THE INITIAL PUBLIC OFFERINGS LAW REVIEW

Editor
David J Goldschmidt

THE LAWREVIEWS

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PREFACE

Welcome to the inaugural edition of *The Initial Public Offerings Law Review*. While it is largely agreed that the first 'modern' initial public offering (IPO) was by the Dutch East India Company (VOC) in 1602, IPOs now take place in nearly every corner of the world and involve a wide variety of companies in terms of size, industry and geography. Several of the earliest exchanges are still at the forefront of the global IPO market, such as the NYSE and LSE, however, the world's major stock exchanges now are scattered around the globe, and many of them are now public companies themselves. Aside from general globalisation, shifting investor sentiment and economic, political and regulatory factors have also influenced the development and evolution of the global IPO market. For example, markets in the Asia-Pacific region, including Hong Kong, Shanghai and Tokyo, have enjoyed a significantly stronger presence in the global IPO arena in recent years owing to economic growth in the Asian markets.

Every exchange operates with its own set of rules and requirements for conducting an IPO. Country-specific regulatory landscapes are often dramatically different between jurisdictions as well. Whether a company is looking to list in its home country or is exploring listing outside of its own jurisdiction, is it important that the company and its management are aware of the requirements from the outset as well as potential pitfalls that may derail the offering. Moreover, once a company is public, there are ongoing jurisdiction-specific disclosure and other requirements with which it must comply.

Virtually all markets around the globe have experienced significant volatility in recent years. In 2016, the uncertainty surrounding the US presidential election, the unexpected outcome of the Brexit vote and numerous other geopolitical issues facing regions throughout the world furthered the general decline in both overall deal count and proceeds raised. Moving forward, however, many regions have a healthy IPO pipeline for the coming 12 months, including many household names.

The Initial Public Offerings Law Review seeks to introduce the reader to the global IPO regulatory environment and main stock exchanges in 16 different jurisdictions. Each chapter provides a general overview of the IPO process in the region, addresses regulatory and exchange requirements and presents key offering considerations. We hope this inaugural edition of *The Initial Public Offerings Law Review* introduces the reader to the intricacies of taking a company public in these jurisdictions and serves as a helpful handbook for companies, directors and managers.

David J Goldschmidt
Skadden, Arps, Slate, Meagher & Flom LLP
New York
March 2017

Chapter 2

BRAZIL

José Luiz Homem de Mello, Guilherme Sampaio Monteiro and Gustavo Ferrari Chauffaille[1]

I INTRODUCTION

The Brazilian initial public offering (IPO) industry had its golden age approximately 10 years ago, when 90 companies went to market within two years (2006 and 2007). Since then, a combination of international and national financial crises, political uncertainty and other issues has resulted in varying and smaller numbers of companies reaching the Brazilian market, despite there being larger lists of candidates:

a four IPOs in 2008;
b six IPOs in 2009;
c 11 IPOs in 2010;
d 11 IPOs in 2011;
e three IPOs in 2012;
f 11 IPOs in 2013;
g one IPO in 2014;
h one IPO in 2015; and
i one IPO in 2016.

So far this year, it seems as though the Brazilian IPO industry is getting back on track. As of February 2017, two companies have completed their IPOs: Instituto Hermes Pardini SA (763 million reais) and Movida Participações SA (586 million reais). The Brazilian Securities and Exchange Commission (CVM) is currently analysing two other IPO registration requests: Azul SA (which would be a dual listing in the Brazilian stock exchange and in the New York Stock Exchange) and Log Commercial Properties e Participações SA; and according to news in the press, nearly 10 other companies are preparing to file their IPO registration requests.

The Brazilian financial and capital markets system is a highly regulated sector and is essentially composed of regulatory bodies such as the National Monetary Council (CMN) and the National Council of Private Insurance, and supervisory bodies such as the Central Bank of Brazil (the Central Bank) and the CVM, which supervise, regulate and inspect publicly held corporations, financial institutions and stock exchanges, among other entities.

