SELF-REGULATION CODE OF INVESTMENT GOVERNANCE

ABRAPP SINDAPP ICSS

APPROVED BY THE EXTRAORDINARY GENERAL MEETINGS OF ABRAPP, SINDAPP AND ICSS ON AUGUST 18TH, 2016

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INTRODUCTION

We hereby present the **Self-Regulation Code of Investment Governance**, which aims to contribute to the improvement of investment governance practices, mitigate existing risks and help promote the sustainable development of the country's private pension fund industry, thus benefiting, above all, pension plan members and beneficiaries, *instituidores*[1] and sponsors.

The industry's main stakeholders have discussed this Code for more than two years, particularly at the Joint Commission of Self-Regulation - composed of Abrapp, Sindapp and ICSS[2] leadership - with the technical assistance of consulting firm Andato Metodologia. In 2016, greater efforts were devoted to the dissemination of such work, with the subject being addressed in every regional meeting organized by Abrapp throughout the year. Articles were also published on Abrapp, Sindapp and ICSS websites and bulletins.

There was a consensus that the self-regulation of investment governance would be an adequate response to recent developments involving pension funds' investment management. The standardization of different types of investment information will benefit all market participants by reducing uncertainties, boosting stakeholder confidence and, most importantly, by hindering the day-to-day activities of those who capitalized on the lack of information, posing systemic risks for market transparency.

In addition to all the efforts that have been made to promote the Code, it is worth highlighting, once again, its very essence: self-regulation is nothing more than the organization of norms by market participants themselves, leading to a more stringent set of requirements in comparison to what is laid out in the legislation, given that market participants are in a better position to define the norms that will lead to market improvement and risk reduction. Self-regulation is known for minimizing the risk of contagion, which is the risk that a problem in a given institution will spread to others due to breach of trust.

Furthermore, at least in theory, the involvement in the day-to-day operations of the industry would put market participants in a privileged position to identify regulation "gaps". Therefore, the initiative is beneficial to the industry as a whole because it allows for regulation at lower costs. After all, the market tends to favor the cost-effectiveness of the new set of rules.

Many associate regulations with cost, but we all know that greater cost comes with market's loss of confidence when serious problems occur. Clearly, regulation costs cannot outweigh its expected benefits. By relying on market participants to develop their own norms, the self-regulatory approach is more attentive to execution costs when compared to State regulators. It is worth mentioning that the concept of self-regulation hereby presented does not impose any costs to adhering institutions or the official supervisor.

1 Professional associations, cooperatives and labor unions that set up pension schemes for affiliated workers.
2 Abrapp (Brazilian Association of Pension Funds); Sindapp (National Labor Union of Pension Funds); ICSS (Certifying Institute of Social Security Professionals).

In various industries, including the private pension sector, one of the upsides of self-regulation is facilitating the exchange of information between market participants and the regulator, thus favoring regulatory improvements within an adequate timeframe for industry adaptation. The supervisory agency (PREVIC) has taken part in all meetings held by the working party responsible for the elaboration of this Code, having expressed its support towards the initiative in different occasions.

It is important to emphasize that adherence to the Code is voluntary and most obligations set forth in the document may be fulfilled at no additional cost. Such voluntary nature increases the relevance of individual pension fund support to the initiative. After all, pension entities must choose to abide by these rules so that the industry may be strengthened.

We also note that the proposed Code takes the utmost account of the design, structure and size of pension funds as well as cost and process optimization.

Finally, please be advised that the draft Self-Regulation Code of Investment Governance was subject to public hearings from July 7th 2016 to August 3rd 2016. The final version of the document was approved by the Extraordinary General Meetings of Abrapp, Sindapp and ICSS on August 18th, 2016.

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CHAPTER I - PURPOSE

Article 1 - The purpose of this Self-Regulation Code of Investment Governance (“Code”) is to set parameters pertaining to the subject applicable to pension funds, considering their diversity in terms of design, structure and size.

