three-year average of each group.
- To avoid any bias from extreme data, outliers from the Latin American group were excluded (2.5 percent highest and lowest results).[7]

Approach 4 Analysis of the impact of unexpected announcements of improvements in corporate governance practices on stock prices.

Related chart: Chart 4

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4 EMBI+ is a benchmark bond market index produced by investment bank J.P. Morgan. It tracks total returns for traded external debt instruments in the emerging markets. Since it indicates the interest rates paid by emerging countries on their external bonds, it is widely viewed as a proxy for measuring country risk.

5 WACC is the Weighted Average Cost of Capital. It is the overall cost of capital of a firm, based on both the costs of equity and debt capital. It is also understood as the rate, which a company is expected to pay to finance its assets, or the minimum return that a company must earn on existing asset-base to satisfy its creditors, owners, and other providers of capital. It is calculated using the following equation: $WACC = (E/(E+D) * ke) + (D/(E+D) * kd)(1 - Tc)$, where: E = Market value of the firm's equity; D = Market value of the firm's debt; ke = Cost of equity capital; kd = Cost of debt capital; and, Tc = corporate tax rate.

6 Similar to the explanation in Footnote 1, all analyses were re-run without excluding outliers, with overall results remaining qualitatively similar.

7 Similar to the explanation in Footnote 1, all analyses were re-run excluding the highest and lowest performing members of the Companies Circle as a robustness test, obtaining the same overall conclusions. We also have compared the median values for both groups, in addition to mean values, with results remaining similar.

Methodological details:

- Chart 4 presents aggregate results from the announcement of corporate governance improvements on Companies Circle members from 1998 to 2007.
- After exclusions due to lack of share liquidity or share trading during the event period, 12 different events from eight Companies Circle members were identified.
- Clear events were not identified for Atlas, Cemento Argos, Ferreyros, ISA, Marcopolo, NET and Ultrapar.
- A 16-day event window was established, between five days before publication (D-5) and ten days after publication (D+10).
- Abnormal returns were measured by the market model used in the calculation of expected returns.
- The estimation window included 50 trading days before the event window (from -55 to -6).
- The table below presents a summary of all events analyzed. The events were selected based on their potential for improvements in the corporate governance practices of Companies Circle members:

Table 1 Summary Table with All Events Analyzed

# News	Company	Country	Event Date	News Headline	Corporate Governance Rationale
1	Buenaventura	Peru	12/18/95	Buenaventura will Launch ADRs on NYSE	A cross-listing in an environment with higher corporate governance requirements indicates a clear commitment to more disclosure and better governance practices
2			4/1/02	Buenaventura Combines A and B Share Classes into One Type Only	A consolidation of share classes into a single class adopting the one-share one-vote rule is in line with the recommendations of most corporate governance codes
3	CCR Rodovias	Brazil	4/3/07	CCR Elects an Independent Director to its Board	An election of an independent director signals a move towards a board structure with independent oversight of management
4	CPFL Energia	Brazil	3/15/07	CPFL Simplifies Ownership Structure	A simplification of the ownership structure makes it easier for outside investors to understand the financial flows inside and outside the company
5	Embraer	Brazil	7/21/00	Embraer will have ADRs Issued on NYSE	See rationale for Event 1
6			1/13/06	Embraer Prepares for Ownership Restructuring and Conversion of Non-Voting Shares	See rationale for Event 2
7	Homex	Mexico	10/10/06	Homex Elects an Independent Director to its Board.	See rationale for Event 3
8	Natura	Brazil	2/28/05	Natura Announces a New Professional CEO Consistent with Its Succession Plan.	The planned succession of a CEO, especially one with no family ties with the controlling shareholders, can be seen as a signal of a merit-based and well-governed environment
9			12/2/05	Natura Joins the New BOVESPA Index—ISE	The selection for an index comprising companies with commitments to higher standards of governance and sustainability demonstrates a concrete effort of the company in this direction

# News	Company	Country	Event Date	News Headline	Corporate Governance Rationale
10	Suzano Papel e Celulose	Brazil	5/9/03	Suzano Announces a New Corporate Governance Model	The announcement of improvements to the composition and functioning of the board signals the company's strong efforts towards better governance practices
11			6/2/06	Suzano Announces a New CEO from Outside the Controlling Family	See rationale for Event 8
12	Suzano Petroquímica	Brazil	10/25/04	Suzano Petroquímica Joins BOVESPA's Corporate Governance Level 2	The migration to a listing segment with stricter corporate governance requirements demonstrates movement towards better governance practices

Approach 5 Analysis of annual stock returns of Companies Circle members against different benchmarks.

