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**DUISENBERG SCHOOL OF FINANCE**  
**VANDERBILT LAW SCHOOL**

Ladies and gentlemen, good afternoon!

First of all, I would like to thank the invitation to be here this afternoon!

It is an honor for me to take part in this conference, sharing some of my views about the capital market.

I have no doubt that this conference, with the presence of so many well known scholars and market agents, will allow each one of us an opportunity for an enlightening reflection from which we can certainly profit from; especially considering the current challenges in the market place.

I guess we all agree on the key role capital market may – and should – play in the process of supporting economic and social growth. Experience has shown that the evolution of capital market directly impacts the level of economic growth and the increase in per capita income. This is additional evidence that a solid and well structured capital market has effectively a very important role in fostering economic and social development.

This role has gained significant relevance since conventional sources of finance have become more limited, especially in the world post the 2008 crisis, where:

- (i) Banks are discouraged towards long term credit activities, since they have stricter capital requirements; and
- (ii) Governments are committed to create jobs, deliver sustainable growth, invest in infrastructure and, at the same time, keep fiscal balance.

As a result, market based financing alternatives have become a natural, needed and complementary source of funding.

In this sense, ensuring capital market can serve their purpose significantly increases the responsibility of all private and public agents involved in this effort.

This is even more concrete in Brazil, where there is a high demand for additional, long term sources of capital, considering the huge need to finance infrastructure projects and support a sustainable development of small and medium sized companies.

Keeping this in mind, the Brazilian Securities and Exchange Commission (the CVM) is committed to continue pushing forward our 10-year, long term, strategic plan to secure stronger, safer and more resilient and efficient markets.

In this context, we have been addressing the challenges of the present without missing the perspective that Brazil is among the largest economies in the world and fully interconnected with the overall global scenario.

Like every other capital market regulator, CVM has a number of different roles and attributions – all of which, at the end of the day, should contribute to the same end – an open and resilient capital market – which walks hand in hand with economic growth and supports a more stable global stage.

Capital markets, by definition, are built on trust and confidence!

Accordingly, an open and resilient capital market has to be a safe place for long term investors. A place where they can clearly identify that there are rules aligned with the international standards setters, a consistent oversight, a tangible effort of financial education and a solid and proportional enforcement action.

These will make investors feel more protected, confident, and willing to invest their savings in our capital market.

If investors have doubt about basic, ground rules, the market development is not sustainable.

Therefore, CVM is constantly seeking to remove barriers to the development of the market, always focusing on ensuring safety and sustainability of such process. We are committed to provide a technical, balanced and independent performance in our legislative, educational, supervisory and enforcement duties.

For this reason we closely track our performance and results. And along with our own tracking, every 5 years, we also submit ourselves to an external, independent review (IMF and World Bank) that identifies how well we are performing against global, agreed principles and highlights gaps.

However, no matter how great CVM can be at carrying out its duties, they will have served a limited purpose, unless our enforcement is effective – in my view, one of our greatest challenges.

It is imperative that our enforcement activities be consistent, efficient and proportional, providing prompt responses for those who violate the rules. Market's participants must be aware that there are real and meaningful consequences in the event of non-compliance. That would encourage market's participants to work within agreed rules of conduct and also send a more consistent message to investors in terms of protection.

High standards of behavior should be clear, fomented and well adopted by the market players. As a consequence, the cost of capital to finance growth will be lower, which will intensify and stimulate investments, reinforcing a positive cycle.

Such timely and coherent enforcement actions bring credibility and predictability to the market, which, as a result, makes the investors feel safe and reliant on the regulator's supervision.

Given the significance of enforcement activities, we are implementing several measures result of the conclusions of a Strategic Task Force set up in 2013 in order to streamline the process of enhancing and improving our enforcement.

The recommendations arisen out of the Task Force included the five points below:

- (i) a better use of technology in the investigative part of our proceedings;
- (ii) the strengthening of our external partnerships with the Federal Police and the Judiciary sector;
- (iii) the enrichment of our joint enforcement efforts with self-regulatory organizations, as Brazilian Stock Exchange Market Supervision [*Conselho de Supervisão da BM&FBOVESPA*];
- (iv) the establishment of goals in terms of quality and speeding for our proceedings, so there is a more coherent time frame between the time of the wrong doing and the time of trial;

In this sense, it is rewarding to say that we have successfully accomplished the goals established for last year, and we are fully committed to comply with the even more challenging goals in force for 2015!

