

IFIAR 2020 Member Profile – CVM

<p>1. Jurisdiction</p>	<p>1.1 Insert the name of the jurisdiction in English:</p> <p>Brazil</p>
<p>2. Member¹</p>	<p>2.1 Insert the name of the Member, both in the local language and in English:</p> <p>CVM – Comissão de Valores Mobiliários <i>Securities Commission of Brazil</i></p> <hr/> <p>2.2 Include relevant contact information, including postal address, telephone numbers, a link to the website and other relevant information:</p> <p><u>Postal Address:</u> Rua Sete de Setembro, 111 – 27º andar Rio de Janeiro, RJ, 20050-901 Brazil</p> <p><u>Website:</u> www.cvm.gov.br</p> <hr/> <p>2.3 Include the basis for establishment of the Member, as well as the legislation or regulations which provide the Member the authority/mandate with respect to audit regulation. Please describe with an appropriate level of detail the mission and responsibilities of the Member with respect to audit regulation:</p> <p>Authority and responsibilities are conferred mainly by the Securities and Corporation Laws, as amended (Laws Numbers 6.385/76, 6.404/76, and 10.303/01).</p> <p>The Securities Law – 6.385/76 provides that audit firms and independent auditors are required to be registered with the CVM in order to audit publicly held corporations and other entities acting in the securities market.</p> <p>With regard to auditing, legal provisions include powers to:</p> <p>(i) supervise, oversee, and inspect auditors that audit public corporations, investment funds, and other market participants;</p> <p>(ii) regulate the activities of auditors within the securities market;</p>

¹ In the case where there are two or more regulators from the same jurisdiction that have been approved according to Section 2.3 of the IFIAR Charter, they together are considered as one Member. In that case, regulators are requested to include information for both organizations in the Member Profile.

	<p>(iii) register independent auditors;</p> <p>(iv) examine and make copies of work papers;</p> <p>(v) apply sanctions: warnings, fines, suspensions, and registration withdrawals.</p> <p>CVM Instruction 308/99 regulates accreditation and activities of independent auditors within the securities market.</p> <p>2.4 Have there been any major changes to the Member's organization or to the governing legislation since completing last year's Member Profile?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If yes, please describe these changes with an appropriate level of detail:</p> <p style="text-align: center;">Not Applicable.</p>
<p>3. Governing Body Composition and members</p>	<p>3.1 Describe with an appropriate level of detail the current composition of the Member's governing body, including the ratio between Board members who are independent from the audit profession and those who are not². The audit profession includes, for example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession.</p> <p>Mr. Marcelo Barbosa – Executive Chairman Term: 25/Aug/2017 to 14/Jul/2022</p> <p>Mr. Henrique Machado – Commissioner Term: 20/Jul/2016 to 31/Dec/2020</p> <p>Mr. Gustavo Machado Gonzalez – Commissioner Term: 13/Jul/2017 to 31/Dec/2021</p> <p>Ms. Flavia Perlingeiro – Commissioner Term: 15/Mar/2015 to 31/Dec/2023</p> <p>The organizational structure includes the Office of the Chief Accountant and Auditor Supervision, with two divisions: Accounting, mainly for internal consulting, and Auditing, in charge of registration, supervision and inspections.</p>

² An individual is independent of the profession even if he is a CPA, Chartered Accountant, or holder of another equivalent qualification, as long as this individual is not employed by or affiliated to a registered audit firm, nor employed by or affiliated to of a professional accountancy body, nor employed by or affiliated to bodies or entities associated with the audit profession.

	<p>3.2 What are the eligibility criteria / requirements and composition requirements for the members of the governing body?</p> <p>The governing body is comprised of an Executive Chairman and four Commissioners, chosen among persons of sound reputation and recognized competence regarding capital markets, appointed by the President of Brazil after the Federal Senate approval, for five-year staggered terms.</p> <hr/> <p>3.3. Is each member of the governing body independent from the audit profession? The audit profession includes, for example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession.</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <hr/> <p>3.4 If the answer to question 3.3 is “No”, is the majority of the members of the governing body non-practitioner?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <hr/> <p>3.5 If the answer to question 3.3 is “No”, which safeguards are in place to provide for the Member’s overall independence from the audit profession?</p> <p style="text-align: center;">Not Applicable.</p> <hr/> <p>3.6 Is there a restriction or recusal process that is applicable to members of the governing body of the Member who are current or former auditors/practitioners?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Does this include a “cooling-off” period for former auditors?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If yes to either of the above, please describe:</p> <p>All members of the CVM governing body should comply with Federal Law No. 12.813/2013 – Conflict of Interest Law which establishes an intermission period of 6 (six) months after leaving office, before accepting any professional position that could pose conflict of interest.</p>
	<p>3.7 Other than the governing body, are members of the profession involved in the Member’s organization (including in any inspections, committee or panel role?)</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If yes, please describe their role with an appropriate level of detail, including the ratio between those who are independent and those who</p>