Related charts: Chart 5a, 5b, 5c, and 5d

Methodological details:

- Chart 5a presents the compound annual stock returns of the Companies Circle members against an equally-weighted portfolio with 1,073 Latin American companies.
- Chart 5b presents the compound annual stock returns of the Companies Circle members against an equally-weighted portfolio with all 113 Latin American companies with ADRs.
- Chart 5c presents the compound annual stock returns of the Companies Circle members against an equally-weighted portfolio with 1,073 Latin American companies, after adjusting for country weights.
- The annual return of each stock was computed by dividing the stock price on the last trading day of the year by the stock price on the first trading day of the given year. Stock prices are adjusted by the Economatica® system for all corporate actions (such as stock splits, capital adjustments, capital reductions, reversed splits) including cash dividends. This adjustment is made to avoid accounting for corporate actions that trigger abrupt changes in the stock price series and do not truly represent stock appreciation or depreciation.
- The portfolio return was computed as the average return of all firms with shares traded in each year.
- For the country0-weighted analysis (Chart 5c), the weight of each country in the Companies Circle portfolio of a given year was replicated in relation to two portfolios: all Latin American companies, and all companies with ADRs. For instance, for 2007, the return of the portfolio with all Latin American companies is calculated as follows: mean return of all Brazilian listed companies * weight of Brazilian companies (in this case 9/14, the weight of Brazilian companies in the Circle portfolio in 2007) + mean return of all Peruvian listed companies * weight of Peruvian companies (in this case 2/14) + mean return of all Colombian listed companies * weight of Colombian companies (in this case 2/14) + mean return of all Mexican listed companies * weight of Mexican companies (in this case 1/14).

Details on the risk-adjusted analysis:

Related charts: Chart 5d, 5e, and 5f

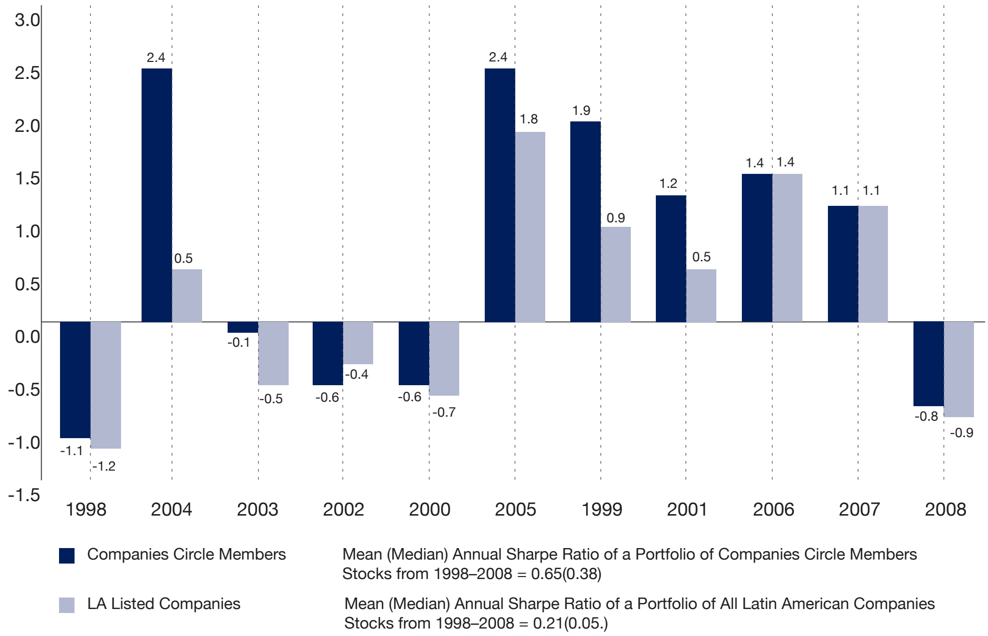
Methodological details:

- Charts 5d, 5e, and 5f present the results of risk-adjusted analysis, by comparing Sharpe Ratio, Treynor Ratio, and Jensen's alpha of Companies Circle members against a broad portfolio of 1,073 Latin American listed companies from 1998 to 2008.
- Three risk-adjusted measures that stand out in the literature and are widely used by market practitioners were employed: Sharpe Ratio, Treynor Ratio, and Jensen's Alpha.
- Sharpe Ratio (SR) is calculated by the following equation:
  SR = (portfolio return-risk-free rate) / portfolio volatility
  or,
  SR = (asset return-risk-free rate) / asset volatility

  Sharpe Ratio compares the asset return by discounting the risk-free rate where the asset is held (the systemic risk) and its volatility (the idiosyncratic risk). According to Investopedia[8]:

  Sharpe Ratio tells us whether a portfolio's returns are due to smart investment decisions or a result of excess risk. This measurement is very useful because although one portfolio or fund can reap higher returns than its peers, it is only a good investment if those higher returns do not come with too much additional risk. The greater a portfolio's SR, the better its risk-adjusted performance has been. A negative SR indicates that a risk-less asset would perform better than the security being analyzed.

Chart 5d Risk-adjusted analysis: Sharpe Ratio of Companies Circle members against a broad portfolio with 1,073 Latin American listed Companies from 1998 to 2008.



8 www.investopedia.com.