First Paragraph - Adhesion to the Code is voluntary and free of charge to ABRAPP (Brazilian Association of Pension Funds) or SINDAPP (National Labor Union of Pension Funds) affiliated members.

Second Paragraph - Pension funds interested in adhering to the Code must submit a standard request form to the Self-Regulation Board (“Board”), assigning to a member of the entity’s executive board the responsibility for ensuring the strict observation and application of the principles and obligations set forth in this Code.

Third Paragraph - The Board shall establish, for operational purposes, the procedures to be adopted by pension funds in order to demonstrate compliance with the principles and rules of this Code.

Fourth Paragraph - Adhering pension funds shall pledge to comply with the principles and rules foreseen in this Code, with the commitment to faithfully respect it, taking on all the rights and obligations arising from its provisions, as well as to abide by the resolutions of the Board.

Fifth Paragraph - The pension fund may request the cancellation of its adhesion to the Code while remaining subject to the application of penalties due to infringements occurred before adhesion was cancelled.

Sixth Paragraph - The Code aims to contribute to the improvement of investment governance and risk mitigation practices in place so as to promote the sustainable development of the country’s private pension system.

Article 2 - The following principles, in addition to those laid out in the legislation, shall guide investment management practices of pension funds adhering to this Code:

I. Keep high ethical and integrity standards, granting members, sponsors, “instituidores”, civil society and other stakeholders a dignified, courteous and respectful treatment;

II. Ensure that adequate, clear, trustworthy and useful information is provided in order to allow sound decision-making in matters pertaining to pension plans and pension entities’ Financial Management Plans;

III. Take actions to promote transparency in investment governance processes so that information may be properly assimilated and understood;

IV. Perform asset management activities in accordance with the best corporate governance practices, looking after pension fund’s assets with zeal and care; and

V. Adopt practices to strengthen the fiduciary relationship between the pension fund and its members, sponsors, "instituidores", civil society and other stakeholders.

CHAPTER II – OBLIGATIONS

Article 3 – The pension fund, taking into account its design, structure and size, shall adopt the best investment governance practices while complying with the following obligations:

I. Implement a governance structure that sets out the attributions of each management body associated with investment decisions, defining the norms to be followed, including: minimum composition of committees or the like; rules for member requirements; periodicity of meetings and other situations that may call for extraordinary meetings, their formalization and corroborating documents;

II. Devise policies to define the sphere of competence of management bodies and functions responsible for the approval, negotiation and formalization of investment decisions;

III. Lay out, in the investment policy, the criteria for setting prudential limits with basis on pension obligations, so that these limits may be guided by actuarial liabilities (in Defined Benefit pension plans) or by expectation (Defined Contribution plans) and the pension entity's Financial Management Plan, whenever suitable;

IV. Specify, in the investment policy, the technical studies used to justify macro allocations by asset class;

V. Specify, in the investment policy or internal rules, all stages of investment management and monitoring processes;

VI. Emphasize the segregation of duties between investment management and control functions in case the pension fund is equipped with an internal investment management team and as long as the design, structure and size of the pension entity allow such segregation;

VII. Describe the main stages of the selection and monitoring processes of investment managers, custodians and trustees, including, at a minimum, information on mandates, qualitative and quantitative analysis criteria, as well as the methodology, tools and intervals at which managers and trustees are to be monitored. The stages of the selection and monitoring processes shall:

a) Be bound to the governance structure and competence limits as referred to in Article 3, Items I and II;

b) Contemplate, in the qualitative analysis of manager selection and monitoring, the verification of requisites such as idoneousness and credibility, the existence of conflicts of interest, service providers' background, team composition, governance, client portfolio, social and environmental issues, among other aspects;

c) Formalize, upon hiring, the rules applicable to investment management, as well as a standard set of policies in case the Service Level Agreement (SLA) is breached and management's objectives are not met;

VIII. Describe risk management policies for the main risks identified in the investment management process, their due monitoring, financial loss and reputation risk mitigation. These must include, at minimum:

a) A description of risk exposure limits and management bodies responsible for carrying out risk assessments;

b) The tools used for risk monitoring;

c) The periodicity and form of diligence to evaluate the adherence of processes against risk management policies; and

d) The actions to be taken in case of non-observance of risk limits and other unforeseen circumstances;

IX. Adopt a professional qualification program for those in charge of investments, setting up continuing education and certification arrangements for employees, directors, board and committee members, taking into consideration the relevance and usefulness of such programs for the exercise of their functions, and establishing a follow-up methodology for such programs and qualification policies.