	<p>are not in the relevant function and whether such role includes decisional or control authority:</p> <p style="text-align: center;">Not Applicable.</p>
<p>4. Funding Arrangements</p>	<p>4.1 Describe the main funding arrangements of the Member, including the setting and approval of the budget and the fees, if any:</p> <p>The main funding is the federal government budget. CVM generates its own revenues charging fees and fines from capital market participants and collecting resources from legal settlements under the Securities Act's consent decree clause. However, all resources must be sent to the central government to be included in the federal annual budget.</p> <hr/> <p>4.2 Is the funding free from undue influence by the profession?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Please describe with an appropriate level of detail the safeguards in place to prevent undue influence by the profession:</p> <p>As stated above, the source of CVM's funding is the federal government budget.</p>
<p>5. Inspection System</p>	<p>5.1 Does the Member have the responsibility for recurring inspections of audit firms undertaking audits of public interest entities (PIEs)?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <hr/> <p>5.2 Is this responsibility undertaken directly or through oversight of inspection conducted by another organization?</p> <p><input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>CVM started inspections in 1978, soon after its establishment through the Securities Law (Law No. 6.385/76). The Department of On-Site Inspections used to carry the direct inspection program "on demand" i.e. on a case-by-case basis. In 2011 the Supervisory System Based on Risk – SBR was initiated and a direct periodic inspection program was implemented, in addition to the mentioned "on-demand" inspections.</p> <p>In 1999 a peer review system with recurring inspections undertaken by the Brazilian professional organization (<i>Conselho Federal de Contabilidade – CFC</i>) was implemented. The system continues to operate to this day. The CVM retains the ultimate responsibility for this system and exercises full oversight, remaining empowered to carry out its own direct inspections at any time (CVM Instruction 308/99).</p>

	<p>If through oversight of another organization, please describe with an appropriate level of detail the other organization, its relation to the Member, its role, and the arrangements for oversight:</p> <p>Not Applicable.</p> <hr/> <p>5.3 Please describe with an appropriate level of detail the requirements and practices regarding the frequency of inspections:</p> <p>In addition to regular and recurring inspections under SBR, a number of internal and external factors may also generate inspections, such as:</p> <ul style="list-style-type: none"> - financial statement reviews by CVM staff - results of inspections performed in public companies or investment funds - liaison with banking and insurance regulators - results of the reports produced by the peer review system - complaints or whistle-blowing
<p>6. Audit and Financial Market</p>	<p>6.1 Provide the number of audit firms subject to inspections. Include an indication of the number of public interest audits (PIEs) and other audits that fall under the Member’s oversight or mandate.</p> <p><u>Number of Audit Firms Subject to Inspections</u></p> <p>Number of independent auditors registered (Dec. 2018): 371 (329 firms and 42 individual practitioners).</p> <p><u>Number of Public Interest Audits (Feb 2019 data)</u></p> <ul style="list-style-type: none"> • Number of issuers registered with the CVM: 615 • Number of companies listed on B3 (formerly Bovespa): 336 • Market Capitalization: USD 1.04trn • Number of registered investment funds: 17,200 <ul style="list-style-type: none"> - 8,005 ‘mainstream’ funds regulated CVM Instruction No. 555 - 6,774 funds-of-funds and - 2,421 other funds (ABS funds known (FIDCs), real estate investment funds (FIIs), private equity funds etc.) • AUM: USD 1.9trn <hr/> <p>6.2 What are the sizes and market shares of each of the largest audit firms in the Member’s jurisdiction?</p> <p>Relevant market share of the largest audit firms is estimated regarding the number of public interest audits as follows:</p> <ul style="list-style-type: none"> • PricewaterhouseCoopers : 12% • KPMG : 22%

