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GUIDELINES FOR A LATIN AMERICAN CODE OF CORPORATE GOVERNANCE

CAF DEVELOPMENT BANK OF LATIN AMERICA AND THE CARIBBEAN

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Fourth edition

DEVELOPMENT BANK
OF LATIN AMERICA AND THE CARIBBEAN

CONTENT

PRESENTATION

As a development bank, the CAF agenda is to seek regional integration and the sustainable development of its member countries. In this regard, corporate governance is one of the many instruments available to the institution to reinforce the business fabric while maintaining a long-term vision of inclusion and sustainability. CAF seeks, through their Corporate Governance Program, to contribute to responsible competitiveness both at the individual level of public and private companies and at the aggregate level with supervisory and regulatory bodies. To this end, the Program develops conceptual and practical tools and disseminates this knowledge in order to raise awareness of the importance this topic has for the development of the region.

Corporate governance should be understood as a practical mechanism for reinforcing companies' institutional and managerial abilities as well as encouraging transparency, accountability, and effective management at the same time that it defines clear rules of the game for the main players: the owners, Board of Directors, and upper management as well as other stakeholders.

Note that the absence of these practices can be manifested in many ways: failures in the timeliness and transparency in the disclosure of financial information, violation of the rights of minority shareholders, lack of independence and integrity in the auditing processes, hiring of unsuitable personnel to carry out their duties, etc. These failures do not guarantee the efficient management of the companies' resources, nor do they safeguard the assets provided by investors and creditors. As a result, companies' access to capital markets is limited, and value may even be destroyed.

CAF presents these Guidelines for a Latin American Code of Corporate Governance as an update to the document published in 2013. Its objective is to provide companies as well as regulators, policy makers and academia with a set of basic principles that constitute the foundations for good corporate governance. Through this publication, CAF seeks to continue to provide Latin American companies with solid support in the creation of a true culture of corporate governance.

Even when this is a long-term task, the adoption of the Guidelines could make a significant contribution to the sustainable development of the region and contribute to optimizing the relationships between the companies and the various stakeholders they interact with.

EXECUTIVE SUMMARY

The corporate governance of a company is a system composed of a set of principles, rules, and practices that regulate the relationship between those who provide resources and those who manage them. It also provides leaders and decision makers with tools for proper control and direction of the organization as well as for identifying and managing the risks they may face. All this is accompanied by a culture of good practices, which generates the appropriate conditions for the principles and standards adopted by the company to be effectively applied in the management decision-making process.

Thus, the implementation of a governance model that protects the interests of the owners and considers those of the different stakeholders must be adjusted to the organization's actual situation. It should clearly define roles and responsibilities among shareholders, the Board of Directors and upper management, and ensure that the decisions made have a goal of creating long-term sustainable value as well as an alignment with good environmental and social practices with high ethical standards.

In view of the above, corporate governance reforms in companies, regardless of their size and ownership structure, are essential to improving the management of organizations, their sustainability, and their impact on society. Good corporate governance is essential for sustainable economic development and confidence in Latin American companies.

It is in this sense that these Guidelines should be understood as specific recommendations that serve as a basis for fostering a culture of good corporate governance practices in the companies around the region and, therefore, for improving decision-making and optimizing their performance, promoting transparency and accountability, combating corruption as well as facilitating access to financing and strengthening capital markets. Likewise, the Guidelines are a tool for the orientation of public policies by regulators and supervisors of companies.

Key words: Corporate governance, shareholders, Board of Directors, sustainability, ESG, control architecture, information transparency, Latin America.

SECTION I

INTRODUCTION TO THE GUIDELINES FOR A LATIN AMERICAN CODE OF CORPORATE GOVERNANCE (GLACCG)

Background and rationale for the revision.

CAF, the Development Bank of Latin America and the Caribbean, published the first version of the Guidelines for a Latin American Code of Corporate Governance - GLACCG (originally under the title of Guidelines for an Andean Code of Corporate Governance) in 2004. This first document was subsequently revised with minor updates in 2006, 2010, and an in-depth revision under a regional scope in 2013.