Treynor Ratio (TR) is calculated by the following equation:

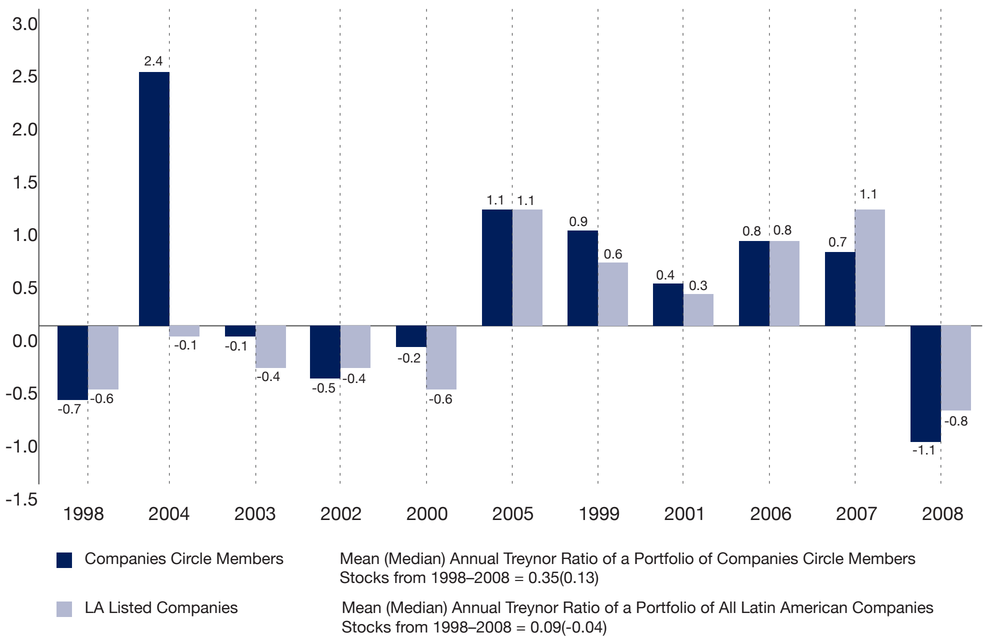
$$TR = \frac{portfolio\ return - risk\_free\ rate}{portfolio\ beta} = \frac{asset\ return - risk\_free\ rate}{asset\ beta}$$

TR = (portfolio return-risk-free rate) / portfolio beta

or,
TR = (asset return-risk-free rate) / asset beta

Treynor Ratio is similar to Sharpe Ratio. The difference is in the measure of the specific or idiosyncratic risk. Where Sharpe Ratio uses the annual stock volatility (standard deviation of returns), the Treynor Ratio uses the asset's beta, a measure of the correlation between asset and market returns.

Chart 5e Risk-adjusted analysis: Treynor Ratio of Companies Circle members against a broad portfolio with 1,073 Latin American listed Companies from 1998 to 2008.



Jensen's Alpha (J) is calculated by the following equation:

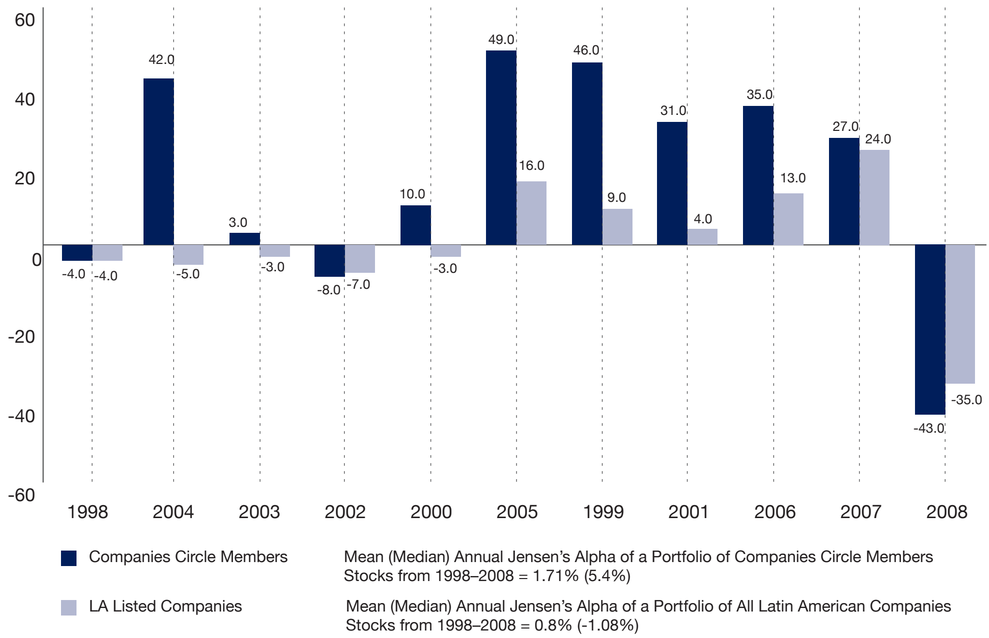
$$TR = \frac{portfolio\ return - risk\_free\ rate}{portfolio\ beta} = \frac{asset\ return - risk\_free\ rate}{asset\ beta}$$

J = asset return-[risk-free rate + asset beta * (benchmark return-risk-free rate)]

Jensen's Alpha tries to measure the "extra" return that an investor would earn by investing in a given asset. It is the difference between the asset return and the asset's expected return. The expected return is given by CAPM (Capital Asset Pricing Model), a widely-used asset-pricing method. According to Investopedia:

The basic idea is that to analyze the performance of an investment manager you must look not only at the overall return of a portfolio, but also at the risk of that portfolio. For example, if there are two mutual funds that both have a 12% return, a rational investor will want the fund that is less risky. Jensen's measure is one of the ways to help determine if a portfolio is earning the proper return for its level of risk. If the value is positive, then the portfolio is earning excess returns. In other words, a positive value for Jensen's alpha means a fund manager has "beat the market" with his or her stock picking skills.

