

Corporate Governance Handbooks

Handbook #9: Good Practices for Board Meetings

The IBGC, continuing the series of Corporate Governance Handbooks, release its #9 volume: *Handbook: Good Practices for Board Meetings*.

This handbook's goal is to present recommendations of good corporate governance practices to be employed by boards in line with premises established in the *IBGC Code of Best Practices of Corporate Governance*.

This Handbook will be an important and continuous reference to the market, reinforcing the role of IBGC in the fostering and development of the adoption of good practices of corporate governance in Brazil.

Handbook #9: Good Practices for Board Meetings

IBGC | Instituto Brasileiro de
Governança Corporativa

2020

● ● ● Brazilian Institute of Corporate Governance

Founded on November 27, 1995, the Brazilian Institute of Corporate Governance (IBGC), a civil organization, is the Brazilian reference and one among the main reference organizations for corporate governance worldwide. Its purpose is to generate and disseminate knowledge on the best corporate governance practices and influence the most diverse agents in its adoption, contributing to the sustainable development of organizations and, consequently, to a better society.

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1. Introduction

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● ● ● 1.1. Scope of this Handbook

The scope of this Handbook is to present recommendations of good practices of corporate governance to be used by the Board of Directors in private companies, as well as by other types of societies adopting the principles of good governance, in line with the premises established in the *IBGC Code of Code of Best Practice of Corporate Governance*. Thus, the appointments in this Handbook in relation to companies and boards of directors must be understood as references to other bodies and deliberative processes, when the situation allows it.

With this purpose, this Handbook approaches board meetings under three perspectives:

Before – by providing guidelines about all arrangements required prior to each meeting (convening notice, offering of information and documentation, agenda, annual calendar, and so on);

During – by suggesting mandatory or highly recommended topics for discussions, approaches, conduction of the meeting, debates, votes, conflicts of interest etc.; and

After – by focusing on the dissemination, monitoring and implementation of every decision and recommendation approved in each meeting.

To better define what is understood as Board of Directors in accordance with the good governance practices advocated by the IBGC, we reproduce below excerpts of the *Code of Best Practices of Corporate Governance* concerning this body:



● ● ● 1.2. Board of Directors (topic 2.1 in the *IBGC Code of Best Practice of Corporate Governance*)

The Board of Directors is the collective body in charge of the decision-making process of an organization concerning its strategic direction; it is the main component of the governance system. Its role is to be the link between shareholders and the management; to guide and supervise the relationship of the latter with other stakeholders. The Board of Directors' powers are granted by the shareholders and must be accountable to them.

The Board of Directors is the guardian of the organization's social purpose and of the governance system. It is responsible to deciding the direction of the business, according to the best interests of the organization.

All companies must have a Board of Directors elected by the shareholders, without losing sight of the other interested parties, the organization's social purpose and the long-term sustainability.

The Board of Directors should always decide in favor of the organization as a whole, regardless of the individual interests of the parties who nominated or elected its members.

● ● ● 1.3. Mission of the Board of Directors (topic 2.2 in the Code)

The mission of the Board of Directors is to protect and to value the organization, to optimize the return on long-term investment, and to seek to balance the interest of the parties (shareholders and other stakeholders), enabling each party to receive the appropriate and proportional benefits according to the respective bond with the organization, and to the risk to which the party is exposed.

● ● ● 1.4. Duties of the Board of Directors (topic 2.3 in the Code)

The Board of Directors must guard the organization's values and purposes and outline its strategic guidelines.

In order to ensure that the interest of the organization prevails at all times, the Board must prevent and manage conflicts of interest and differences of opinion.

Among the duties of the Board of Directors are the discussion, approval, and monitoring of decisions regarding:

- Strategy
- Capital structure
- Risk appetite and tolerance (risk profile)
- Mergers and acquisitions
- Hiring, dismissal, evaluation, and compensation of the CEO and senior management
- Choosing and evaluating independent auditors
- Succession process of directors and senior management
- Corporate governance practices
- Relationship with stakeholders
- Internal control systems (including policies and authorities limits)
- Human resources policies
- Code of conduct.

The Board of Directors is also responsible for continuous support and supervision of the organization's management in relation to the business, risks, and people. However, it should not interfere with operational matters, although the board must have the liberty of requesting all operational information required to fulfill its duties, including the hiring of external experts, when needed, in order to assess specific matters of increased complexity.

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The aspects related to the composition and functioning of the boards of directors, as well as the duties and responsibilities of the directors, are addressed in good corporate governance legislation, regulation, and promotion tools. In Brazil, the main spheres addressing these aspects are:

- **The Joint-stock Companies Law** – Law no. 6406/76 and further amendments.
- **The Brazilian Institute of Corporate Governance (IBGC)**, through the *Code of Best Practices of Corporate Governance*, the *Template for the Internal Regulations of the Board of Directors*, along with other publications, and now through this *Good Practices for Board Meetings Handbook*.