The publication of the Guidelines in 2004 constituted an important benchmark in corporate governance since it was a document that was primarily addressed to the business world and, therefore, had a strong practical focus. Furthermore, it was based on the main international codes of good corporate governance practices in existence at the time, mainly the Principles of Corporate Governance of the Organization for Economic Cooperation and Development (OECD), and other national documents on best governance practices. Note that the OECD principles are comprehensive and detailed and are intended to assist legislators in developing public policy on corporate governance in general and in particular for companies in relation to the capital markets. Broadly speaking, they establish how the relationship between the shareholder or owner, the Board of Directors, and upper management are structured. As a complement to that, CAF documents focus more on the business reality and have been written to guide the operations of the corporate governance of the companies themselves, i.e., they establish best practices to ensure an efficient, transparent and equitable performance of the relationship between all the stakeholders (shareholders, Board of Directors, and upper management).

Since their first publication, the Guidelines have been gradually implemented on a voluntary basis in different types of companies in Latin America and the Caribbean. In some cases, this was supported by CAF to contribute to the effective fostering and reinforcement of corporate governance in the region's companies. It has also been a source of input for capital market regulators and supervisors for drafting various Country Codes of Corporate Governance and other capital market regulations. From then until now, corporate governance as a discipline has continued to experience remarkable development in adapting to and dealing with new business realities both globally and in the region. These adjustments have even increased during periods of international crisis. Among the most relevant were those of 2000 (following scandals in major companies in the United States and other developed countries such as Enron, Worldcom and Parmalat, which were among the most notorious cases) and the financial crisis of 2008. During those periods, systemic failures in corporate governance were identified, and these subsequently led to mandatory regulatory adjustments as well as changes in regulation and in the way companies had to report information to the capital markets and their main stakeholders.

At the same time, CAF has stimulated the publication of various regional documents such as the "Guidelines for a Corporate Governance Code for SMEs and Family Businesses" (2011) or the "Guidelines for Good Corporate Governance of State-Owned Enterprises" (2010), updated in 2021, and has encouraged several diagnostic and implementation processes of corporate governance practices in private and state-owned companies throughout the region as well as the dissemination of these practices with various local, regional, and multilateral allies.

Based on these implementation processes, multiple experiences have been derived that suggest that, in spite of the formal progress that has been made in various countries, the problems of adoption and, more specifically, that of compliance with good corporate governance practices are far from being resolved.

Therefore, the reason for this update to the Guidelines is to offer the region's business community a document that, based on the same pragmatic approach as the 2004 Guidelines, is updated and aligned with business needs in terms of corporate governance, and continues to serve as a current benchmark for companies to use to diagnose and reinforce their corporate governance practices.

The present Guidelines do not constitute a break with the original Guidelines nor with their subsequent updates. This document should be understood as a development of the above that recognizes new business realities, global events that have had an impact on the way companies are governed, and a change in expectations regarding companies in relation not only to their shareholders, but also their stakeholders in general. To this extent, the current update of the Guidelines has been based on three fundamental aspects:

1. A business environment that is tending towards increasingly rapid and challenging changes generated by dizzying technological advances that have led to a greater diversification of competitors on a global scale and an increasingly diverse offer of new products and services. For companies, this means identifying new strategic risks that may have an impact on their sustainability and growth possibilities. Under this scenario, companies are

faced with the need to adapt their corporate governance systems to have efficient structures, processes, incentives and controls that allow them to make better and more timely decisions and create a results-oriented corporate culture with a focus on innovation and sustainability.

2. The COVID-19 pandemic has led companies to adjust the way they do business through the use of new technologies, the identification of new types of risks, and the need to adapt their key decision makers vision to unprecedented conditions.

3. A greater presence of stakeholders such as institutional investors or financing providers who are demanding more robust corporate governance standards more vehemently,[1] and a clearer position on the part of companies in relation to their environmental and social policies and strategies is driving the implementation of an environmental, social and governance (ESG) agenda within organizations that meets the expectations of the various stakeholders (shareholders, financiers, clients, collaborators, suppliers, regulators, etc.).

In this respect, the 2023 Guidelines for a Latin American Code of Corporate Governance make significant contributions, particularly in the following aspects:

- The practices of companies with respect to their stakeholders have been reinforced as they recognize that it is essential for organizations to identify those internal and external stakeholders that can have an impact on the company's performance and with respect to whom it is essential to have interactions based on principles of transparency and trust.
- References have been incorporated regarding how the corporate governance system for companies can include environmental, social and governance (ESG) as well as climate change aspects, so that they are not only a functional area of the organizations, but a comprehensive element that is part of the decision-making processes of the company's management.
- The dynamics and operations of the Boards of Directors have been revised as key aspects for the proper exercise of their duties.
- The role and responsibility of the Board of Directors has been reinforced in terms of the leadership of the company's ethical culture and strategies in environmental, social, governance and climate change matters.
- The upper management component has been included as an independent pillar.
- A new pillar has been added that corresponds to environmental, social, governance (ESG) and climate change aspects.
- Complementary elements have been introduced in the area of risk control and management architecture, particularly in relation to the role of the Board of Directors and the audit and risk committees.