According to Brazilian securities law (Law No. 6,385 of 7 December 1976, as amended), the CVM regulates, develops, controls and inspects the securities market. The CVM is also responsible for regulating and inspecting publicly held companies, the trading

1 José Luiz Homem de Mello and Guilherme Sampaio Monteiro are partners and Gustavo Ferrari Chauffaille is an associate at Pinheiro Neto Advogados.

and intermediation of the securities and derivatives markets, the organisation, functioning and operation of stock markets, commodities and futures markets, as well as the management and custody of securities.

Typically, federal laws applicable to the capital markets in Brazil contain general provisions and their main purpose is to establish the composition of Brazilian capital markets, who the market agents may be, the different independent agencies that have powers to oversee the markets and the extent of their authority. The regulations that set forth specific sets of rules that each player and transaction must comply with are the CVM's instructions, Central Bank circulars and CMN resolutions. This system benefits the Brazilian capital markets, as the enactment of laws is a very bureaucratic procedure that cannot keep pace with the constant changes financial and capital markets experience. The enactment of Central Bank, CMN and CVM regulations results in quicker and more effective regulation of such markets.

Brazilian financial and capital markets also have a self-regulatory organisation called the Brazilian Association of Financial and Capital Market Entities (ANBIMA), which includes set rules with increased corporate governance that its associates (banks, underwriters, brokerage firms, investment banks, among others) must comply with. Currently, ANBIMA has a partnership with the CVM, in order to expedite the registration of follow-on offers. By means of such partnership, ANBIMA is responsible for examining and making demands regarding offering documents (ANBIMA's time limit to make demands is much shorter than the CVM's on a regular public offer), and after ANBIMA is satisfied with the documents, they are sent to the CVM for final approval of the public offering.

II GOVERNING RULES

i Main stock exchange

Brazil currently has one registered stock exchange that allows companies to publicly trade their shares: BM&FBOVESPA. In addition to the set of regulations provided by the CMN, the CVM and the Central Bank, publicly held companies that wish to trade their shares on the stock exchange must also comply with BM&FBOVESPA's regulations (which address, among other things, regulations on minimum corporate governance requirements that must be observed by listed corporations).

ii Overview of listing requirements

BM&FBOVESPA has five special listing segments, known as Bovespa Mais, Bovespa Mais Nível 2, Nível 1, Nível 2 and the Novo Mercado (the New Market). These special listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements more stringent than those mandated by the Brazilian Corporate Law (Law No. 6,404, of 15 December 1976, as amended) and by the regulations, and there are specific requirements for listing in each of them.

Under the provisions of BM&FBOVESPA's Issuer Manual, the application for registration of a company with BM&FBOVESPA, and BM&FBOVESPA's authorisation to trade its shares on a listing segment, have to be supported by a set of documents similar to the documents required by the CVM. The terms for BM&FBOVESPA to review the applicable documentation and to make improvement requirements in such documentation are very similar to the CVM terms, and they are designed to meet (to the extent possible) CVM's revision terms.

Once the registration application with BM&FBOVESPA has been granted and the participation agreement, for instance, of the New Market, has been executed, the company must comply with the specific regulations of the New Market and submit to BM&FBOVESPA the acceptance thereto of the new officers, directors and controlling shareholders, as the case may be. The company must also agree to comply with the rules of the specific listing segment relating to the provision of regular and special information.

iii Overview of law and regulations

In order to list its shares and launch an IPO in Brazil, the company should be a corporation and needs to:

a obtain its registration as a publicly traded company with the CVM;
b register the public offering of shares with the CVM;[2] and
c obtain its registration as a listed company with BM&FBOVESPA.

These procedures are normally carried out simultaneously, even though it is possible to obtain the publicly held registration at first and then proceed with the IPO.

A public offering under the terms of CVM's Instruction No. 400 of 29 December 2003, which sets forth the rules applicable to public offerings of securities in the local market, requires a prospectus that primarily includes information about the offeror, the offering, the securities offered and risk factors. The information regarding the offeror is mainly included in the Reference Form, which will be an attachment to the prospectus – this document contains the terms of the transaction.