● ● ● 2.1. Join-stock Companies Law

The Joint-Stock Companies Law delegates to the organization's bylaws the mission of establishing "the rules for the calling, installation, and functioning of the board". Further dispositions of the Join-stock Companies Law approach the composition, election, and competence of the Board of Directors; followed by "standard rules" applicable to the directors and senior management; yet the practical matters regarding the functioning of the meetings, the Board of Directors or the Executive Board are not covered.

● ● ● 2.2. *IBGC Code of Best Practices of Corporate Governance*

This Code, which is in its 4th revised edition, has the goal of pointing paths to all sorts of societies, aiming to increase their value, facilitate their access to low cost capital, and contribute to their continuity, based on the four basic principles of good corporate governance: Transparency, Fairness, Accountability and Corporate Responsibility. It brings recommendations regarding ownership, the Board of Directors, management, external audit, Fiscal Council, conduct, and conflicts of interest. The guidelines provided by the Code are complemented by the B3 Corporate Governance Listing Regulation, applicable to the join-stock companies in the listing segments Level 1, Level 2 and Novo Mercado.

The Code recommends that the “activities of the Board of Directors should standardize on an internal regulation (...), and emphasizes among such activities “the voting system, governance secretariat, meetings, callings, agendas, minutes, and documents”. The B3 Regulation, in its turn, prioritizes the competences, duties and responsibilities, composition and terms aspects, without addressing the functioning of the board.

● ● ● 2.3. *Template of the Internal Regulations of the Board of Directors* and Other IBGC Publications

The *Template of the Internal Regulations of the Board of Directors* is, in its Chapter 10, fairly dedicated to the functioning of the Board of Directors, dividing the subject in two blocks: the first block is about meetings and the second addresses the voting system and the workflow. Our understanding is that the Internal Regulations of the Board of Directors may complement the statutory provisions providing detail about the functioning of the body.

In addition, IBGC publishes, on a regular basis, handbooks, manuals and directive letters covering the aspects and the tools through which the Corporate Governance embodied, such as: *Practical Manual of Statutory Recommendations*, *Orientation Guide for the Management of Corporate Risks*, *Orientation Guide for the Fiscal Council*, *Orientation Guide for the Implementation of a Governance Portal*, among others. These publications (in Portuguese) are available at the IBGC website (www.ibgc.org.br) or at its headquarters.

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Governance Secretariat



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3 Governance Secretariat

● ● ● 3.1. Creation and Duties

The creation of a secretariat, by the Board of Directors, to support and organize the duties of the body, in addition to keeping track of the fulfillment of its deliberations, is recommended

The governance secretariat will be responsible for drawing up and controlling the formal documentation of the company's management, in charge of collecting, formatting, and distributing information, minutes, materials, and presentations for the board meetings, in addition to monitoring of the organization's projects and planning. The governance secretariat should regularly brief the Board of Directors and the CEO on the unfolding of the body's activities.

In case a governance secretariat does not officially exist, the board chair, for example, may assign one of the directors to assist each meeting, establishing a rotation among the members.

● ● ● 3.2. Database/Governance Portal

An electronic database may be implemented to help the governance secretariat check and follow up on all activities performed by the Board of Directors and committees, as well as to follow up the requests addressed to the management and the pending issues.

Through this continuous monitoring, the company management may use information to, in a timely manner, reorient, and supervise the annual planning, the control procedures, and the internal policies.

Thus, the members of the board are available to engage in other activities, fundamental to the development of good corporate governance and to the management of the company. With this in mind, the organization may implement a Governance Portal with an exclusive area of directors.

4

Guidelines to Meeting Preparation



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4 Guidelines to Meeting Preparation

In order to constantly improve of the work developed by the Board of Directors, special attention must be given to the information flow, conduction and, focus of the meetings, responsibility level of its members, internal synergy, and good individual behavior.

In face of the development and the transparency demanded by the market, the transition and evolution affecting Board of Directors are notorious, progressively increasing the commitments, responsibilities, and risks of the directors' activities.

● ● ● 4.1. Calendar, Agenda, and Length of the Meetings

At the beginning of each fiscal year, the Board of Directors should define the annual calendar of meetings. For publicly traded companies listed in the B3 segments, the preset agenda must be disclosed in their respective annual calendars.

The good governance practices recommend that meetings are hold, at least, quarterly and, at most, monthly.

In case there is a need to discuss specific matters, ones that require immediate deliberation, extraordinary meetings may be called at any time. It is worth mentioning, however, that extraordinary matters should only brought to discussion when the occasion justifies it.

The meetings must have its length predetermined, according to the matters in discussion. Thus, the members should be informed, in the calling, of the estimated duration of the meeting, including times allocated for the presentation and the discussion of each topic listed in the agenda.