Chart 5f Risk-adjusted analysis: Jensen's Alpha of Companies Circle members against a broad portfolio with 1,073 Latin American listed companies from 1998 to 2008.



To calculate the three risk-adjusted indicators, the following premises were adopted:

- Asset return: annual stock return, dividing stock prices at the end of a given year by their prices at the end of the previous year
- Risk-free rates: ten-year US Treasury bond average annual yield + average annual EMBI+ of the country where the firm is located (for instance, risk-free rate for a Brazilian company in 2005 is calculated by the average country risk during that year, proxied by EMBI+) plus the average annual yield of ten-year US Treasury bonds in 2005
- Asset volatility: standard deviation of annual asset returns
- Asset beta: based on the previous 36 months against the local stock market's overall index. For instance, the asset beta of a Brazilian company in 2005 is calculated by using stock returns from the last 36 months against IBOVESPA
- Market return: annual market return of the market index of the local stock exchange where the firm operates. For instance, for a Brazilian company in 2005 market return was calculated by IBOVESPA's annual return throughout 2005.

Section 4: Stock market reaction after the emergence of 2008 global financial crisis.

Related charts: Charts 6a, 6b, 6c, 6d, and Table 6e

Methodological details:

- Charts 6a and 6b compare mean results from the Companies Circle member group against a group of 1,073 Latin American listed companies.
- Data refer to the mean result of both groups at the end of 2008.
- The charts are constructed based on the same procedure as for Charts 1 and 3, which compare operational and market indicators for the 2005-2007 period. Similar to these charts, outliers from the Latin American group were excluded (2.5 percent highest and lowest results) to avoid any bias from extreme data.
- Charts 6c and 6d present the stock market reaction of Companies Circle members after the emergence of the 2008 global financial crisis, compared with three portfolios: 1,073 Latin American companies, a matched control group consisting of 13 companies relatively similar to Circle members,[9] and the official stock indices from the countries to which Circle members belong.
- Table 6e presents the results from several multiple Ordinary Least Squares (OLS) performed to explore the potential determinants of a low stock return during the 2008 financial crisis.
- To create the matched control group used as the benchmark group for Chart 6d: for each Circle member, a peer with the most market capitalization and operational profitability similarities from the same country and industry was selected. But because of restrictions on the number of listed firms in some countries, it was not always possible to find a comparable listed company from the same industry and/or size as the Circle member. In these cases, a company with comparable total revenues, operating in market environments similar to the Circle member was chosen. The table below shows the company matched with each Circle member:

Country	Circle Member	Matched Company
Peru	Buenaventura	Soc. Min. Cerro Verde
Brazil	CCR Rodovias	OHL
Colombia	Cementos Argos	Paz del Rio
Brazil	CPFL Energia	Cemig
Brazil	Embraer	TAM
Peru	Ferreyros S.A.A.	Alicorp SA
Mexico	Homex Desarr	Urbi Desarollos
Colombia	ISA Interconex Elec	Isagen SA
Brazil	Marcopolo	Randon Participações
Brazil	Natura	P. de Açucar - CBD
Brazil	NET	UOL
Brazil	Suzano Papel	VCP
Brazil	Ultrapar	Braskem

9 Since Suzano Petroquímica was acquired in August 2007 by Petrobras (the Brazilian national oil company), it was not included in the Circle portfolio for the 2008 analysis.

- In Chart 6d, Companies Circle results are compared to the results from the official stock market indices of Circle members' home countries. The analysis used IBOVESPA of Brazil, IGVBL of Peru, IGBC of Colombia, and IPyC of Mexico.
- Table 6e replicates the more complex methodology used in prior academic research, particularly the study carried out by Baek, Kang and Park (2004) on the East Asia financial crisis of the 1990s. It involves a multiple statistical regression to identify the corporate attributes that are associated with comparatively better stock performance during an economic shock. Besides affiliation to Circle's group and issuance of level II or III ADRs,[10] the following attributes were collected and taken into consideration:

  - Firm size, measured by total operating revenues and by total assets
  - Firm profitability, measured by return on assets (ROA-earnings before interest and taxes divided by total assets) and return on equity (ROE-net income divided by equity book value)
  - Firm value, measured by price-to-book-value ratio (PBV-market price of the stock divided by its book value) and by total firm value (debt plus equity) divided by EBITDA (EVEBITDA)
  - Financial leverage, measured by the debt ratio (net financial debt of the company divided by the book value of its equity)
  - Firm short-term solvency, measured by cash ratio (ratio between all cash and cash equivalent assets and all current liabilities) and current ratio (current assets divided by current liabilities)
  - Industry, measured by 18 industry dummies based on the classification given by Economatica® database
  - Stock risk, measured by beta coefficient (covariance of the stock returns and the official stock market index returns, divided by the variance of the stock) and by stock volatility (annual standard deviation of stock returns)
  - Stock liquidity, measured by the liquidity ratio provided by Economatica® and by the company's free float
  - Ownership structure, measured by the concentration of voting rights held by the three main shareholders

- The sample for running the regressions presented in Chart 6c is comprised of 471 listed companies from Brazil, Peru, Colombia and Mexico, the countries with firms in the Companies Circle group.
- The table below shows the output from different regressions:

[10] These companies were chosen because issuers of ADRs 2 and 3 are subject to the requirements of Sarbanes-Oxley Act, thus subject to stricter disclosure and internal controls' rules.

