ALLIANCEBERNSTEIN®

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November 24, 2020

Mr. Marcelo Santos Barbosa, Chairman of the Brazilian Securities Commission- CVM
Mr. Gilson Finkelsztain, Chief Executive Officer, B3 - Brasil, Bolsa, Balcão
cc: Office of the Superintendent of Market Development – SDM
cc: Flavia Mouta, Issuer Director, B3

Re: ***Proposal on the Implementation of the Super-voting Shares Structure in the Law 6,404/1976- Iniciativa Mercado de Capitais- IMK (Capital Markets Initiative Working Group)***

Dear Messrs. Santos Barbosa and Finkelsztain:

AllianceBernstein L.P. ("AB" or "we") is a global investment manager with USD 631 billion assets under management (as of September 30, 2020). We provide research, diversified investment management and related services to diverse clients. As an investment manager, we are shareholder advocates and have a fiduciary duty to make investment decisions that are in our clients' best interests by maximizing the value of their shares. Proxy voting is an integral part of this process, through which we support strong corporate governance structures, shareholder rights, and transparency.

AB generally supports a one-share and one-vote principle to ensure that all shareholders are provided with equal opportunity to voice their concerns on board and management. Alternatively, this also means that a smaller group of holders- typically the founder or fund managers with initial capital investment- do not get to wield their power over minority shareholders in detriment of the company's long-term value. On this basis, **AB does not support the implementation of super-voting shares in the Brazilian capital market for following reasons**.

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A. Perpetual Establishment of Super-Voting Shares Has Negative Impact on Long-Term Shareholder Value

We acknowledge that super-voting shares may be beneficial during the first few years after the initial public offering for entrepreneurs to focus on their vision. However, numerous research papers provide evidence that such benefits tend to dissipate overtime. In addition to studies that are cited in International Corporate Governance Network (ICGN)'s comment letter submitted on October 26, 2020, European Corporate Governance Institute (ECGI) highlights research conducted by three professors that explore the "life-cycle of dual class firm valuation."[1] The paper concludes that the gap between voting and economic stakes of controlling shareholders and minority shareholders increase from 16% one year after the IPO to 26% nine years thereafter. Combining this statistical increase in agency cost with known risks of entrenched management and self-dealing,[2] the lack of structural accountability at the top raises question mark on what binds management to long-term value creation as opposed to short-term performance. The inherent disproportionality of super-voting shares thus deviates from evolving expectations of global investors: to hold the company management accountable for achieving sustainable value for the wider shareholder base. For instance, the U.K. Stewardship Code demands its signatories to "explain how and what they communicate as criteria for pre-investment monitoring [on] investment in listed equity shares with no or dual class voting rights"[3] as part of investment risk assessment process. Similarly, Japan's Stewardship Code states that "institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards sustainable growth of the companies."[4] These standards reflect investors' desire to create an efficient capital market that promotes long-term value creation that is fair for all investors. They also explain why the Australian Stock Exchange continues to attract a significant number of technology companies from U.S. and other markets while prohibiting multi-class structure IPOs.

1. Cremers, Lauterbach and Pajuste: The Life-Cycle of Dual Class Firm Valuation, December 2018 https://ecgi.global/sites/default/files/working_papers/documents/finalcremerslauterbachpajuste_2.pdf
2. Bebchuk, Lucian and Kobi Kastiel: The Untenable Case for Perpetual Dual-Class Stock, Discussion Paper No. 905, Harvard Law School, April 2017, pp 1-6.
3. Financial Reporting Council: Revised UK Stewardship Code, January 2019 https://www.frc.org.uk/getattachment/bf27581f-c443-4365-ae0a-1487f1388a1b/Annex-A-Stewardship-Code-Jan-2019.pdf
4. The Council of Experts on the Stewardship Code: Principles of Responsible Institutional Investors: Japan Stewardship Code, March 2020 https://www.fsa.go.jp/en/refer/councils/stewardship/20200324/01.pdf

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B. Positive Correlation Between Market Liquidity and Robust Corporate Governance

As the Association of Capital Market Investors (Amec) states in its letter submitted on September 21, 2020, a primary decision factor for companies on selecting markets to list its stocks is more related to valuation and liquidity aspects than to the flexibility brought by the super-voting shares.[5] One important element of both valuation and liquidity is efficient flow of information. While management can arguably control the information flow with or without the presence of super-voting shares, the risk of super-voting shareholders using their "voting control to approve further changes in governance to the detriment of [minority shareholders]"[5] raises the probability of disruption in information flow overall. The Investment Advisory Council (IAC) of the U.S. Securities and Exchange Commissions (SEC) describes how holders of super-voting shares can use their ability to enforce their view of business strategy upon management and/or minority institutional shareholders, which also raises the risk of litigation and delisting from major stock exchanges that "result in reduced liquidity and loss of value for investors" in both primary and secondary markets.[5] Golden shares, which can be seen as a transitional tool to privatize a company, pose similar risks with its provision of veto rights for holders on certain transactions and charter amendments. Given that the holders of golden shares are often government entities, the gap in interests amongst golden shareholders, management and minority shareholders can be significant and detrimental for the company's long-term value. Aligned interest between management and shareholders is not only a fundamental principle of robust corporate governance, but also an important element to ensure effective management of a company to increase its value and market liquidity overall.

5. Recommendation of the Investor Advisory Committee Dual Class and Other Entrenching Governance Structures in Public Companies, 2012 https://www.sec.gov/spotlight/investor-advisory-committee-2012/recommendation-on-dual-class-shares.pdf

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C. Need for Tools to Allow the Benefits of Both Worlds for Companies

Time-based sunset provisions are often discussed as a tool to ensure that companies who recently went through an IPO can take advantage of protection from outsiders while mitigating potential conflicts that can harm their long-term value with expected incremental agency cost. We support the safeguard provisions that Amec proposed in its letter, namely the seven-year sunset requirement with limited extension opportunity for companies that are being newly listed.[6] AB's Proxy Voting and Governance Policy explicitly describes our support for one-share and one-vote principle in general and we welcome any opportunities to discuss further through direct engagements.

* * * * * *

AB appreciates the opportunity to provide our views on the Proposal and your consideration of suggestions.

Sincerely,

Michelle Dunstan
SVP, Global Head of Responsible Investment

Diana Lee

Diana Lee
Director of Corporate Governance

6. Amec: Re: CONSIDERATIONS ABOUT THE PROPOSAL ON THE IMPLEMENTATION OF THE SUPER-VOTING SHARES STRUCTURE IN THE LAW