It is also recommended that the meetings take place in the operational facilities of the company, allowing the directors to interact with the work environment.

● ● ● 4.2. Defining the Agenda

Before calling the meetings, and in order to establish the agenda, the board chair, along with the governance secretariat, if existing, must evaluate the agenda of the meetings, hearing from the CEO and from other directors. For this purpose, the pending requests placed by the directors and the Executive Board, in addition to the pending activities from previous meetings, must be analyzed.

Given the broad range of topics that can be listed in the agenda, it is essential that the agenda be prepared and conveyed, at least, 7 (seven) days prior to the meeting date. The advance is required so that the appropriate presentations and information may be prepared in a timely manner by the Executive Board, meeting the expectations of the solicitors.

The communication and requests of the directors that are not recorded in the minutes of previous meetings must be forwarded to the board chair and to the company's CEO, ensuring integration, consistency of knowledge, respect, and equality.

● ● ● 4.3. Meetings Materials

The directors must study and analyze all matters under their competence prior to the appreciation by the body. This action optimizes the discussions during the board meetings and expedite the decision process.

The board chair and the CEO must provide the directors, in a clear and detailed manner, with the management's view on each of the matters under deliberation, facilitating the access to all documents concerning the topics listed in the agenda of the meeting.

Access to information is required to ensure fairness and transparency in the relationship between directors and the Executive Board. Many companies, in an effort to enhance the knowledge of the directors and disclose information, have developed governance portals exclusively dedicated to the conveyance of information to the Board of Directors, facilitating the preparation of its members for meetings and enabling a focused and objective discussion of strategic matters with much more grounds. The importance of continuously updating the directors to ensure the faithful fulfillment of their monitoring and oversight duties should be emphasized, through the knowledge of key-factors in the company's management and, if needed, training to level the knowledge of its members.

At its discretion, the Board of Directors may engage an external consulting or advisory services to assist their analyses on matters that require an in-depth understanding or expertise, including the hiring of technical reports. This expense must be charged against the company and the Board of Directors must deliberate, in advance, the allocation of it in its budget, enabling all directors to benefit from the specialized services.

The CEO is responsible for ensuring that directors receive the right information, at the right time and in the right manner, enabling them to fulfill their duties. It is recommended that the board chair review the documentation prior to its distribution to the directors.

In the event that the agenda lists matters requiring analysis in advance by the directors, it is recommended to provide the related material along with the agenda.

Due to the relevance and confidentiality of the matters discussed in the meetings, the directors and the governance secretariat are responsible for keeping the confidentiality of any data or information, including the distributed or produced materials, in addition to their respective copies or records that may be stored in any physical or virtual format.

The board chair and the CEO must encourage information research through alternative ways, which fulfill purposes, such as:

- a) to establish formal processes of handing out information to the directors, through timelines agreed between the board chair and the CEO at the beginning of each year, and communicated to governance secretariat;
- b) each board member should plan regular visits to the company, apart from the meetings agendas, which can result in a closer relation and an active participation.

It must be emphasized, however, that regular visits must be strictly limited to an in-depth understanding, by the board member, of the matters under the member's appreciation and to documents related to the management progress, respecting the member's limits of action and non-interference in the company's executive management. It is important to remark that a mere request for information must be done in a way not to be seen as a suggestion or instruction given by the board member.

● ● ● 4.4. Committees and Commissions

The directors' active participation, however, does not ensure the full management of risks and responsibilities concerning their roles. In this sense, the committees may be important tools, with the directors being responsible for verifying its activity and effectiveness. Possible committees that may be established are Audit, Human Resources/Compensation, Governance, Finance, Risks, Sustainability, among others. The establishment of committees must be careful, avoiding an excessive number of them or the improper reproduction of the company's internal roles, causing an inopportune interference in the management.

Commissions may be created every time a need to study specific matters is identified, and they do not need to be permanent, ceasing its activities after the conclusion of a certain work. The commissions must report either to the Board of Directors or to the Executive Board itself, as appropriate.

Directors, senior management or even external specialized personnel, as suitable, may compose the committees. In any scenario, it is recommended that at least one board member is part of each committee under the Board of Directors, as a way of ensuring an effective connection with the entire body.

Committees and commissions must have no power of decision and shall periodically submit their reports to the Board of Directors.

5

Recommended Structure for
the Meetings and Orientations
for Its Good Performance



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This chapter's goal is to provide behavioral and productivity directives for the Board of Directors meetings, in a manner to make them more efficient.

Formality is a relevant factor to the meetings of the Board of Directors. It is not about formality in its negative and limiting aspect, but rather about observing the agenda, the desired behavior in the work environment and, lastly, the effectiveness expected from the main management body of the companies.