Table 6e Multiple Ordinary Least Squares (OLS) Regression
OLS regression of stocks returns during the emergence of 2008 global financial crisis and corporate attributes, including affiliation to Companies Circle group.

	HPR Critical Period (9/1/ 08-12/1/08)			HPR Second Half, 2008 (7/1/08-12/31-08)		
Explanatory Variables	(1)	(2)	(3)	(1)	(2)	(3)
Circle Member	0.057** (2.02)	0.074** (2.31)	0.060* (1.77)	0.116*** (3.23)	0.105*** (2.64)	0.083** (2.07)
ADR23	-	-	0.051** (2.02)	-	-	0.083*** (2.83)
InREV	-	-0.009** (-2.22)	-0.009** (-2.13)	-	-0.006** (-1.30)	-0.008** (-1.57)
ROA	-	0.215*** (2.73)	0.238*** (2.85)	-	0.260*** (2.76)	0.278*** (2.95)
PBV	-	-	-0.000 (-0.19)	-	-	-0.000 (-0.24)
Debt Ratio	-	-0.001 (0.31)	0.001 (0.26)	-	-0.003 (1.12)	-0.001 (0.18)
Cash Ratio	-	-0.007 (-1.61)	-0.005 (-1.06)	-	-0.004 (-0.69)	-0.001 (-0.29)
Dummies Industry	YES	YES	YES	YES	YES	YES
Intercept	-0.417*** (-5.47)	-0.373*** (-4.64)	-0.306*** (-3.07)	-0.503*** (-8.47)	-0.484*** (-4.95)	-0.477*** (-4.54)
R2	18.45%	25.41%	27.67%	18.31%	21.64%	23.87%
Sample (n)	444	354	338	453	366	350

› This table shows the results of multiple OLS regressions estimating the effects of selected corporate attributes (including affiliation to the Circle group) on stock returns throughout the emergence of the 2008 global financial crisis. The dependent variables are the holding period return (HPR, the total return of an investor holding the stocks) during two different time windows:

a. The so-called "Critical Period", from September 1, 2008, just before the collapse of Lehman Brothers and mortgage lenders Fannie Mae and Freddie Mac in the US, to December 1, 2008, when the National Bureau of Economic Research formally announced that the US was in recession
b. The entire second half of 2008

The explanatory variables include:

- Circle member is a dummy variable that takes the value of 1 if the company is a Companies Circle member, and zero otherwise
- ADR23 is a dummy variable that takes the value of 1 if the company trades levels II or III ADRs in the US markets, and zero otherwise
- InREV is the natural logarithm of total operating revenues for 2007
- ROA is the return on assets for 2007 year, measured by earnings before interest and taxes divided by total assets
- PBV is the price-to-book value ratio at the end of 2007, measured by market price of the stock divided by its book value

- Debt ratio is the net financial debt of the company divided by the book value of its equity at the end of 2007
- Cash ratio is a measure of short term liquidity. It is calculated by the ratio between all cash and cash equivalent assets and all current liabilities at the end of 2007

Of note, 18 additional industry dummies were used in the regressions (classification given by Economatica® database) but were not included in the table due to space constraints. The sample is comprised of 471 listed companies from Brazil, Peru, Colombia and Mexico, the countries with companies represented in the Companies Circle group.

- The numbers (1), (2), and (3) refer to three different econometric models employed for analysis.
- p-values[11] are presented in parentheses.
- ***, **, and * denote statistical significance at the 1 percent, 5 percent, and 10 percent levels, respectively.
- All models were estimated with heteroscedasticity-robust standard errors, meaning that the methodology accounts for changes in the dispersion of the stocks returns of the sample companies along the period under analysis.[12]

› Overall, Chart 6e indicates that being a member of the Companies Circle group is a positive factor during periods of market distress, after filtering for other corporate attributes that may impact stock performance, such as industry, size, profitability, market value, debt, and solvency ratios. The results are always statistically significant, mostly at the 5 percent level. The economic significance of the coefficients indicate, for instance, that being a member of the Circle group is associated with a stock decrease that is 6 percent less than other company declines during the critical period from September 1 to December 1, 2008 (based on coefficient of Model 3, regressions against Holding Period Return[13] HPR Critical Period).

› In addition to the results from Chart 6e, several other model specifications were also tested for robustness, including:

- Three other time windows: third quarter 2008, fourth quarter 2008, and all of 2008
- 2006 data for all explanatory variables instead of data at the end of 2007
- Other operational definitions for the explanatory variables, such as: enterprise value divided by EBITDA as a proxy of relative value instead of PBV, natural logarithm of total assets as a proxy of firm's size instead of total revenues; and, current ratio (current assets divided by current liabilities) as a proxy of short-term solvency instead of cash ratio. In all specifications, the results remained qualitatively the same. Finally, other potential explanatory variables were added, such as risk (beta and stock volatility), stock liquidity and ownership structure measures. Since these variables were not available for several firms, they significantly reduce the sample, thus weakening the statistical significance of some coefficients.