Therefore, this exercise has resulted in:

- The inclusion of new corporate governance practices in all areas as well as the revision of those already outlined in the latest version of the Guidelines.

1. It is important to note that these standards are also in a process of evolution. An example of this is the most recent ISO 37000:2021 Governance of Organizations by means of which the International Organization for Standardization - ISO makes standards on corporate governance, internal controls, risk management, compliance programs and financial controls available to companies. These are focused on providing companies with a frame of reference for achieving their business purpose under principles of ethics and responsibility.

- The complete revision of the text, the sequential order of the Guidelines and the wording, so that it remains a practical application guide that is easier for all types of companies to use, especially those at an initial stage. This is done to facilitate the understanding that corporate governance is a practical tool that enables companies to organize an appropriate governance structure, better decision making and control while always taking into account and understanding the size and real situation of the companies.

- The redefinition of corporate governance areas for a better distribution of the proposed practices.

- The simplification of the different types of companies proposed in the 2004 Guidelines in order to better adapt to the current corporate situation in the region.

- Review of the appendices and adjustments in relevant aspects.

For updating the Guidelines, the updates of the "OECD and G20 Corporate Governance Principles" (OECD 2023) and the "Corporate Governance Progression Matrix" (2023) of the Corporate Governance Development Framework were used as a reference framework. Furthermore, the document entitled "Profile of the Corporate Secretary in Latin America" (CAF 2018) was taken into consideration and practical experiences that affect companies in the region have also been reviewed.

The final goal is to have a document designed to be implemented by a greater number of companies in the region based on the principle that, although not all practices are suited to the different business situations, the implementation of a balanced corporate governance system is a differentiating factor for companies and, ultimately, a major component for their sustainability.

Applicability

Corporate governance should be understood as the set of practices, both formal and informal, that define the relationships between managers and all those who invest resources in the company, mainly shareholders and financial creditors, but also other stakeholders. It is obvious that a few properly implemented good practices enable a better use of resources in companies, contribute to greater transparency, and mitigate the problems of asymmetric information. Under these circumstances, having corporate governance principles in place is key to companies' access to alternative sources of financing under better conditions. In contrast, the absence of these can lead to decisions being made that generate a loss of value and even jeopardize the organization's long-term sustainability.

Likewise, corporate governance should not be understood as an end in itself, but as a means and not the only one that the company, whether private or state-owned, listed or not, has at its disposal to: facilitate the raising of financial resources at reasonable costs, better manage its governance risk, and contribute to its strengthening and sustainability. Hence, corporate governance per se is not a sufficient condition for the success of organizations, but it is a necessary condition.

There is an abundance of literature on corporate governance which, in many cases, has inspired the development of specific rules and regulations on the subject without this leading to the existence of a single universal model of good corporate governance. However, the lack of a universally applicable model of corporate governance does not imply that a series of standards cannot be considered as objectively valid and generally applicable benchmarks for companies with the logical adaptations necessary to their particular characteristics.

This document, in a manner equivalent to the approach of the original version of the Guidelines, focuses its attention directly on the aspects most directly related to pure corporate governance, and therefore directs its attention to the universe of relationships existing between ownership (shareholders), leadership (the Board of Directors) and management (upper management) in order to establish a system of checks and balances that supports the efficient operation of the company, reinforces its sustainability, and makes it possible to properly protect the interests of shareholders and other stakeholders.

The applicability of these Guidelines, as in previous versions, depends on the free and autonomous decision of the companies who are the direct addressees of their content since their implementation goes beyond having written regulations and codes to imply a real conviction that compliance with these principles will generate a positive impact on the culture and ethics of the organization.

Likewise, to reiterate, different stakeholders, mainly grouped around financing providers such as institutional investors, multilateral organizations – ideally banking institutions – and especially the capital markets, will be able to contribute decisively to effectively promoting and actually applying the Guidelines in the companies in which they invest.