Such formality affects the preparation of the agenda and extends to the behavior of the members and occasional guests to board meetings. This prerogative, attributed to the board chair, translates in the maintenance of order, respect and focus during the meetings.

The board chair must set the rules of conduct to be followed by the directors during the meetings.

In line with the formality precept, the agenda may be divided into recurrent and fixed topics to be discussed by the directors at the beginning of each meeting and ad hoc topics, which should be listed on the agenda and informed to the directors in advance. It is worth mentioning that among these topics, some are informational only and some require decision-making. It is recommended to aggregate and mention in the agenda topics that require a decision from the Board of Directors.

The agenda of each meeting is preset, and the discussion of non-listed matters must be avoided, except in cases where such matter requires an immediate positioning by the body. The matters must not be discussed beyond what is necessary, exceeding the involvement expected from the Board of Directors, as previously agreed, in a manner to assure that the meeting proceeds as a true debate.

It is recommended that the CEO attend most of the board meeting, as well the as Executive Board, when the meeting addresses matters of their competencies and their presence may enrich the presentation and explanations. Therefore, the board meeting should be structured to discuss in a sequel, according to the agenda:

- Matters whose attendance of the CEO or executive management is required or recommended, which we will further ahead designate as recurring or fixed topics and specific or ad hoc topics.

- Matters of particular interest to the directors, for which the attendance of the board executives is not required. These matters should be addressed by the end of the meeting or, if demanded by a certain situation, at the beginning of it.
- Matters requiring decision-making without the attendance of the CEO, a common scenario when directors have not reached a consensus, or when the CEO's performance and compensation is under discussion. In this case, the CEO should leave the meeting room and return when a decision is reached.

● ● ● 5.1. Recurring or Fixed Topics

- a) Approval of the minute of previous meeting:

Chapter 6 presents alternatives for the writing, reading, and signing of the minute. In the event that it is not possible to approve the minute on the same day as the meeting, this topic is then fixed in the agenda.

- b) Relevant events:

It is not about detailing specific topics, but rather allowing a brief report by the board chair or CEO, providing an overview of the company's businesses, setting the tone for the meeting.

- c) Financial results and monitoring of the company's main projects:

Respecting IBGC's premise of attributing a greater responsibility to the Board of Directors for the company's future rather than the past, the presentation of this topic must be brief and objective, following a format preset by the body, allowing all attendees to gather a quick understanding. In addition, the remarks about financial and operational data must be a summary of the information forwarded in advance to the directors. This is also the moment to hear from the finance and audit committees, if any.

The Board of Directors is responsible for the assessing the company's results and analyzing the most relevant events in the period. This is, therefore, the exercise of its supervisory function and monitoring of the acts by the Executive Board. For this purpose, it is recommended to hear from the executive directors responsible for the area concerning each matter to be discussed by the body or by the committee coordinators, technical councils or commissions that have studied the topic.

In this first part of the board meeting, it is fundamental that the length and format of each presentation be set. This contributes to the objectivity of presentations, favoring the attendees' focus and avoiding dispersions. The following topics stand out among the several recurrent or fixed topics to be presented and discussed in the first half of the board meeting:

- a) Financial topics:
 - Monitoring of the budget performance;
 - Financial statement;
 - Income statement;
 - Cash flow;
 - Liabilities;
 - Loans;
 - Margins.
- b) Sales and market topics:
 - Market share;
 - Competitors;
 - Customers;
 - Debt collection;
 - Inventory.
- c) Operational topics:
 - Production volume and costs;
 - Productivity;
 - Order backlog;
 - Investment;
 - Aspects specifics to the company's activities
- d) Strategy implementation topics:
 - Monitoring of the strategic action plans;
 - Periodic review of adjustments.
- e) Structural topics:
 - Implementation of human resources policies;
 - Compensation and benefits;

- Assessment of internal controls
- Risk analysis.

These are, therefore, indicators, parameters, and data common to all organizations, which allow you to monitor the business evolution in an objective and systemic manner in each meeting.

● ● ● 5.2. Specific Topics (ad hoc)

In this part of the meeting, directors work more clearly on their main mission: to protect and value the company's assets and maximize the return on investment. Each board member, aware of the company's values and purpose and of the shareholders beliefs, must use personal and professional experience to evaluate the proposals that may be presented by the CEO or to guide the CEO in the leading of the business. It is not about monitoring and approving events and financial data, but rather about defining and guiding the future.

a) Annual plans and projects in-progress:

Once defined, in collaboration with the Executive Board, which aspects of the approved and in-progress annual plans and projects must be presented for the Board of Directors' appreciation, these will be included in the pending issues and requests list by the governance secretariat and, if absent, by the board chair. These are to be monitored until the next meeting, in which a progress and results presentation is submitted to the body.

b) Annual plans and projects for approval:

The Board of Directors and the Executive Board must establish the aspects of annual plans and projects that will be presented in the meetings for the body's appreciation, after which these should be listed in the topics pending deliberation, being the governance secretariat or the board chair, as appropriate, responsible for forwarding all the required materials for the directors analysis, in a proper and timely manner, allowing them to prepare for the meeting.

c) Strategy and budget:

Given the increasingly relevance of the aspects related to the strategy and the corporate budget in the context of responsibilities of the Board of Directors, there is a need to present specific thoughts on the matter here.