The results remain qualitatively the same, with no signs of changes in the overall conclusions.

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11 The p-value is associated with a statistic test, providing a convenient basis for drawing conclusions in hypothesis-testing applications. The smaller the p-value, the more strongly the test rejects the null hypothesis, that is, the hypothesis being tested. In the case analyzed in table 6e, a p-value of .05 or less rejects the null hypothesis "at the 5 percent level" that the explanatory variable is statistically different of zero. Usually, a p-value below 10 percent or 5 percent (to be more conservative) corroborates the view that a given explanatory variable (for instance, "membership in Circle group") is relevant for the outcome of the dependant variable (for instance, total stock return on the "critical period").

12 Heteroscedasticity is a situation in which the variance of the dependent variable varies across the data. It complicates the analysis, since OLS regressions are based on an assumption of equal variance.

13 The Holding Period Return (HPR) is the total return on a stock over the period during which it was held. It is calculated as the sum of income and capital gains of a given stock divided by the stock's price at the beginning of the period.

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Glossary

Accountability: The liability of a board of directors to shareholders and stakeholders for corporate performance and actions of the corporation. It is the concept of being responsible for all actions performed by the company's management and reporting this information to stakeholders.

Accounting Standards (also see Generally Accepted Accounting Principles, GAAP): A widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by accounting standard-setters.

Acquisition: Gaining control of another corporation by stock purchase or exchange. An acquisition can be either hostile or friendly.

Agency Conflicts: Problems that can arise when a principal hires an agent to act on his behalf, giving the agent decision-making power.

Agency Costs: Costs incurred by an organization due to problems related to divergent management-shareholder objectives. The costs consist of two main sources: costs inherently associated with using an agent (e.g., the risk that agents will use organizational resources for their own benefit) and costs of techniques used to mitigate the problems associated with using an agent (e.g., the costs of producing financial statements or the use of stock options to align executive interests to shareholder interests).

Agency Theory: A theoretical framework used to describe the relationship of power and interest between someone—the principal—who hires a second party—the agent —to act on his behalf.

American Depositary Receipt (ADR): A security issued by a US bank in place of the foreign shares held in trust by that bank, thereby facilitating the trading of foreign shares in US markets.

Annual General Meeting (AGM) (Shareholders Meeting): A shareholders' gathering, usually held at the end of each fiscal year, at which shareholders and management discuss the previous year and the outlook for the future, directors are elected and other shareholder concerns are addressed. The AGM is the main opportunity for shareholders to put questions directly to the directors of the company and to exercise their voting and decision-making power.

Annual Report: A document issued annually by companies to their shareholders and stakeholders. Contains information on financial results and overall performance during the previous fiscal year and comments on future outlook.

Audit: An examination and verification of a company's financial and accounting records and supporting documents by a professional and independent external auditor.

Audit Committee: A committee constituted by the board of directors, typically charged with oversight of financial reporting and disclosure of both financial and non-financial information to stakeholders. The committee usually is responsible for selecting the company's audit firm to be approved by the board/shareholders.

Board of Directors: The collective group of individuals elected by the shareholders of a company to define vision and mission, set the strategy and oversee the management of the company. The board is charged with selecting the chief executive officer (CEO), defining the compensation package of officers and setting the long-term objectives of the firm.

Board Statutes (or board charter): Document that details the roles, responsibilities, and functioning of the board of directors and its committees.

By-Laws: A written document stating the rules of internal governance for a company as adopted by its board of directors or shareholders. They include topics such as election of directors, duties of officers, and how share transfers should be conducted.

Cash Flow Rights: The right to receive a specified portion of the company's profits. Cash flow rights for shareholders are determined by the company, based on the amount invested and the ownership of the specific class of shares.

Chairman/Chairperson of the Board: Highest-ranking director in a board of directors. The chairman is responsible for the elaboration of the board agenda and ensuring that the business is conducted in the interest of all shareholders.

Charter: An official document filed with the relevant Government agency in the country where the firm is incorporated. The charter outlines the corporation's purpose, powers under law, authorized classes of securities to be issued and the rights and liabilities of shareholders and directors.

Chief Executive Officer (CEO): The highest ranking officer of the company who reports to the board of directors. The CEO is tasked with short-term decisions, while the board of directors sets the company's long-term objectives.

Codes of Conduct/Ethics: Developed and adopted by organizations to define appropriate course of action on relevant and potentially delicate subjects.

Comisión Nacional Bancária y de Valores (CNBV): Mexico's Securities and Exchange Commission.

Comisión Nacional de Rescate de Valores (CNFV, or Conasev): Peru's Securities and Exchange Commission.

Comissão de Valores Mobiliários (CVM): Brazil's Securities and Exchange Commission.

Committees of the Board: Comprised by board members and established to assist the board in the analysis of specific subjects outside of regular board meetings.

Common Shares: Equity securities representing ownership in a corporation and providing the holders with voting rights and the right to a share in the company's residual earnings through dividends and/or capital appreciation.

Compliance: Agreeing to and abiding by rules and regulations. In general, compliance means conforming to a specification or policy (internal or external), standard or law that has been clearly defined.

Concentrated Ownership: A form of ownership in which a single shareholder (or a small group of shareholders, united by agreement) holds the majority of the company's voting shares.

