



B3  
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Brazil

Date: 02.08.2024

## B3 Consultation regarding the proposed evolution of the Novo Mercado Regulation

We refer to B3's public consultation regarding the proposed evolution of the Novo Mercado Regulation. We appreciate the opportunity to contribute our investor perspective to the reform of this B3 listing segment, aimed at further enhancing corporate governance requirements.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with R\$ 7,518 billion at year end 2023, 31,9 of which invested in the shares of 126 Brazilian companies.

We have focused on the proposals to strengthen board independence and establish a statutory audit committee, which are key reforms to enhance corporate governance at Novo Mercado listed companies. We also provide our feedback on some additional elements of the B3 consultation, such as those related to overboarding, financial controls and remuneration.

We strongly support the proposal to raise the minimum percentage of independent directors on boards from 20% to 30%, which we believe is the most crucial component of the reform. We encourage B3 to go even further in raising the Novo Mercado standards by aligning them with the global best practice of majority independent boards. Independent board members are important safeguards for minority shareholders, as they are better equipped to guide and monitor management, and to protect the interests of all shareholders.

Among secondary topics of reform, we strongly support the proposal to require a mandatory audit committee for all Novo Mercado companies. Brazil stands out as one of the few jurisdictions worldwide where a statutory audit committee is not required, hence we welcome the proposal to bring the Novo Mercado segment in line with international market practice. We acknowledge that the responsibilities of audit committees can overlap with the Supervisory Boards ("conseilho fiscal") which are common amongst Brazilian companies. As such, we encourage B3 to explore the differences between these two models, including the fact that the audit committee advises the Board, while the Fiscal Council has oversight duties over the board. We believe that audit committees play a key role in monitoring the integrity of the company's accounts and financial statements, maintaining oversight of key accounting policies, reviewing the effectiveness of the company's risk management and internal controls, and

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overseeing the selection of the external auditor. The responsibilities of audit committees vis-a-vis Fiscal Councils could be clarified in the terms of reference of the respective committees.


We support B3's proposal to impose a limit on the maximum number of boards that directors can sit on. We agree with the proposal that Novo Mercado companies' directors may sit on a maximum of five boards of publicly held companies, or a lower number (1 to 3) depending on whether they are the board chair, a statutory officer, or the CEO of the company. Our position paper on time commitment of board members and our global voting guideline are aligned with this proposal, i.e. we expect board members to serve on no more than five boards at any time. This is because we believe that directors should devote sufficient time to fulfil their responsibilities effectively. We are also supportive of the proposal to reclassify a director as no longer independent once they have served on the board for over 10 years. While we do not have a specific threshold in our own voting guideline, acknowledging that there is no uniform definition of independence across all markets, we welcome requirements that help avoiding potential conflicts of interest. We also support a longer time period after which a former director can recover their condition of independence, as we believe 2 years to be insufficient and unlikely to reflect any substantial change in the executive board of the company.

Regarding the reliability of financial statements, we support the proposal to include a statement about the effectiveness of a company's internal controls in its annual management report, signed by the CEO and CFO. We acknowledge that regulatory requirements vary across countries, with some jurisdictions similarly placing this responsibility on management and some others on the board. Therefore, this statement could potentially be evaluated with the involvement of the board, particularly should the creation of statutory audit committee proceed.

Finally, among the "questions to the market", we welcome thought being given to establishing a clawback rule and malus clause, which would enable companies to withhold payments, or recover sums paid, in the case of serious misconduct or a material misstatement in the company's financial statements. We encourage B3 to consider good practices in other markets on how to design these instruments so that they can be used most effectively.

We thank you for considering our perspective and remain at your disposal should you wish to discuss these matters further.

Yours sincerely

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