Sole paragraph - The policies set forth in this Code shall be approved by pension fund governing bodies and made available to members in a simple and direct manner.

Article 4 - This Code shall not supersede the prevailing legislation and regulation. Adhering pension funds must comply, as a minimal requirement, with the applicable legislation.

CHAPTER III – CODE GOVERNANCE

Article 5 – The Self-Regulation Board of Investment Governance of this Code ("Board") shall be composed of reputed members with public recognition appointed by pension funds. The Board shall have the following attributions:

I. Regulate the use of trademarks and other symbols related to the self-regulation of this Code;

II. Establish the necessary rites and procedures for the exercise of its functions;

III. Examine compliance with the requirements laid out in this Code;

IV. Request additional explanations, information and clarifications on the observance of the obligations and principles set forth in this Code;

V. Initiate, hear and judge, in a single instance, the proceedings for non-compliance with the provisions of this Code, impose penalties and learn of requests for review when a new factor is introduced, with the possibility to reconsider the penalties applied; and

VI. Issue resolutions and guidelines.

First Paragraph - Resolutions shall be binding and compliance is mandatory. They shall be used to interpret and clarify the obligations set forth in this Code.

Second Paragraph - Guidelines shall not have a biding effect. They are recommendations based on the obligations laid out in this Code.

Third Paragraph - Initiation, conduction and ruling of proceedings shall be disciplined by a specific resolution to be issued by the Board.

Fourth Paragraph - The Board shall be regulated by its Rules of Procedure.

Article 6 - The license to use trademarks and other symbols shall be valid for three (3) years, unless penalties are imposed according to the provisions of this Code.

Sole paragraph - In case the documentation pertaining to the proceeding has suffered modifications, the adhering pension fund shall submit the documentation for a re-evaluation as set out by the Board.

Article 7 – Pension funds that fail to comply with the principles and obligations foreseen in this Code shall be subject to the following penalties:

I. Express private warning letter; and

II. Withdrawal of the right to use the trademark or symbols associated with Self-Regulation.

Sole paragraph – The penalties referred to in this Article shall be imposed after adversary proceedings.

CHAPTER IV – GENERAL PROVISIONS

Article 8 - Any amendments to the provisions of this Code shall be proposed by the Joint Commission of Self-Regulation and discussed by the Extraordinary General Meetings of Abrapp, ICSS and Sindapp.

Article 9 - This Code shall be effective upon its approval by the Extraordinary General Meetings of Abrapp, ICSS and Sindapp.

GLOSSARY

Sphere of competence – extent to which someone is legally responsible for something; it involves the decision-making process in various hierarchical levels.

Asset class – asset groups with common characteristics and similar trading behavior.

Joint Commission of Self-Regulation - commission composed of ABRAPP, SINDAPP and ICSS members.

Attribution - power to make decisions on a given matter.

Stages of the investment management process - prospection, risk analysis, selection and hiring of investment managers, elaboration of studies, compliance, monitoring, disclosure, disinvestment and documentation.

Prudential Investment Limits - invested capital adequacy in relation to assessed risks.

Liquidity - degree to which and asset can be negotiated without significant loss of value.

Policy - instrument adopted to formalize a given process.

Duty segregation between management and control functions (back office) – segregation of attributions or responsibilities between different individuals or legal entities, namely the functions or key activities related to licensing, execution, approval, registration and review.

Service Level Agreement (SLA) - a contract that documents the services to be furnished, defining one or more performance standards to be met on a given period.

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