Conflict of Interest: When a person or group is not independent regarding the topic under discussion and can influence or make decisions motivated by interests that may be different from those of the organization. Source: Código das Melhores Práticas de Governança Corporativa, IBGC, São Paulo, 2004. (Best Corporate Governance Practices' Code, published by IBGC – www.ibgc.org.br).

Control Block: The combined group of shares that represent the majority of a company's voting shares.

Controlled Companies: Firms in which an individual or a legal entity holds the majority of the voting rights.

Controlling Shareholders: Shareholders who own enough of the company's voting capital to control the composition of the board of directors—typically, this is 30 percent or more.

Cost of Capital: The expected rate of return the market requires to attract funding for a particular investment.

Cost of Debt: The cost of funds borrowed at current market rates.

Cost of Equity: The minimum rate of return a firm must offer the owners—as compensation for a delay in the return on the investment and for taking on the risk.

Cumulative Voting: A voting system that gives minority shareholders more power, by allowing them to cast all of their board of director votes for a single candidate, as opposed to regular or statutory voting, in which shareholders must vote for a different candidate for each available seat, or distribute their votes between a number of candidates.

Current Ratio (current assets / current liabilities): A measure of the short-term solvency of the firm—the ability to pay its short-term liabilities.

Daily Volume of Shares Traded: Volume of a given stock traded on the financial exchange each day.

Debt Ratio (current + long term financial debt / total assets): A measure of the long-term financial leverage of the firm.

Dividend Yield: The ratio of annualized dividends to the price of a share. Dividend yields are used widely to measure the income return of a share.

Disclosure: The public dissemination of material, market-influencing information in accordance with the requirements of a regulatory authority or in accordance with self-regulatory contracts. It is one of the main corporate governance principles.

Dispersed Ownership: An ownership structure in which there is no controlling block of shareholders—the stocks are pulverized and held by many shareholders, each of whom owns only a small percentage of shares, and none of whom can make decisions on corporate matters alone.

EBITDA Margin (EBITDA / operational revenues): A measure of profitability, indicating the margin of return for a company's Earnings Before Interest, Depreciation, and Amortization.

Economic Profit (Residual Profit): The profit earned after deductions for the cost of all capital invested. Economic profit equals operating profit after income tax minus cost of capital invested.

Economic Value Added (EVA)®: A financial measure that estimates the true economic profit after accounting corrections to deduct the opportunity cost of equity capital. The measure gets at the value created, above the required return, for the company's shareholders.

Executive Session: The portion of a board of directors' meeting that excludes the chief executive or any other executive.

Family Constitution: Guidelines for the rights and duties of family members who will share in the family's resources, mainly those associated with invested companies.

Family Council: Organized forum for family members to meet and discuss the current and future state of the family business. Members may, or may not, be directly involved in the day-to-day business operations. The family council is a way of building family unity and cohesiveness through a shared vision of the family's guiding principles and to separate the professional management of the firm from the personal family issues.

Family Office: A group of financial services designed for families with very large and complex sets of assets. The office protects constituents' interests on the basis of absolute independence through optimal management and comprehensive coordination of individual wealth components. The family office can be a tool to implement broader succession, leadership, and governance plans.

Family-Owned Businesses: Companies and projects, in which the controlling shareholders belong to the same family or group of families.

Fairness: Respect for the rights of all stakeholders. One of the corporate governance principles.

Fiscal Council: A corporate entity defined by Brazilian regulations. The council is charged with analyzing, reviewing, and approving the financial statements of the firm and comprised of members elected by the AGM. Regulations in other Latin America countries call for the establishment of similar entities as part of the governance system.

Free-Float: The portion of shares negotiated in the market, giving liquidity to shares. These shares are not held by large owners and are not stock held in the company's treasury.

Generally Accepted Accounting Principles (GAAP): Accounting rules, conventions and standards for US companies, established by the Financial Accounting Standards Board (FASB).

Hostile Takeover: The continued pursuit of a company acquisition after the target company's board rejects the offer; or a situation, in which the bidder makes an offer without prior notification of the target company's board.

Independent Auditors: Professionals from an external audit firm charged with overseeing the financial reports. They must have no personal interest in the financial statements, to render an unbiased judgment about the financial position of the firm.

Independent Director: Someone whose only nontrivial professional, familial or financial connection to the corporation, its chairman, CEO or any other executive officer is his or her directorship. See Appendix 4 for IFC Independent Director Definition.

Internal Audit: An appraisal of the financial health of company's operations by its own employees. The employees who carry out this function are called internal auditors.

Investor Relations: The corporate communications department of a company. This department specializes in information and disclosure management for public and private companies as they communicate with the investment community at large.

Lead Director: Independent director who should provide counterbalance to the power of the CEO, and who ensures that the supervisory responsibilities of the board are being accomplished. This position is generally assigned when one person holds both the CEO and chairman of the board positions.

Levels 1 and 2 – Special Corporate Governance Listing Segments of BOVESPA: Stock listing segments designed for shares issued by companies that voluntarily undertake better corporate governance practices and transparency requirements in additional to those already requested by Brazilian Law and CVM.

Liquidity Index: Created by stock markets to provide a broad indication of the traded volume percentage of volume for a given stock over the total volume traded by all stocks in the period.