	<ul style="list-style-type: none"> • Ernst & Young : 16% • Deloitte : 9% • BDO RCS : 7%
7. Main Other Responsibilities of the Member <u>within</u> the area of Audit Oversight	<p>7.1 Please indicate whether the Member has responsibility for tasks other than Inspections within the area of Audit Oversight:</p> <p> <input checked="" type="checkbox"/> Registration/Licensing <input type="checkbox"/> Audit and/or Ethics Standard Setting <input checked="" type="checkbox"/> Permanent Education of Auditors <input checked="" type="checkbox"/> Enforcement <input type="checkbox"/> Other: _____ </p> <hr/> <p>7.2 If the Member has the responsibility for <u>Registration/Licensing</u>, please indicate whether this responsibility is undertaken directly or through oversight of Registration/Licensing conducted by another organization?</p> <p> <input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight </p> <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedure applied, as well as the role of the Member in these procedures.</p> <p>Only auditors registered in the CVM can audit in Brazilian securities market. CVM must grant the license to auditors that meet certain requirements such as professional experience, administrative structure and registration in the Brazilian professional organization (<i>Conselho Federal de Contabilidade - CFC</i>).</p> <hr/> <p>7.3 If the Member has the responsibility for <u>Audit and/or Ethics Standard Setting</u>, please indicate whether this responsibility is undertaken directly or through oversight of Audit and/or Ethics Standard Setting conducted by another organization?</p> <p> <input type="checkbox"/> Directly <input type="checkbox"/> Through Oversight </p> <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <p>Not Applicable</p>

7.4 If the Member has the responsibility for Permanent Education of Auditors, please indicate whether this responsibility is undertaken directly or through oversight of Permanent Education of Auditors conducted by another organization?

Directly Through Oversight

If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.

Regarding continuing education, CVM requires a pre-determined minimum and monitors an ongoing program performed by the Brazilian professional organization (*Conselho Federal de Contabilidade – CFC*). CFC guides, regulates and supervises the exercise of the accounting profession. Accountants and practitioners from the audit profession are involved in CFC decision-making.

7.5 If the Member has the responsibility for Enforcement, please indicate whether this responsibility is undertaken directly or through referral to other organization(s)?

Directly^[MAG1] Through Referral

The CVM has regulatory, supervisory and enforcement authority over all key participants of the securities markets, including auditors. Such direct responsibilities are prescribed by two laws: Law 6.385/76 (“Securities Law”) and Law 6.404/76 (“Corporation Law”). The CVM has a range of powers, e.g., to request any information necessary to ensure effective supervision and enforcement, to conduct on-site inspections, to impose sanctions (fines, suspensions, disqualification, among others) through administrative proceedings, to enter into consent decrees (similar to settlements), and since 2017 also the authority to enter into administrative arrangements (similar to leniency agreements).

CVM’s process to sanction has to comply with the Brazilian Constitution and with Laws 9,873/99, 9,784/99 and 13,506/17. CVM Instruction 607 (enacted on 17 June 2019) regulates the administrative proceedings that may result in sanction.

Under Instruction 607, CVM departments (including Auditor Supervision) are responsible for the investigation of administrative offences, the collection of documents and other evidence and the launching of procedures aimed at determining illegal acts.

Considering the information obtained from the investigation of administrative offences, CVM departments may:

i. Decide not to formulate an accusation piece when:

- a) It concludes that there are no wrongdoings or that punishment is no longer existent;
- b) It considers that misconduct is not relevant, that potential damage is low and that the use of other supervision tools is more effective;

ii. Formulate an accusation piece; or

iii. Propose an administrative inquiry to collect additional evidence to determine materiality and authorship of an offence. Such inquiries are then carried out another Department (Dept. if Enforcement).

The CVM is empowered to impose the following administrative sanctions in accordance with article 11 of the Securities Law, as amended by Law 13,506:

a) Warning

b) Fines

Limits for the application of monetary penalties were significantly increased by Law 13,506 and, subject to certain conditions, shall not exceed the greater of:

- (i) BRL 50m (approx. USD 10m), when it is not possible to verify the amount of the irregular operation, or the advantage obtained, or loss avoided.
- (ii) twice the amount of the irregular issuance or transaction;
- (iii) three times the economic advantage obtained, or the loss avoided by the wrongdoing; or
- (iv) twice the damage that the wrongdoing caused to investors.

In cases of recidivism, the above-mentioned values may be tripled.

The limits of daily fines imposed due to the of non-execution of CVM orders were also increased and cannot exceed, by day of non-compliance, the greater of:

- (i) one thousandth of the total individual or consolidated revenue of the economic group as per the previous fiscal year's income statement; or
- (ii) BRL 100,000 (USD 20,000).

c) Disqualification: a temporary sanction, but it may extend for up to 20 years. It is defined as a prohibition on exercising the positions of director at a public company, at an entity that takes part in the securities distribution system or at other entities supervised by the CVM.

d) Suspension of registration or authorization (delicensing of registered/supervised entities)

e) Temporary prohibitions (banning supervised entities or individuals from performing certain operations within the securities market).