To illustrate what I am just saying, I can give you two examples of what we are looking forward to accomplish until the end of the year:

- We will be working to conclude, by the end of 2015, all administrative investigations requested before January 1<sup>st</sup>, 2012 and ;
- The Board of Commissioners shall decide on all enforcement proceedings which have been designated to any one of us before January 1<sup>st</sup>, 2013.

After all, as a great Brazilian poet (Ferreira Gullar) simply defined, *“If justice does not come promptly, it is our duty to speed it up. If not, we will be punishing the innocent ones”*.

- (v) And, finally, we are working on a proposal for a review in the current Securities market law (Law 6,385/1976) in what refers to enforcement. This review includes re-setting the levels of penalties (last amended in 1997) and creating mechanisms that further protect investors, such as the possibility of having leniency agreements to support our investigation processes.

We have been working on this project for a few months now and moving it forward is among our top priorities for 2015!

In this area, once again, I reassert the full commitment of CVM in the achievement of technical, balanced and timely decisions, as well as our cautious to avoid that such responses eventually impose unduly apprehension to the administrators, which also could affect, ultimately, the market efficiency.

Another point of attention we have is the safety and credibility of our market infrastructures.

Market infrastructures basically facilitate the clearing, settlement, and recording of transactions, and if properly managed, may strengthen the markets they serve and play a significant role in fostering financial stability.

As the world of securities has changed, we must have rules that ensure that they are registered, that they exist and that they are kept safe!

Bearing this in mind, in the end of 2013, we reviewed and improved our rules regarding financial market infrastructure related to the existence and holding of financial assets object of public offering or negotiation in exchange market.

In this sense, Brazil is aligned with the discussions held on global forums in the post-crisis, which highlighted the importance to strengthen the market infrastructure, in order to prevent a new endemic financial crisis.

We believe that it is very important to continuously ensure the integrity of market infrastructures, so we can sail more safely through scenarios of stress which could have a negative impact on the overall level of investor confidence.

Nevertheless, despite its prominent role as the regulatory body of Brazilian securities market, CVM is not – neither should be – the only agent engaged in the pursuance of a safer and efficient market, which, at the end of the day, will bring notorious benefits to all market participants.

In fact, this is a joint and complementary mission among CVM, self-regulatory organizations, regulated companies and all market participants, who shall be clearly aware of their functions and responsibilities, as well as the risks inherent to their activities.

We obviously cannot talk about mitigation of risks without highlighting the importance of good corporate governance practices.

Good practices of conduct have the power to make investors comfortable, promoting the alignment of interests with the purpose of preserving the business organizations, facilitating capital access, as well as controlling risks.

It is pretty clear to me that good conduct, like appropriate behavior, consists of the establishment of clear rules, sufficiently discussed, understood, and actually capable of mitigating the incidence of conflicting relationships.

The maintenance and development of effective structures of corporate governance is a key factor for strengthening the securities markets.

This is the reason why corporate governance is a global concern, and an issue that never leaves the agenda of CVM and other capital markets regulatory bodies. It is an important pillar for financial development and stability and I can only see this remaining a major theme for the coming years!

I have no doubt that incremental improvements in terms of rules of conduct are challenging and require great effort.

Specifically in Brazil, we are currently at a cross road. As I mentioned in my first speech as regulator back in 2012, the Novo Mercado changed the capital market landscape in the early 2000's. However, it may have also led the market to believe that we had, in Brazil, a significant headway. It was true! But at that time!

Other key markets also made progress and are closing that gap! This progress elsewhere and a few concrete and high profile cases in the Brazilian market only re-affirms my view that now it is the time for a serious reflection about next steps.

We have the know-how, a solid and independent Corporate Governance think tank and different groups discussing the subject! As regulator, we have been strongly involved in these discussions!

In order to strengthen our market and not be held back by poor examples, we have to keep bringing theory to real life!

We know that each business has its own particularities; and it need to be respected in the definition of what is a good corporate governance structure.

We can talk about different structures as concrete challenges demand different responses. However, it must be said: there cannot be any impeditive excuses for bad corporate governance structure.

No matter the market segment of the company. No matter if there is a single controlling shareholder or not, if it is a state owned enterprise or not, or even if we refer to a small business or to a giant corporation: every company must have its own corporate governance structure, properly fit to their needs and, consequently, to investors' needs.

And these structures should be constantly reevaluated in order to address the new challenges that may arise.

As I previously stated, we are facing a dynamic scenario where worldwide discussions are leading to the strengthening of the capital market as a needed and important alternative for long-term financing. This movement is extremely necessary for the much-needed investments in infrastructure and the focus on the financing of small and medium companies.