A prospectus must meet the content requirements provided in detail by Instruction No. 400 and by the Regulatory and Best Practices Code for Public Offerings by ANBIMA.

Additionally, Instruction No. 400 requires a launching announcement, an announcement of commencement and a closing announcement. Both the launching announcement and the announcement of commencement should inform the procedures related to the public offering, including a timetable, the amount of securities offered, a price range reference in the first document and the price on the second document (which is disclosed just after pricing). A closing announcement reveals, mainly, the quantity of securities allocated to each investor and the type of investor that accepted the offering with the respective amount of security acquired. Both announcements must be published by the lead underwriter in major newspapers or made available on the website of the offering participants, the relevant stock exchange and the CVM.

The application for registration of a public offering under the terms of Instruction No. 400 must be jointly submitted to the CVM by the offeror (whether an issuer or a selling shareholder) and the lead underwriter, and must be accompanied by supporting documents, including drafts of the offering documents.

2 Even though, according to recent amendments to Instruction No. 476 of 16 January 2009, an IPO without previous registration with the CVM is possible, due to the limitation on the qualification of the investors that can participate on such offering (professional investors only) and the fact that trading is limited to international investors for 18 months as of the date of admission for trading on the stock exchange, it has not yet been used. We are therefore only covering the possibility of a registered IPO in Brazil.

Nearly all qualified Brazilian investment banks have agreed to comply with ANBIMA's Best Practice Code and have agreed to sanctions in the event of non-compliance with its terms and conditions. Accordingly, the underwriting agreement will typically require issuers to conform with the standards of such Code.

After the offeror has submitted to the CVM an application for registration of the public offering distributed under the terms of Instruction No. 400, it may proceed to printing a preliminary prospectus and initiate its book-building activities and roadshow presentations. In practice, the offeror and the lead underwriter may prefer to wait for an indication from the CVM that no major issues are anticipated in relation to the proposed public offering. No sales may be completed until the CVM has granted registration for the public offering distributed under the terms of Instruction No. 400. Upon granting of registration of the public offering distributed under the terms of Instruction No. 400, the final prospectus must be made available on websites of the issuer, the offeror, the underwriters, the CVM, the relevant stock exchange and ANBIMA, in the case of follow-on offerings.

III THE OFFERING PROCESS

i General overview of the IPO process

If the publicly held registration and IPO registration procedures are carried out simultaneously, upon the first filing of the required documents the CVM has 20 business days to review the documents and make improvement requirements in the documents. The issuer then has up to 40 business days to address such requirements; however, during an IPO it is customary to answer within two days. Upon this second filing, the CVM has 10 business days to make a new revision – an IPO is usually launched on the day of the second filing. If requirements are not fulfilled, the issuer has three business days or the outstanding term of the 40 days (see above) to fulfil them. And finally, the CVM grants the publicly held and IPO registrations.

The process of going public requires the involvement of several external agents – service providers including audit firms, law offices, investment banks, consultants and a custodian bank. In order for the project to take place, it is ideal to gather a team who can advise, diagnose and map management skills before filing for an IPO. Mapping of the areas that require improvement helps in preparing and executing an action plan to list the company.

A review of the business plan and strategy for listing shares is very important in order to be sure that the company will be able to implement its plan as described in the prospectus, under normal market conditions.

An IPO process requires a broad list of documents, such as disclosure documents of the issuer (i.e., the Reference Form), disclosure documents of the offering (i.e., the prospectus), the offering agreements (i.e., the underwriting agreement), financial statements of the past three fiscal years audited by an independent auditor and in accordance with International Financial Reporting Standards, and other ancillary documents and agreements.

CVM Instruction No. 480 of 7 December 2009 requires that the company prepare the Reference Form – the disclosure of which has the objective of furnishing the information required by the regulatory body for companies in the process of going public and registering with the CVM. After the IPO, the listed company will continue to have an obligation to file the Reference Form annually or more frequently, whenever any information on the form needs to be updated.