One of the main responsibilities of the Board of Directors is to provide strategic direction for the company, which will be the base for the development of the strategic plan of action and the annual and multiannual budget.

The budget, in its turn, is the referential tool for to set targets aimed to maximize the organization results, turning into a commitment between the Board of Directors and the Executive Board, with the engagement of the senior management. It is also a bargain tool, once that it is used to determine the bonuses of the senior management.

The presentations and debates over these topics may consume more time than others, and require special attention by the Board of Directors, who also need to schedule meetings exclusively dedicated to the process of defining and approving the strategy and the corporate budget.

● ● ● 5.3. Topics Presentation

It is recommended that the executive manager of the area, accompanied by the CEO, presents specific topics. This practice has the benefit of allowing the periodical evaluation of the executive management by the directors, who have in this activity one of their competencies and duties, and verifies the cohesion and interaction of the senior management with the CEO.

It is important that the directors do not comment, with either guidance, criticism or compliments, before the end of each presentation. Questions may and must be asked, in accordance to the formality and respect intrinsic to the meeting.

● ● ● 5.4. Voting

At the end of each topic, if a decision is required, the board chair must start the process of decision-making, and its result shall be recorded in the minute. When the Board of Directors fails to reach a consensus, a voting must be held, without the attendance of the CEO. For sustaining the cohesion image of the Board of Directors, before the senior management and other professionals of the company, and unless one or more directors request otherwise, the record of decision in the minutes must avoid individualizing the votes.

Finally, it is recommended that relevant and urgent matters have priority in the agenda, ensuring its appreciation, discussing and voting in the meeting.

The meeting's agenda preferably should set the time dedicated to each of the topics. In general, it is recommended that an effective Board of Directors divide the meeting time as follows:

- a) 10-20% to discuss the results (past);
- b) 20-40% to discuss the operations (present);
- c) 40-70% to discuss strategies (future).

Reviews of the economic, political and financial landscapes may be in the agenda, but its time should be limited. In the meetings dedicated to strategic planning, when the future is being discussed, a greater time may be dedicated to canvassing and discussing variables that may affect the company's future.

In specific situations, such as crises, the board meeting may allocate more time to the debate and the decision-making on current topics, relevant to the continuity of the organization at that time.

● ● ● 5.5. Other Considerations

It is not uncommon for matters related to shareholders' interests to emerge during a meeting, notably in private family businesses, which represent a great share of the current economic activity in the country. The board chair, in such event, is responsible for restraining the discussing of these matters in the forum, preserving the segregation between the management of the company and its shareholder control/ownership.

As mentioned in the beginning of this chapter, given the CEO's role in managing the general orientation of the company's businesses, it is recommended the CEO attendance to the meetings, except when the meeting addresses matters peculiar to the Board of Directors or the performance of the senior management and/or its compensation.

Lastly, in the final moments of the meeting, the secretary must read the previous version of the minute, listing the addressed matters and the decisions made by the attendees, permitting that, immediately after the meeting, the CEO sets into motion the measures needed to implement the decisions, even before the disclosure and official approval of the minute.

In this sense, the Board of Directors must promote meetings with the formality, objectivity, and guidance required to the continuity and growth of the company, as there is no room anymore for pro-forma meetings, where personal preferences and interests prevail. It also should be avoided board meetings focusing solely on commenting on the political and economic landscape of the country.

6

Post-meetings Follow-up



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After the end of the meeting and until the next, the Board of Directors shall, through its board chair or secretary, arrange for and monitor the following practical activities:

● ● ● 6.1. Meeting Minute

The board meeting minutes must have simple and objective language and formatting, recording the main topics and discussions, deliberations, status of pending issues, if any, and new requests submitted to the Board of Directors and to the senior management. The board chair is responsible for conveying the events to the secretary, for due transcription in the minute. The minute must bring a summary of what was debated and the decisions, rather than everything that was said.

The minute has the following alternatives for its writing, reading and signing:

- 1 – Reading of the summarized minute at the end of the meeting, with the signed initials of the directors. The full minute is later forwarded to the directors and signed in the next meeting.
- 2 – Reading of each deliberation immediately after the vote count, allowing the minute to be ready for signing by the meeting end, when the full minute must be read and signed.
- 3 – Reading and signing of the minute at the beginning of the next meeting, in which case, it must be listed as a topic in the agenda. It is recommended that, in the event of signing in the next meeting, the directors take notes about the decisions, requests and deliberations of the meeting, so they can verify the items during the minute reading in the next meeting, expediting the signing, manifestation of agreement or request of amendments in the writing.