Market Capitalization: The market value of the firm, defined by the number of outstanding stock multiplied by the market price of the stock.

Minority Shareholders: Those shareholders with minority stakes in a company controlled by a majority shareholder—usually less than a 5 percent stake.

Non-Voting Shares: Owners holding this share class do not commonly have voting rights at the AGM, except on some matters of highest importance. Usually, non-voting shareowners have preferential rights for receiving dividends.

Novo Mercado: A Brazilian listing segment designed for shares issued by companies that voluntarily abide by corporate governance practices and transparency requirements above what is required by Brazilian Law and CVM. To be listed on Novo Mercado, a company's capital stock must be represented only by common, voting shares.

OECD Principles of Corporate Governance: Corporate governance principles as defined by the Organisation for Economic Co-operation and Development.

Ownership Structure: The way in which company shares are distributed among shareholders.

Payout Index (dividend per share / earnings per share): A measure of the dividends paid by the firm based on its net earnings.

Price/Earnings (PE) Ratio: A measure of relative valuation of a firm, determined by the current share price divided by the projected earnings per share.

PBV: A measure of relative valuation of a firm, given by the current share price divided by the book value of shares.

Poison Pill: A device designed to prevent a hostile takeover by increasing the takeover cost, usually through the issuance of new preferred shares that carry severe redemption provisions.

Preferred Shares: Equity securities representing ownership in a corporation with preferential rights over others in regard to the payment of dividends and distribution of assets upon liquidation. Preferred stock usually does not carry voting rights.

Pulverized Ownership: An ownership structure in which there are no controlling shareholders.

Proxy: A ballot by which shareholders can submit their votes on proposed corporate actions without physically attending the annual meeting.

Related Parties: A subsidiary, a joint venture partner, a family member, or a company owned by or affiliated with, any of the related individuals.

Return on Equity (ROE): Net income / book value of equity. A measure of profitability, indicating the percentage return on capital invested by shareholders.

Risk Management: The process of analyzing a corporation's exposure to risk and determining optimal approaches to handling such exposure.

Sarbanes-Oxley Act: US legislation that tightened up corporate financial reporting, introduced a federal accounting supervision board and criminal liability for executives who are shown to have falsified accounts.

Securities Exchange Commission (SEC): The US agency empowered to regulate US financial markets to protect investors. All companies listed in US stock exchanges must comply with SEC rules and regulations.

Shareholders: Holders of stock issued by companies.

Shareholders Agreement: A written document governing the relations among shareholders and defining how the company will be managed and controlled. The agreement helps to align the objectives of controlling shareholders to safeguard common interests.

Shareholders Rights: The rights resulting from ownership of shares. There are two types: voting rights and cash flow rights.

Standard & Poors 500 Index (S&P500): An index of the 500 largest US companies, accounting for 85 percent of the dollar value of all stocks listed on the New York Stock Exchange (NYSE). The index provides a general measure of the overall performance of the US stock market.

Solvency Ratio (EBIT / Interest Expense): A measure of a firm's ability to pay its interest expenses in a given period.

Stakeholder: A person or organization that has a legitimate interest in a project or company. In a more general sense, it refers to suppliers, creditors, clients, employees, and the local community—all who are affected by the actions of the company.

Stock Multiple (stock ratios): Ratios designed to measure the claims of stockholders relative to earnings (cash flow per share) and equity (book value per share) of a firm.

Stock Option: An agreement, or privilege, which conveys the right to buy or sell a specific security or property at a specified price, by a specific date. The most common stock options are calls—the right to buy a specified quantity of a security at a set strike price at a time on or before expiration—and puts—the right to sell a specified quantity of a security at a set strike price at a time on or before expiration.

Stock Trading Policy: Terms and conditions that specify the conditions under which insiders—typically directors and officers of a company—can trade company shares.

Superintendencia Financiera de Colombia (Superfinanciera): Colombia's Securities and Exchange Commission.

Tag-Along Rights: If a majority shareholder sells his/her stake, minority holders have the right to participate and sell their stake under the same terms and conditions as the majority shareholder. This right protects minority shareholders and is a standard aspect of shareholders agreements.

Takeover: The purchase of a public company (the target) by another company (the acquirer or bidder).

Tobins' Q: A proxy for corporate market value commonly used in the academic literature. It is calculated as the market value of a firm's assets divided by the replacement value of the firm's assets. The indicator is named for James Tobin, the Yale University, Nobel Laureate economist who created it.

Transparency: The corporate governance principle of publishing and disclosing information relevant to stakeholders' interests.

VBM: Value Based Management (VBM) is the management approach that ensures corporations are managed consistently on value (normally: maximizing shareholder value). The three elements of VBM are: creating value—how the company can increase or generate maximum future value, similar to strategy; managing for value—governance, change management, organizational culture, communication and leadership; measuring value—valuation.—

Voting Rights: The right to vote at shareholders meetings on issues of importance for the company.

Voting Shares: Shares that give the stockholder the right to vote on matters of corporate policy, including elections to the board of directors.

Weighted Average Cost of Capital (WACC): A measure of return on a potential investment. The measure includes cost of debt and equity, weighted by their relative contribution to overall costs in proportion to total funding and the cost of the related interest or dividend payments.

Index