Preparing and filing the Reference Form is a relatively complicated, time-consuming, technical process requiring substantial planning and coordination. It is an online document

with parameterised fields. It involves providing the information specified in the applicable CVM rules and requires a great deal of effort by the management team, lawyers, and independent auditors to position a company as accurately and positively as possible.

The company should provide its complete profile in the Reference Form, covering aspects such as its business strategy, products, processes, customers, risks, contingencies and financial and economic situation. Section 10 of the Reference Form also includes a management discussion and analysis (MD&A) section and a line-by-line analysis of the company's income statement and balance sheet. Thinking in advance about the best way to describe the company's revenues is extremely important as this will help analysts, investors and the market to adequately price the company in the IPO and on an ongoing basis.

In equity offerings, the lead underwriter, bookrunners and any co-managers will typically enter into a firm commitment underwriting agreement with the issuer or selling shareholder. The bookrunners will enter into separate agreements with members of the selling group, where the members of the selling group accede to the underwriting agreement and provide their own firm commitment to place or purchase the shares on offer.

Moreover, if a public offering under the terms of Instruction 400 is oversubscribed by more than one-third of the offered securities, no securities may be placed with affiliates of the underwriters, the issuer or any other parties involved in the offering, except for the orders placed by non-institutional investors provided that they comply with the recommendations by CVM and are considered sufficient to mitigate the use of confidential information by investors to obtain improper advantage.

Due diligence procedures

The due diligence procedures involve an investigation of the company and its management by the underwriter and their legal counsel, including a visit to company installations, analysis of significant agreements and contracts, financial statements, income tax returns, minutes of senior management meetings, minutes of board of directors' and shareholders' meetings, and performance of several key performance indicators of the company and the business segment in which it operates, among other things.

The due diligence procedures also include a complete review of the Reference Form by all parties involved in its preparation to ensure that there are no errors, omissions or inconsistencies. During the drafting sessions of the Reference Form, the entire IPO team carries out procedures to provide a reasonable basis for believing that, as of the effective date of public company registration, the registration form and prospectus contain no significant untrue or misleading information and no material information has been omitted.

A company's attorneys and its underwriter's attorneys will also distribute questionnaires to the directors and officers, asking them to analyse, confirm and comment on the information contained in the Reference Form draft.

In addition, as part of their due diligence procedures, the underwriters will request comfort letters from the company's independent auditors related to information that appears in the Reference Form and prospectus, and on events subsequent to the audit opinion date. For information not subject to a comfort letter from the auditors, the underwriter will request back-up documents.

ii Pitfalls and considerations

Publicity restrictions – quiet period

Offerors, selling shareholders and underwriters must treat any proposed offering under the terms of Instruction 400 as material, non-public information until an application for the registration of the public offering is filed with the CVM. Use or disclosure of material or non-public information may constitute insider trading or a breach of fiduciary duties, depending on the circumstances, and may lead to civil, administrative or criminal penalties.

Until the public offering is disclosed to the market, the issuer, the offeror, the bookrunners and everyone involved with the offering must:

a limit the disclosure of information relating to the offering to what is necessary for the purposes of the offering, warning recipients of the reserved and confidential nature of the information transmitted; and

b restrict the use of reserved and confidential information strictly for purposes related to the preparation of the offering.

From the moment the offering becomes public, all the information related to the offeror and the offering must comply with the principles of quality, transparency and equal access to information. Thus, all parties involved in the proposed public offering under the terms of Instruction No. 400 must abstain from discussing or mentioning the proposed offering and the issuer in the broader news and business media until the completion of the public offering.

Liabilities

The primary bases of liability in a securities transaction are also regulated by Instruction 400, which establishes the liability of the issuer, the selling shareholders, the underwriters and their respective managers for material misstatements and omissions in the offering documents. The lead underwriter is primarily liable, among the underwriters, for any damage caused to investors as a result of material misstatements and omissions. A lead underwriter may only be held accountable by an investor for lack of diligence in performing its obligation to ensure that the offering documents are free of material misstatements and omissions. However, the issuer and any selling shareholders that are controlling persons are fully liable for any material misstatements and omissions. A non-controlling selling shareholder is only liable if it fails to act diligently to ensure that the offering documents are free of material misstatements and omissions.