The minute is ideally written during the meeting and signed by all attendees by its end. However, when this is not possible, it must be later sent to the directors for appreciation. Thus, in the next meeting, when the board chair read it before the approval process, it will already be updated with the comments and suggestions by the directors, being the entire process conducted in full transparency. In the event of a suggestion of amendment by a director, all directors must express their comments on the matter and the final version must be approved by all.

● ● ● 6.2. Pending Issues and New Requests

The governance secretariat assists the board chair in the monitoring of the requests made by the directors, both in the meetings and off-meetings. Thus, the minute must have fields for (1) pending issues concerning past and still to be filled requests; and (2) new requests placed in the meeting itself or placed in-between meetings. The tasks in these fields must be reviewed in every new meeting.

Both pending and new requests could be listed in a table at the bottom of the minute, below the deliberations, indicating the person or area in the company for whom the request was assigned to and the estimated deadline for its presentation to the body.

● ● ● 6.3. Committees Meeting Minutes

In order to establish an organized system of Corporate Governance, in which the management bodies work in a constant activity flow, the Board of Directors shall be always notified of its committees' meetings and must receive a copy of the minutes. The governance secretariat or the board chair is responsible for coordinating it.

7

Evaluation and Composition of the Board of Directors



It is recommended that formal performance reviews of the Board of Directors and its directors be conducted, in order to identify the main deficiencies in their works. Meetings may be more or less productive, according to the fit of the directors to the company's profile. In this sense, attention must be given to their questionings about the company, its management and businesses, the preparation of the directors to the meetings and the expected individual behaviors before, during and after the meetings.

8

Director’s Desired Behavior



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● ● ● 8.1. Interaction with the Executive Board

The directors need to be educated on the activities and principles supported by the Executive Board. A good relationship between the Board of Directors and the Executive Board is a premise for the maintenance of an effective flow of information among the management bodies of the company.

● ● ● 8.2. Strategic Discussions x Operational details

The directors must focus on gathering information and on debating fundamental strategic topics, rather than on operational matters. To engage in the operational management of the company is not a responsibility of the directors.

● ● ● 8.3. Special Behavior and Expected Conducts

- a) The directors have the fiduciary duty of defending the company's interests, to the detriment of their own interests or of those of the shareholder who appointed them, always being impartial in the handling of corporate matters;
- b) Due preparation for the meeting (proper amount of time dedicated to the company);
- c) Regular attendance to the meetings;
- d) In-person attendance, leaving the use of teleconferences or videoconferences for exceptional cases only;
- e) Punctuality in the meetings;
- f) Commitment to results (wealth generation and return);
- g) Grounded decisions and effective propositions;
- h) Productive questionings (focused on questions that add value);
- i) External networking (ability to open doors in negotiations, having the legit interests of the company as the premise);
- j) Personal integrity (life history and ethical behavior; righteousness as the reference standard):
 - Ability to listen and interact
 - Impartiality
 - Sense of justice
 - Equidistance in relation to the concerned parties
 - Independency to propose, question and decide
 - Absence of conflicts of interest

9

Main Questions to Pose to the Board of Directors



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This chapter presents a set of questions that the Board of Directors must frequently consider in assessing its engagement and commitment level to responsibilities, to the shareholders and to the company. The following questions are not exhaustive and must be periodically reviewed by the directors, adjusting them to the reality of the company and complementing as needed. The following questions concern:

1. Good corporate governance principles;
2. Scope of the role and authority of the Board of Directors;
3. Orientation, integration and development of directors;
4. Knowledge of the company's culture, business and operations;
5. Vision and strategy;
6. Planning and budget;
7. Calendar and information to the board meetings;
8. Conduction of the board meetings;
9. Monitoring of the company's performance;
10. Human resources management;
11. Financial management;
12. Risks & crisis management;
13. Board of Directors Committees;
14. Relationship with the Fiscal Council;
15. Relationship with the senior management;
16. Evaluation of the CEO and senior management;
17. Succession planning;
18. Evaluation of the Board of Directors.

● ● ● 9.1. Principles of Good Corporate Governance

- Do the directors understand and are committed to the principles of good Corporate Governance: fairness, transparency, accountability, and corporate responsibility?
- Are these principles instilled throughout the company?
- Does the Board of Directors deeply know and work in compliance with:
 - The Articles of incorporation, shareholders agreement and internal regulation?
 - The Joint-stock Companies Law and the Civil Code?
 - The specific legislation applicable to company's sector?
 - The regulations of the Securities and Exchange Commission, if it is a publicly traded company?
 - The Sarbanes-Oxley Act, if it is an ADR company?
- Is an efficient communication process with the shareholders in place?
- Are the shareholders, employees, customers, and community properly treated?
- Does the Executive Board understand and is committed to the aspects of the good Corporate Governance?