And these two themes, essential for the sustainable growth of the economies, cannot be properly conceived if not under a solid governance framework, featured by an open discussion and a clear evolution of the theme of risk monitoring.

Everyone needs to understand that solid capital markets only exist if corporate governance principles are understood, discussed and implemented!

In order to ensure that Corporate Governance principles are implemented and complied with, special attention needs to be given to a better perception, measurement and mitigation of risks.

All past crisis, big ones, as the one occurred on 2008, and minor ones, that frequently afflict specific market segments, showed us that risks effectively exist and that they surround our day-to-day activities.

What we can learn from all of these cases is that poor internal procedures of risk control significantly contribute for the occurrence of crisis and for a lower market safety level .

Risks should not be ignored! They are part of life. However, we must face them and deal with them. It is essential to raise the perception that efficient internal controls, effectively able to identify and mitigate potential risks, have the power to substantially benefit the company, as well as its management, non-executive directors, shareholders and, ultimately, the securities market as a whole.

In practical terms, we need to incorporate the culture to deal with minor, small waves so to avoid large tsunamis, which are much costlier to lead and solve!

The implementation costs of these mechanisms, which are often considered by the companies as an obstacle to its adoption, are, no doubt, superseded by the huge benefits arisen out of it, particularly in terms of added value to the company and safety of the operations.

Due to this growing concern, the CVM has recently amended our rules regarding companies' disclosure.

According to the CVM Instruction No. 552, which was under discussion in 2013 and entered into force on January, 2015, we require companies to disclose policies related to their internal controls. In this sense, companies will have to inform the market about the organizational structure of their internal controls, efficiency levels and flaws.

Concerning this point, I emphasize again that I am definitively not talking about the creation of pro forma mechanisms, which no one knows their reason to be, and that would solely increase the bureaucracy in the corporate organizational structure.

I am talking about the establishment of proper and effective mechanisms, related to the business nature, able to control and identify material risks, provoking fast and powerful solutions. Having risk monitoring procedures, focused on materiality, easy to be understood, executed, charged, which really protect the development of business activities, should be seen, in my opinion, as a priority investment by several actors of the market.

Furthermore, it must be said that the effectiveness of these mechanisms depends on the consolidation of a consistently growing consciousness of the managers about their responsibility. That is, the awareness that their duty of diligence shall not be limited by the formal compliance with those mechanisms.

One concrete example is the role performed by the board of directors. The board members are not omniscient, and have the right to trust managers and advisors – provided that they are diligent in the choice of such professionals and over the supervision of their activities.

Nonetheless, board members need to invest time in effectively analyzing and understanding the information received to support their decision-making process, so the right questions can be asked, giving rise to a constructive discussion, whereby potential risks are identified and boxed, so a final decision can be made on solid grounds (what we call the business judgment rule).

True and solid advances in the development process of risk management cultures shall be deemed as a strategic task! Otherwise, non-executive directors and officers will be seriously fated to fail in the compliance with their duties. This is the best way to manage risks of unnecessary bumps or crisis in the securities markets.

In summary, at the same time we acknowledge the urgent need to attract new potential investors to our market and ensure them safe investment conditions, we are also aware of the challenges that the market is facing.

Given this scenario, I believe we have a great opportunity to review certain concepts and make the necessary adjustments to our current corporate governance models.

Nonetheless, during such times, we must be careful not to be tempted into adopting alternative routes that may seem easier or simpler to follow.

Taking longer, but well paved roads, may, at first sight, even appear to be a high price to pay, but certainly will conduct us in safety during our journey through the challenges, allowing us to cultivate and mature the best way to make progress thereon.

One thing is clear: any progress shall only be deemed appropriate if comprises some features that the market relies on.

In this sense, technicality, balance, independence and, most and foremost, credibility are touchstones that we are not disposed to abdicate.

Albeit the different governments Brazil has been served with, CVM's state (and not governmental) function, as well as its independence, has been preserved – and this, as

you all are aware, is the foundation for achieving and maintaining a solid capital market!

During its four decades of existence, CVM has operated with a technical, independent and regularly renewed Board of Commissioners, which members are approved by the Brazilian Senate for a 5-year fixed term. This is a great asset the system has to offer and another solid indicator that we are constantly prepared to face the new challenges the market reality places upon us.

Thank you again for the invitation and for this opportunity to share these views and foster the debate!

**Disclaimer: the comments above reflect my personal opinions and do not represent necessarily the views of the Board of Commissioners or of CVM as an institution.**