Issuers, selling shareholders and underwriters may also suffer administrative sanctions. The CVM may initiate disciplinary proceedings and impose sanctions ranging from warnings to fines to permanent disqualification from public capital markets. The CVM enforces compliance with the Brazilian Corporate Law, the Brazilian Capital Markets Law and its own regulations. During the course of the offering, the CVM may also suspend the offering if it determines that the offering is being conducted in a manner inconsistent with its purpose, or is illegal, fraudulent or violates CVM regulations.

iii Considerations for foreign issuers

The Brazilian capital markets have long sought to intensify Brazilian Depositary Receipts (BDRs) trades on the stock exchange. BDRs are certificates representing securities issued by foreign public companies, and are presented as an alternative for both domestic investors, who

can invest in foreign companies without having to deal with exchange operations, outbound transfer of funds and maintenance of custodial accounts abroad, and foreign companies that see Brazil as a potential liquidity and financing centre.

The issuance and trade of BDRs is regulated by:

a CVM's Instruction No. 332 of 4 April 2002, as amended, which deals with company registration and with the registration of a BDR programme with the CVM; and

b CVM's Instruction No. 480 of December 7 2009, which amended some provisions of CVM Ruling No. 332.[3]

To summarise, for a foreign company to publicly issue BDRs and access the local Brazilian market, the company must:

a register itself with the CVM as a BDR issuing company (CVM Instruction No. 480);

b register the BDR programme with the CVM (CVM Ruling No. 332); and

c register the BDRs with the BM&FBOVESPA (Issuer Manual).

For the purpose of CVM Ruling No. 480, only a foreign company can issue securities underlying the BDR. The issuer is considered a foreign company if:

a the company's headquarters are not located in Brazil; or

b 50 per cent or more of the company's assets are not located in Brazil.

If necessary and according to the rules, the CVM may waive compliance with evidence of the foreign issuer status in the event set out in (b), at the issuer's circumstantiated request.

Upon proper registration with the CVM, a foreign company will be authorised to trade its BDRs. The initial company registration process is governed basically by CVM Ruling No. 480, which requires that, among other procedures, the company requests its company registration as 'Category A', which authorises it to publicly trade any securities in the local Brazilian market.

It is important to emphasise that the financial statements of the foreign company for purposes of compliance with Brazilian regulation should be prepared:

a in the Portuguese language;

b in Brazilian currency; and

c in conformity with:

- the Brazilian Corporate Law and the CVM rules;
- the international accounting standards issued by the International Account Standards Board; or
- the accounting rules of the country of origin, if the foreign company has its seat in a country that is a member of Mercosur.

In addition, financial statements should be audited by an independent auditor registered with the CVM or with a competent body in the country of origin of the company.

The company must also provide for registration of its BDRs with BM&FBOVESPA in order to trade the BDRs on BM&FBOVESPA under the provisions of the Issuer Manual.

3 These provisions mention that if the headquarters of the company are in a country that has not signed a specific agreement with the CVM or has not signed a memorandum of understanding with the International Organization of Securities Commissions, then the legal representative of the company will be designated between its two principal executives.

IV POST-IPO REQUIREMENTS

Companies registered with the CVM as corporations and listed in BM&FBOVESPA in Brazil are subject to a significant number of ongoing obligations under the Brazilian Corporate Law and the regulations issued by the CVM. These include rules applicable to mandatory financial reporting, timely disclosure of material information to the market, insider trading and restrictions on trading with its own securities, among other things, which are not applicable to closely held corporations.

Compliance with law, regulation and contractual obligations are monitored by the CVM and BM&FBOVESPA. Failure to comply with such obligations may lead to the imposition of administrative penalties by the CVM on the company's management and controlling shareholders, ranging from formal warnings to substantial fines and prohibition of holding offices in public companies in Brazil, in addition to civil liability towards minority shareholders.