● ● ● 9.2. Scope of the role and authority of the Board of Directors

- Is an internal regulation of the Board of Directors in place?
- Are the role, the attributions, and the scope of authority of the Board of Directors well-defined and diffused within the internal corporate context?
- Must the role of the Board of Directors be expanded or reduced? How?
- Are the topics that need to be discussed and reviewed on a regular basis identified, prioritized, and scheduled?
- Is the information (internal and external) that the Board of Directors need for its ponderation and decision-making process identified on a regular basis?

- Is the division of responsibilities between the Executive Board and the Board of Directors appropriate and clear?
- Does the Board of Directors respect the limits of its attributions, delegating the operational matters to the senior management?
- Does the board seek specialized external aid when the matter in question goes beyond the competency and capabilities of the directors?

● ● ● 9.3. Orientation, integration, and development of directors

- Do the new directors receive due information regarding the company and the Board of Directors?
- Did the Board of Directors define and convey its expectations concerning each director?
- Do the directors have an opportunity to meet the company's CEO on a regular basis?
- Do the directors receive orientation concerning corporate governance matters on a regular basis?
- Do the directors receive continuing education on subjects that affect the company?

● ● ● 9.4. Knowledge of the company's culture, business, and operations

- Do the directors know what they need to know about the company and the matters it faces?
- Do new directors have a clear understanding of the company's mission, vision, values, and culture?
- Do the directors understand non-tangible success factors, such as brand, human capital, reputation, and public image?
- Are the company's business and operation well known? Are the objectives and success factors clear?
- Do the directors duly understand the company's value chain and business processes?
- Was the cycle of life stage of the company identified and possible "pathologies" in its evolution were found?

- Is proper information about the company's market, main competitors and their movements available?
- Are the main needs of the company's customers known?
- Is the competitive positioning of the company's products and services well understood?

● ● ● 9.5. Vision and Strategy

- How does the Board of Directors engage in the process of formulating the company's vision and strategy? Does the Board of Directors hold an active role in this process?
- Are the expectations, interests, and influence of the shareholders and other stakeholders known and taken into consideration in the process of formulating the vision and in the strategic decision-making?
- Are economic, political, and financial subjects being considered in the definition of the vision and strategy?
- Is enough time dedicated to analyzing and discussing the company's strategy and the long-term goal?
- Is the Board of Directors able to identify, among below items, which are those capable of adding greater value to the shareholders?
 - Greater efficiency in processes and resources and/or
 - Greater focus on results and/or
 - Risk mitigation and/or
 - Better strategic planning and execution of executive actions and/or
 - Greater value creation through strategic alliances, joint ventures or even the selling of the company.
- In the event of fusions and mergers, is the Board of Directors capable of affirming whether the project (strategy and acquisition structure) is in line with the strategic plan and also of verifying whether the business plan and the projects are realistic/adequate?
 - What is the added value of the deal and how will this value be captured and optimized?

- What are the risk factors of the deal and of the macroeconomic environment?
- What are the collaterals?

● ● ● 9.6. Planning and Budget

- What is the involvement of the Board of Directors in the process of formulating and approving the strategic plan, the corporate budget and the action plan of implementation?
- Do the directors know the subjects addressed in the strategic plan?
- Do the directors interact with the Executive Board during this process?
- Are the strategic plan and the plan of action in line with the vision and the strategy previously approved by the Board of Directors?
- Are the resources needed for the implementation of the strategic plan considered and balanced?
- Were quantitative and qualitative performance indicators developed to monitor the execution of the strategic plan?
- Does the budget match the needs of the implementation and fulfillment of the plan? Was the budget properly presented and discussed with the Board of Directors?
- Is a formal process for the monitoring of the budget performance in place?
- Does the budget consider the financial resources for working capital and investments, from either in-house resources or funding sources, required for the execution of the strategic plan?

● ● ● 9.7. Agenda and Information for the meetings of the Board of directors

- Does the process of defining the agenda allow every relevant topic to be approached?
- Do the directors contribute to define the agenda?
- Is the agenda conveyed with sufficient advance, in a manner that all relevant topics can be analyzed and discussed?

- Are the quality, quantity, and advance of the information sent to the directors adequate?
- How is the information provided to the directors can improve in terms of presentation, time, content, detail and focus?

● ● ● 9.8. Leadership and Conduction of the Board Meetings

- Is the leadership of the Board of Directors distinct from that of the Executive Board?
- How effective is the leadership of the Board of Directors concerning the body itself and the various committees?
- How much time is dedicated to strategic and operational matters? How much time is dedicated to review the past results compared to future trends and outlooks?
- Do the directors duly prepare for the meetings?
- Is the frequency of meetings adequate?
- Do the CEO and the executives attend the board meetings in the sections concerning topics of their responsibility or knowledge?
- How can the board meetings improve in terms of frequency, length, content, logistics, and topics?