Instruction 607 also regulates the consent decree provision prescribed by Article 11, paragraphs 5 to 8, of the Securities Act, as amended by Laws 9,457/97 and 13,506/17. That provision allows the CVM, at its discretion and with a view to public interest, to either suspend – at any phase preceding a first instance decision – or not launch an administrative procedure to investigate illegal acts or regulatory violations, as long as the defendant or accused enters into a settlement instrument agreeing to (1) cease the acts or activities deemed illicit by the CVM and (2) correct (and compensate for) any irregularities found. Settlement will imply neither an admission of guilt in the matter nor a recognition that the conduct was illicit.

Furthermore, Law 13,506 provided the CVM with the authority to enter into *Acordos Administrativos em Processos de Supervisão* (“AAPS”). They allow the CVM to exonerate the offender from liability or reduce sanctions by one-third to two-thirds as the offender confesses to violating securities laws and undertakes to cooperate with investigations in identifying other violators and gathering relevant documents, among other things. This institute is akin to a leniency agreement. Different from the consent decrees, for which no admission of guilt is required, AAPS involve such admission.

The execution of such agreement is cumulatively conditioned to: (1) the legal entity being the first to qualify among violators related to the same facts; (2) the legal entity ceasing its participation in the relevant offence; (3) the CVM lacking sufficient evidence to convict the relevant person or legal entity at the time; and (4) the person or legal entity fully cooperating with the investigation.

CVM’s Board is responsible to judge all administrative proceedings that may result in sanction. The administrative proceeding is subject to the constitutional principle of presumption of innocence, pursuant to which the suspect has the benefit of the doubt. The standards of “beyond a reasonable doubt” and “preponderance of evidence” are not included in the Brazilian legislation. Under article 93-IX of the Brazilian Constitution and article 50 of Law 9,784/99, it is a *sine qua non* condition that, in

	<p>applying any penalty, the CVM describe the rationale to substantiate its decision in a clear, explicit and consistent manner.</p> <p>Persons affected by a CVM decision can appeal such decisions to the Conselho de Recursos do Sistema Financeiro Nacional (CRSFN) or the National Financial System Appeals Council. This body is composed of eight councils: two representatives of the Minister of Finance, one of the Central Bank, one of the CVM, and four of market participants. The appeal process applies only to enforcement decisions. The CRSFN can carry complementary proceedings and may request the legal opinion of the Office of the Attorney General of the National Treasury (Procuradoria-Geral da Fazenda Nacional — PGFN). Judgment takes place in a public session, in which the appealing parties and their legal representatives — as well as the representative of the appealed body and the PGFN — can be heard. The judgement decision is made public on CRSFN’s website The CVM has the obligation to refer suspected crimes to the prosecutor office. This obligation extends to any crime, not just capital markets related.</p> <p>Under Brazilian Law the Public Prosecutor’s Office has the exclusive right to bring criminal action in cases of crimes that require public criminal action (article 129 of the Constitution). Such crimes include financial crimes and those related to capital markets. Complementary Law 105 establishes (article 9) that when the CVM, in the discharge of its functions, verifies the occurrence or encounters indications of a crime defined by law as warranting public action, they shall report to the Public Prosecutor’s Office and attach all documents necessary to the verification and demonstration of the facts.</p> <p>The CVM has thus no prosecutorial powers. Similarly, article 12 of the Securities Law requires that the CVM provide to the Public Prosecutor’s Office any information relating to facts that may constitute a crime. Pursuant to the constitutional and legal framework, the administrative and criminal venues are independent (i.e. the same misconduct can trigger an administrative proceeding and a criminal proceeding).</p> <p>It is also worth mentioning that Law 7,913/89 empowers the Federal Public Prosecutor’s Office (“MPF”) to, ex officio or upon CVM request, adopt measures necessary to avoid losses or to obtain compensation over damages caused to securities holders.</p> <p>If through referral, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the enforcement powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <p style="text-align: center;">Not Applicable</p>
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	<p>7.6 If the Member has the responsibility for other tasks within the area of Audit Oversight, please describe with an appropriate level of detail:</p> <p>Not Applicable</p>
<p>8. Main Other Responsibilities of the Member <u>outside</u> the area of Audit Oversight</p>	<p>8.1 Please describe with an appropriate level of detail whether the Member has responsibility for tasks outside the area of audit oversight such as Supervision of Financial Reporting or Securities Regulation:</p> <p>CVM's statutory responsibilities include the supervision, oversight, inspection and enforcement of other securities market participants in addition to auditors. The supervision of financial reporting and securities regulation are also included in CVM's responsibilities.</p>
<p>9. Major Events and Activities</p>	<p>9.1 Describe any recent major events and activities:</p> <p>2019 – New regulation prohibits auditors from concomitantly being a partner and a RT for more than one firm.</p>