Some main ongoing obligations of a company, which have an effect on its IPO, are described below.

i Investor Relations Officer (DRI)

Companies observing specific corporate governance practices rules must have a board of directors in place, and must appoint a DRI, who is responsible for ensuring compliance with CVM regulations related to the company's communications with the general public and with shareholders. Officers appointed as DRIs may also perform other duties at the company. There are several examples of Brazilian corporations that combine the DRI and CFO functions.

The company must also have an investor relation department, which is a communication channel between the company, CVM, BM&FBOVESPA, their shareholders, managers and the market. Such department must be updated on any events related to the company.

A DRI will analyse all the information received and is responsible for the disclosure of material information to the general public. The DRI is also responsible for monitoring compliance with other requirements to be met by the company, such as the disclosure of trading of shares by the managers of the company and the disclosure of the periodic and non-periodic information to the general public, as detailed below.

ii Mandatory disclosures of periodic information

Enrolment Form

The Enrolment Form should contain information concerning:

a identification of the company;
b securities admitted into negotiation in regulated markets;
c auditors;
d the book-entry share services provider;
e the DRI or similar person; and
f the shareholder department.

The Enrolment Form must be submitted to CVM and BM&FBOVESPA, or validated, by the end of the fifth month of each year.

Reference Form

The Reference Form, similar to a Form 10-K for a US domestic company or a Form 20-F for a foreign private issuer registered with the US Securities and Exchange Commission, is extensive and is the most relevant document for a company that intends to list its shares and launch a public offering (see Section III.i, *supra*).

The Reference Form is a living document and must be submitted or updated, as the case may be:

a annually, until the end of the fifth month of each year;

b at the date of filing for public registration of the public offering of securities; and

c up to seven business days from any change of certain information contained in the Reference Form (only as regards the changed information).

The list of information that must be updated in up to seven business days is described in the CVM's regulations.

Financial statements

Financial statements must be submitted on the same date as their publication, which is expected to occur within three months after the closing of the corporation's fiscal year or within one month before the annual shareholders' meeting[4] (AGO) and should be submitted together with several documents, as established by the applicable regulation. In addition to the financial statements, the management's proposal to the AGO should include, among other things, names of board members for election and a comprehensive financial review analysis (similar to an MD&A).

The financial statements must be prepared in accordance with Brazilian accounting standards (using Brazilian Corporate Law and CVM rules) and audited by an independent auditor registered with the CVM. Financial statements must also be published in the Official Gazette of the state or city in which the corporation is incorporated, published in a newspaper widely distributed in the same municipality as the corporation's headquarters and filed with the CVM and BM&FBOVESPA through the EmpresasNet System.

Standardised financial statements

Standardised financial statements should contain data from the financial statements prepared in accordance with the applicable rules, as described above for financial statements. They should be delivered within three months after the company's fiscal year closing or with the same reporting date as the financial statements, whichever occurs earlier, using the EmpresasNet System.

Quarterly financial reports

Within 45 days after the end of each quarter of the fiscal year, except for the last quarter, the corporation should submit quarterly financial reports, together with a special review report issued by an independent auditor registered with the CVM. The quarterly financial reports must also be filed through the EmpresasNet System.

4 Pursuant to the Brazilian Corporate Law, all corporations must hold an AGO during the first four months following the end of each fiscal year in order to receive the accounts rendered by the company officers and to examine, discuss and approve the financial statements; and to approve the allocation of net income in profit reserves, investment or the distribution of dividends.

Disclosure of notices and material facts

The corporation must disclose to the general public any material acts or facts. 'Material acts or facts' are defined by CVM regulation as any acts or facts of a political, administrative, technical, business or financial nature related to the relevant corporation that may significantly affect:

a the trading price of the securities issued by the corporation or related thereto;
b the decision of investors to purchase, sell or hold those securities; or
c the decision of investors to exercise any rights related to the ownership of securities issued by the company or related thereto (e.g., right of first refusal on capital increases).