In view of the above, the Guidelines should be understood as a document addressed mainly to companies, regardless of their size and type of ownership. Therefore, the implementation of its content must be based on a clear commitment on the part of the main decision-makers (shareholders, directors and members of the upper management team), so that business management based on best practices is at the core of the corporate culture. Thus, the company's corporate documents such as Bylaws, Board of Directors regulations or other internal documents should reflect the corporate governance principles that the organization has implemented and that constitute the pillars of its corporate and governance culture.

In view of the above, there is nothing to prevent the legislator or regulator from considering giving force of law to some of the corporate governance practices proposed here. Some of these are already present, to a greater or lesser extent, in the regulatory framework in force in various countries.

In conclusion, the Guidelines are still based on the view that self-regulation by companies is a sound approach to adopting and implementing corporate governance practices. Similarly, the opinion in this document is that the markets' assessment of the corporate governance of companies should help to differentiate between those with good corporate governance, those whose corporate governance is totally neutral, adhering to the minimum requirements, and those with poor governance.

Target beneficiaries

The Guidelines are addressed primarily to companies, since this is an eminently practical document that is designed for maximum dissemination and real applicability throughout the business community. It is worth noting that the approach of the Guidelines is intended to recognize the different business realities, and in that respect, it refers specifically to those practices that are preferably applicable to a certain type of company.

For example, the Guidelines maintain their recognition that it would not make much sense to establish the same level of requirements in terms of corporate governance for financial entities and listed companies that are highly sophisticated due to their size or line of business as well as the supervision to which they are subject as opposed to unlisted companies or medium-sized family-owned companies.

Basics of Compliance

This update of the Guidelines maintains the same fundamental principle which is internationally accepted, and was also applied in previous versions of "comply or explain", whereby companies that freely decide to adhere to these guidelines must comply with their content or explain those guidelines or recommendations that they do not comply with, or only partially comply with.

This information on the degree of compliance with the recommendations in these Guidelines should be disclosed in a corporate governance report or, failing that, in the year-end annual report, and made available on the corporate website.

The rationale for maintaining the "comply or explain" principle remains the same as in the 2004 Guidelines.

Thus, as was made clear, we consider it a mechanism that allows a company that adopts the corporate governance measures included in the GLACCG applicable to it, to publicize to interested third parties (shareholders, investors, banks, regulators, etc.) the progress achieved in corporate governance matters.

It is, likewise, a mechanism that entails a commitment and, at the same time, is very flexible.

It creates a commitment since both the corporate governance report and the annual management report are corporate documents for which the Board of Directors is exclusively responsible, and therefore, the Board must be especially rigorous in publicly explaining the degree of their compliance with each of the corporate governance measures.

It is flexible since it allows the company to explain and demonstrate the actual implementation of a particular measurement of corporate governance or to give a reasoned explanation regarding its noncompliance whether this is because there is an obstacle in the current legislation against its application, or because the company disagrees with what is included in measurement or the advisability of its adoption.

When it is the legislator who is inspired by the present GLACCG, "comply or explain" is the same principle that regulators in many countries in the region have implemented in their regulations through the requirement of annual reports that companies under their jurisdiction must publish based on corporate governance principles defined in their respective applicable governance codes.

Going a step further, on certain occasions the regulator has incorporated mandatory compliance with some of the governance principles into the regulations, particularly for financial sector entities. Therefore, these GLACCG may be useful as a basis and inspiration for the gradual strengthening of the standards required of different types of companies.

Structure

This document is divided into 5 sections.

1. This one (Section I) is an introductory section in which the approach and scope of application of this document are explained.

2. The contents of the Guidelines are presented in Section II, where each of the guidelines and their recommendations are defined and explained.

   In this Section, the content is structured as follows:

   - **Six corporate governance pillars** that group together specific guidelines and recommendations based on major issues have been defined:

     * Ownership of the company (which includes guidelines regarding the effective handling of ownership and rules associated with the operations of the General Assembly of Shareholders[2]).
     * The Board of Directors.[3]
     * Upper Management
     * Corporate sustainability.
     * Control architecture.
     * Transparency and disclosure of financial and non-financial information.

   - For each of these six pillars, specific guidelines have been identified which are developed in detail throughout this section.

3. Section III offers some final reflections on the implementation of the Guidelines.

4. Section IV summarizes the set of guidelines detailed in Section II as a quick reference guide.

5. Section V includes six appendices that deal with matters that we consider to be particularly relevant and of maximum application to the region's business community:

   - **Appendix I:** refers to corporate governance in the case of business groups or financial conglomerates. This appendix includes a set of guidelines specifically designed for groups, which will hopefully contribute to strengthening the corporate governance of these types of business organizations.