● ● ● 9.9. Monitoring of the Company's Performance

- Were KPIs developed to suit the specific needs of the company (including the comparison with other similar companies)?
- Is proper knowledge on tools used to assess results, such as Balanced Scorecard, Beyond Budget, Economic Value Added – EVA, and others, available?
- Is a systematic follow-up of the strategic plan implementation carried out?
- Does the Board of Directors effectively monitor operational and financial performances, as well as the integrity of the company's internal control processes?

● ● ● 9.10. Human Resources Management

- Does the Board of Directors review the organization structure, the senior management performance, the human resources policy on a regular basis and also analyzes the need of future changes?
- Are the training and development programs capable of developing the human resources needed for the future, including successors?
- Does the company hold, in quantity and quality, all the human resources required to implement the strategic plan?
- Can the human resources demands be met internally or they should be fulfilled by external recruiting?
- Are the compensation, training, and development programs capable of attracting and retaining talents?

● ● ● 9.11. Financial Management

- What is the best capital structure for the company?
- What is the structure used by the company to receive and apply financial resources in order to maximize the value creation for the shareholders?
- Where should resources be sought, internally or externally? What tool should be used in order to receive external funding: IPO, private equity, bonds, bank loans, negotiate with vendors, governmental incentives, and others?

● ● ● 9.12. Risks and Crisis Management

- Did the company develop mechanisms to identify risk areas or potential performance issues before the emergence of crisis?
- Are the directors aware of the variables with an impact over the company's performance and their respective risks?
- Does the Board of Directors have sufficient knowledge of the internal controls, in order to focus its work in the areas requiring the most attention, determine the extent and depth of the needed analysis and evaluate the chances of system failures?
- Is the Board of Directors able to define the risk level to which the company may commit?
- Is the risk analysis included in the process of formulating the strategy?

● ● ● 9.13. Board of Directors Committees

- Are the needs to establish and operate Board of Directors committees reviewed on a regular basis?
- Do the established committees have an adequate composition?
- Are the rules for the functioning of each committee well established?
- Does the Board of Directors regularly receive proper detailed information to monitor and evaluate the activities and performance of the committees?

● ● ● 9.14. Relationship with the Fiscal Council

- Do the Board of Directors and the Fiscal Council properly communicate with each other?
- Do the directors interact with the Fiscal Council members to answer their questions?
- Are the interactions between the bodies made with the intermediation of the board chair?

● ● ● 9.15. Relationship with the Executive Board

- Do the directors and the Executive Board maintain a proper relationship?
- Do the directors have the chance to interact with the Executive Board to answer their questions and gather the information they need? Are these interactions made with the intermediation or awareness of the board chair?
- Is the CEO aware of the communications between the Board of Directors and the Executive Board and what they have discussed?
- Does the Board of Directors effectively manage the conduct of the company's Executive Board?
- Does the Board of Directors refrain from interfering with the company's operational management?
- Do the directors and the CEO work, for a fact, to create a culture that encourages candid and open discussions?

● ● ● 9.16. Evaluation of the CEO and Senior Management

- Is the senior management evaluated on a regular and effective basis?
- Does the senior management compensation incentive top performance without risking the company?
- Does the company have clear policies and ongoing programs to incentive the senior management to buy company's stock options in the short and long-term?
- Does the Board of Directors verify whether the senior management is meeting the standards and expectations?
- Does the Board of Directors evaluate the CEO's and the company's performance on a regular basis?
- Does the CEO evaluate the company's executives on a regular basis and share the report with the Board of Directors? Also, does the CEO share the report with the Compensation Committee or Human Resources Committee, if any?

● ● ● 9.17. Succession Planning

- Is a corporate succession planning policy in place?
- Is a succession plan targeted at the CEO in place?
- Does the Board of Directors communicate with other company's heads and analyze their potentials as possible successors on a regular basis?

9.18. Evaluation of the Board of Directors

- ● ● • Do the Board of Directors, senior management, and company heads comply with the principles of the good corporate governance?
- Is the Board of Directors effective as a team?
- Does the Board of Directors provide a clear guidance to the company and offers wise suggestions?
- Are the discussions during the meetings focused on appropriate topics?
- Does the Board of Directors opportunely challenge the Executive Board?
- Does the Board of Directors reach its top performance, individual, and collectively?

- Is the Board of Directors committed to the continuous improvement of its performance? Are other Board of Directors with good performance evaluated and does the board consider how it can learn from them?
- Does the board encourage free expression? Do the directors show independency in the decision-making?
- How can the evaluations methods of the Board of Directors be improved?

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Handbook #9: Good Practices for Board Meetings

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