The DRI has the duty to immediately disclose any material facts to the CVM and to the market. If the controlling shareholders, members of management or any administrative committee with technical or advisory functions, created by the by-laws, have personal knowledge of the notice or material fact and realise the omission of the DRI in fulfilling his or her duty of communication and disclosure, such shareholders, officers, directors and professionals will only be exempt from liability if they immediately communicate the notice or the material fact to the CVM.

Under particular and extraordinary circumstances, notices of material facts may not be immediately disclosed. If the controlling shareholders or members of the management of the corporation conclude that disclosure would threaten the company's legitimate interests, they can file a request to the CVM's president to grant an exception.

If the confidentiality of the information becomes unmanageable, or if there is an atypical fluctuation of trading prices, volumes of the company's shares or securities related thereto, the notice of material fact must be released immediately.

iii Mandatory disclosure of securities trading

Disclosure of information regarding management and insider trading

Managers, board members, fiscal council members and any administrative committee with technical or advisory functions, established by the by-laws, must provide the corporation with information regarding ownership and trading with the corporation's securities, or derivatives backed in the corporation's securities:

a within five days after the conclusion of each transaction;
b in the first business day following the day they have taken office; or
c during the filing of the documentation for the publicly held registration within 10 days after the end of each month.

After the investiture, the corporation's DRI should file the following with the CVM and BM&FBOVESPA (using the web system designed by BM&FBOVESPA): consolidated and individual statements including information on trading made in the preceding month with the individuals indicated above.

Individuals have an obligation to refer to shares held by spouses and children included in their annual income tax, as well as to trading shares held by companies or vehicles controlled by such individuals and direct or indirect subsidiaries.

Disclosure of information regarding acquisition, disposal of relevant shareholding interest, and negotiations with controller and shareholders

Direct or indirect controlling shareholders, and shareholders who elect members of the board of directors or fiscal council, as well as any individual or group of individuals acting jointly or representing the same interest, that reach, direct or indirectly, a holding of 5 per cent (or multiples of 5 per cent) of the shares of the listed company, rights over such shares, or derivatives backed in a company's securities (with physical settlement or not) should file a statement with information on the purchase of the securities with the corporation. The DRI of the company should file such statement with CVM and BM&FBOVESPA, using the EmpresasNet System.

The individual, or group of individuals representing the same interest, is required to disclose the same information each time such holding increases or decreases by 5 per cent the shares or class of shares representing the capital stock of the company.

iv Restrictions on trading of securities

The company, its direct or indirect controlling shareholders, directors, officers, members of the fiscal council and any members of committees with technical or advisory functions, established by the corporation's by-laws, and any individual that becomes aware of information relating to the notice or material fact because of their function or position in the corporation, its controlling shareholders, subsidiaries or affiliates, are prevented from trading with shares or other securities issued by the corporation:

a before the disclosure to the market of the notice of material fact related to the corporation; and

b within the period of 15 days prior to the release of corporation's quarterly financial reports and standardised financial statements.

v Notice of related party transactions

If the issuer enters into a related party transaction where the total amount is above 50 million reais or 1 per cent of the issuer's assets (or for a lesser amount at the management's discretion), the company should disclose a notice containing the main information of the transaction, as per a list of information determined by the CVM.

V OUTLOOK AND CONCLUSION

The Brazilian Code of Corporate Governance was issued on 16 November 2016. Following the 'apply or explain' model, the Code seeks, by means of principles, to enhance corporate governance of the Brazilian capital markets. The CVM is carrying out a public hearing to amend its Instruction No. 480, with such Code in mind.

The Brazilian IPO market has a solid regulatory background, with strong precedents, and its main regulation, Instruction No. 400, has been up and running for many years.

Historically, capital markets have not been Brazil's main source of funds; however, this has been changing recently.

Economic and political scenarios play a leading role with regard to the development of the IPO industry, and the current situation is very positive.