   - **Appendix II:** refers to the responsibility of the region's financial institutions to foster the corporate governance of their corporate client assets, i.e., the companies to which they lend financing.

   - **Appendix III:** refers to the particular characteristics of corporate governance in family-owned companies.

2. In different countries throughout the region, the supreme body of authority in a company is known as the General Shareholders' Meeting or General Assembly of Shareholders. The latter will be used in this document.

3. The highest governing body of a company is also known as the Board of Directors, Administrative Council, or Governing Board in the different countries in this region. In this document it will be referred to as the Board of Directors.

- **Appendix IV:** refers to the particular characteristics of corporate governance of not-for-profit entities.

- **Appendix V:** refers to some guidelines regarding the content of the corporate documents considered to be the most relevant: Assembly regulations, Board of Directors' regulations, structure of the Board of Directors' minutes, Code of Corporate Governance, and annual corporate governance report.

- **Appendix VI:** includes a Glossary of Terms used.

Implementation

The Guidelines include a series of corporate governance practices that, if adopted, should be incorporated into the Bylaws and/or the companies' internal rules. Internal regulations are understood to be the set of rules and regulatory documents of the company itself and/or its owners such as the company's Bylaws, the Board of Directors' regulations, the regulations of the General Assembly of Shareholders, the code of corporate governance, or others.

The actual implementation of the Guidelines will, therefore, entail making changes, in many cases substantial ones, to the company's rules of operation.

Because of this, it is essential to consider the Guidelines not as just a set of isolated corporate governance practices to be incorporated into internal corporate regulations, but as an entire business culture that should guide the actions and relationships between ownership, leadership, and ordinary management so that this intangible asset creates value.

Consequently, before proceeding to a formal implementation, a process must be carried out to achieve full intellectual adoption or adherence by the ownership, direction, and management with the scope that corresponds to each of these levels about the effective incorporation of these corporate governance practices.

Indeed, if full conviction about the suitability of incorporating some of the practices proposed in this document is lacking, it would be preferable to proceed with the implementation of exclusively those practices for which there is a majority agreement, rather than proceed with their full implementation and risk non-compliance with them in practice.

In short, it is understood that a process of strengthening the corporate governance practices of a given company in accordance with the content of these Guidelines, must be a gradual process in which changes are slowly undertaken to allow the best governance of the company without unnecessarily putting its operation under stress and thus avoid possible adverse effects.

Finally, corporate governance is a dynamic reality and due to that, the practices implemented by any given company should be periodically reviewed in order to not build a "straitjacket" that could jeopardize its flexibility, but rather a tailor-made suit through which a set of principles suitable for each company that allow a more efficient operation over time is implemented.

To this end, it is important that organizations develop their own corporate governance code which consolidates their governance model and the corporate governance practices adopted (see model guidelines in Appendix 5).

SECTION II

GUIDELINES FOR A LATIN AMERICAN CODE OF CORPORATE GOVERNANCE (GLACCG)

I. COMPANY PROPERTY

The recognition of shareholders' rights and the structuring of suitable mechanisms to protect their effective exercise are among the most relevant issues from a corporate governance perspective. Regardless of whether they are controlling, significant, or minority shareholders, all the shareholders as a whole are the owners of the company since they are the ones who provide the capital for carrying out its business. In addition, and in particular for business situations such as startups or companies with a family structure, the owners provide the vision and purpose of the business as well as the specific know-how that determines the direction and growth of the organization.

To this end, all companies, regardless of their size and ownership structure, should adopt a corporate governance model that appropriately balances the proper exercise of shareholders' rights and the preservation of the company's purpose with the desire to generate value and growth that also takes into consideration its various stakeholders.

It is crucial for the company's corporate governance system to adopt mechanisms that recognize a series of property rights that are considered key (in many cases already covered by the legislation in effect in each country, mainly in the case of listed companies) and which are usually linked to:

i. The possibility of participating and exercising their vote and influencing key aspects of the company within the framework of the General Assembly of Shareholders.

ii. Receive and request information needed for the proper exercise of their rights or to know in a timely and sufficient manner about the performance of the company's business.

iii. Sharing in the profits of the company (or be responsible for losses).

The company's corporate governance should ensure that shareholders are provided with opportunities in which they can exclusively exercise their ownership role. This will prevent interference or overlapping with the company's leadership (a role that corresponds to the Board of Directors) or with the management of the organization (in charge of the Chief Executive Officer and his upper management team).

Thus, the General Assembly of Shareholders[4] plays a transcendental role in facilitating the proper exercise of ownership by the shareholders.

The General Assembly of Shareholders is the supreme and sovereign body of a company. This is the meeting of the shareholders who, collectively, exercise control over the company's progress and the actions of the Board of Directors with respect to the effective fulfillment of their responsibilities.

Therefore, the company needs to adopt guidelines and rules to ensure that the General Assembly of Shareholders functions effectively, allows appropriate participation of the shareholders, and has the proper mechanisms to provide them with sufficient, truthful, and timely information. Finally, the responsibilities of the Assembly must be expressly formalized in the Bylaws. Thus, the corporate governance structures should make the roles and attributes corresponding to the ownership body clear, and a good system of checks and balances within the company should be achieved.

Guideline No. 1: Agreements between Partners

In the initial phases of the company, it is essential for the partners to define the governance agreements associated with their interactions, how their contributions and participations are valued as well as the management of changes in the ownership structure, etc.

The willingness to become a partner is accompanied by the expectation of two or more people to develop a common purpose with a long-term vision. However, just as it is important to establish agreements on how the company will operate, it is equally valuable to establish guidelines on how situations arising from abrupt changes in the company or disagreements among the partners will be handled. This is done in order to manage possible contingencies that could have a substantial impact on the company. Hence, it is important that shareholders reach agreements on aspects such as the conditions for their interactions, how their contribution and participation will be valued, along with other aspects.

For companies, the reality is that the initial conditions under which they were founded may change over time, sometimes very rapidly (as in the case of startups, for example), due to the withdrawal or absence of some of their key partners, or the entrance of new shareholders or more sophisticated investors.

To this end, the partners must foresee the possible impact of these situations and define guidelines that will make it possible to effectively manage the contingencies that may arise from material changes in the company's shareholding situation and possible differences among the partners. Thus, the partners are advised to formalize a governance agreement in which they establish rules and definitions regarding the following aspects:

4. They are called Shareholders' Assemblies or Boards of Shareholders in this region. For purposes of this document, the reference to Assembly of Shareholders will be used.

i. Redemption rights (for repurchase of shares by the company itself from shareholders).

ii. Formulas for the liquidation of certain shareholders through transparent exit mechanisms.

iii. Shareholders' information rights in addition to those established within the framework of the shareholders' assembly.

iv. When one of the partners is also a director of the company at the same time, remuneration mechanisms can be envisaged to retain talent and align the positions of key executives with those of the shareholders (such as *stock options*[5]) or agreements on non-competition conditions in the event of their departure from the company.

v. In cases where the company has been set up based on the particular qualities of some of the partners or shareholders (such as their know-how or specific commercial capability that is relevant to the growth and development of the company), it is advisable to consider arrangements to manage key man risks.[6]

Guideline No. 2: Parity of Treatment

The company should recognize the principle of equal treatment in its relations with shareholders while taking into account the differences between types of shareholders. This must not involve obtaining privileged information for one or several shareholders to the detriment of the rest of the shareholders making up the capital stock.

The principle of equitable treatment has historically been understood mainly as the principle of one share, one vote, whereby each shareholder should have voting rights equivalent to his/her share in the capital in an allusion to the company's obligation to provide equal treatment to all shareholders who have the same conditions. However, this concept has been evolving towards parity of treatment.

This point is based on two principles: on one hand, the obligation of the company to provide equal treatment to all shareholders who are under the same conditions. On the other, to recognize that not all shareholders are the equal, and therefore cannot and should not be treated as if they were.

In this regard, the company must distinguish, for example, between significant and non-significant shareholders, or between majority and minority shareholders. The company must also identify which shareholders may have a conflict of interest (real or potential) with the company, those that are stable or transitory, and most importantly (and perhaps more significant), the active shareholders with the will to influence corporate life or the passive shareholders. (On the management of conflicts of interest see Guideline 41 of the Control Architecture pillar).

This identification of the different types of shareholders should enable the company to establish the most appropriate mechanisms for relations with each of them in matters such as communication channels and conduits, the bodies or personnel responsible for providing relevant information, or the mechanisms for complying with and following up on special arrangements with certain shareholders regarding the provision of information.[7]

5. Through this remuneration mechanism, the company offers its key executives the possibility of acquiring company shares under special conditions which may be more favorable than market conditions.

6. These risks are evident when a company is highly dependent on a single person or a small group of people, either because of their contribution to the company's know-how, their technical knowledge, their high performance, or their long-term relationship with the company.

7. In some cases, large institutional investors that participate in the capital of unlisted companies require that a bilateral shareholders' agreement, in which certain obligations are established for the delivery of direct information by the company, be signed between the company and the investor.

Therefore, the company must be able to grant its shareholders equitable treatment in accordance with the nature and characteristics of their shares. The objective of the principle of parity of treatment is to prevent shareholders in the same condition from being treated differently in their relationship with the company.

Moreover, the principle of parity of treatment could in no case justify certain shareholders having access to privileged information that would allow them to obtain advantages in decision-making with respect to company shares to the detriment of the rest of the shareholders.

In any case, the company must disclose the different types of shares that make up its capital stock and the rights attached to each category of shares.

Guideline No. 3: Mechanisms for Communicating with Shareholders and Investors

Depending on its size, needs, and capital structure, the company must implement permanent communication mechanisms with shareholders and investors that allow them to have access to information on the organization's performance.

It must be recognized that the General Assembly of Shareholders is the natural forum in which shareholders can get access to information about the periodic financial results and changes in the company's corporate governance system. It is in this forum where shareholders can exercise their economic and political rights based on the information provided by the company whose accuracy and veracity must be under the ultimate responsibility of the organization's administrators.

Nevertheless, the natural conditions under which the Assembly of Shareholders operates (with regular meetings at least once a year) present a challenge to companies in terms of how to overcome communication deficiencies between the shareholders and the company as a whole. Doing so will ensure that the company fulfills the ultimate purpose of providing its owners with quality, sufficient, and above all, timely information for a proper decision-making process.

In this respect, it is essential that the company, in addition to complying with the minimum legal requirements, define and implement channels that are supplementary to those that are used to provide information within the framework of the General Assembly of Shareholders. They should facilitate communication between the company and the shareholders so that the latter can contact the company to request information or to raise issues of interest with the company or its associates. Likewise, these mechanisms must ensure that confidential or reserved information is not disclosed or given out in such a way as to put the company at risk.

The adoption of different channels by the company must consider the types of shareholders the company has, the size of the organization, the dispersion of its ownership structure, and the actual situation of the company.

Among the channels that companies can implement for an appropriate interaction and communication with their shareholders the following may be considered:

i. **The corporate website.** This is the first and most relevant channel of communication with shareholders through which the company can easily and rapidly transmit financial and non-financial information about the company (the latter referring particularly to the organization's corporate governance system and its rules of operation).

This mechanism is particularly important for any type of organization since it is a channel that allows the company to reach a greater number of shareholders and stakeholders effectively and establish interaction under principles of timeliness and transparency. To this end, it is necessary for both listed and unlisted companies to have a corporate website that facilitates the disclosure of company information relevant to shareholders and other stakeholders (see Guideline 47 of the Transparency and Disclosure of Financial and Non-Financial Information pillar).

Listed companies or companies with a large capital structure may consider adopting a shareholder-only access through which they can make regular and updated information about the company's performance and relevant information available to the owners within the framework of the General Assemblies of Shareholders.[8]

ii. **Social networks.** This channel could be a supplement to the corporate website as an instant news disseminator and announcement of the content published on the website, or as an additional channel for publishing information and interacting with shareholders and other stakeholders. The type of use and corporate requirements for using social networks should, in any case, be part of the communication and relationship policy with shareholders and stakeholders.

iii. **An office or area responsible for shareholder relations that has readily available contact details or means of access.** Listed companies that have a large shareholder base may choose to set up a specific department such as a Shareholder Service Office or hold periodic (usually quarterly) meetings with shareholders, led by the Chief Executive Officer, to present the results of the previous period.

For non-listed companies, it may be sufficient to assign a shareholder relations duty to a unit or person specifically responsible for that role such as the General Secretary or an equivalent department.

iv. **Clear and publicly known rules regarding the manner in which shareholders may request information from the company.** Companies may adopt rules in their corporate documents to allow shareholders to ask questions or request the examination of documents relating to the management and activities of the company. These rules should provide for the procedures adopted by the company to receive, review, and respond to shareholder requests (preferably in writing).

In any case, regardless of the channel or mechanism adopted by the company to provide its shareholders or investors with information, the organization must always adopt the necessary measures to avoid providing information of a confidential nature or relating to industrial secrets, or data that, if disclosed, could be used to the detriment of the company.

8. The obligation to have a corporate website has already been recognized by the legal framework in several countries around the world, particularly for financial or listed entities, in order to establish minimum mechanisms to reinforce the right of shareholders and investors to information.

Guideline No. 4: Arbitration

The company's Bylaws should include an arbitration clause that establishes the rules for settling differences between different governance stakeholders (shareholders and Board of Directors), to challenge the resolutions of the Assembly, or to hold the Directors accountable.

Arbitration can be an effective mechanism for companies to resolve possible disputes within the company quickly and efficiently. Although it may be onerous, it is undoubtedly a good alternative in terms of time compared to the ordinary system of administration of justice in which there is a high probability that it will take much longer to reach a final decision for the parties. That is why, when the company adopts arbitration as a mechanism for resolving disputes within the organization, it is necessary to consider its size, reality, and needs.

Providing for this type of conflict resolution alternatives in the Bylaws contributes to better relations with shareholders, investors, and other stakeholders (employees, suppliers, customers, financial institutions, etc.). These agreements contribute to a more expeditious settlement of conflicts and to the stability of relations between the different stakeholders by offering conditions for a more streamlined conflict resolution.

In this regard, companies are well advised to adopt clauses requiring submission to arbitration in their Bylaws for the resolution of disputes arising from events such as:

i. Non-compliance by the Board of Directors or upper management with the contents of its internal regulations.

ii. Disputes between shareholders, between shareholders and the Board of Directors, and between the company and shareholders or Directors.

iii. A challenge to the Assembly's resolutions, the election of the Board of Directors, or a demand for Director accountability.

The text of the arbitration clause must provide for the adoption of institutional or administered arbitration, and in no case ad hoc before an independent institution. The purpose of the foregoing is to provide a framework in which disputes that may arise can be resolved with a reasonable level of reliability, speed, and efficiency.

Likewise, the regulatory frameworks of the different countries must be considered since they may have possible limitations to arbitration, whereby certain issues in the corporate sphere are necessarily reserved to the decision of the ordinary justice system or even an administrative authority.

Guideline No. 5: Responsibilities and Powers of the General Assembly of Shareholders

The company's Bylaws must recognize the General Assembly of Shareholders as the company's supreme governing body and expressly define its functions, responsibilities, and powers while specifying those that cannot be delegated.

In a healthy and balanced corporate governance, the company must have differentiated bodies for the exercise of the ownership role (typically the General Assembly of Shareholders), for decision-making on direction and control (corresponding to the Board of Directors), and for the day-to-day management of the company (under the responsibility of upper management).

Thus, the General Assembly of Shareholders should function as the body responsible for the effective control of the administrators and as a forum for monitoring the company's performance and results. For the effective fulfillment of the role played by the General Assembly of Shareholders, adopting measures to ensure that shareholders can properly exercise their economic and political rights is not enough. The Bylaws must clearly define the duties and responsibilities of the Assembly, so that shareholders have a clear framework to guide the scope of their decision-making processes.

In general, the regulatory frameworks of the countries in the region have established minimum formalities for holding the Assemblies, and the validity of the decisions made at these meetings depends on compliance with these formalities. In this respect, the measures adopted by the company for the operation and functioning of the Assembly of Shareholders should conform to and complement these provisions.

The Bylaws of the company must clearly identify the exclusive and non-delegable responsibilities of the Assembly of Shareholders which include, as a minimum:

i. Approval of the annual financial statements.
ii. Approval of the Board of Directors' management and the proposed application (distribution or reinvestment) of the profits.
iii. The appointment and removal of the members of the Board of Directors as well as the definition of guidelines for managing situations of changes or transitions at the Board level, whether due to resignations, vacancies, or new appointments.
iv. The appointment of the outside auditors.
v. Approval of the Board of Directors' general compensation policy.
vi. The sale or pledge of strategic assets essential for the development of the business.
vii. Approval of the treasury stock policy or repurchase of the company's own shares.
viii. The approval of merger or spin-off operations of the company and the transformation of the company into a holding company through the subsidiarization or incorporation into subsidiaries of essential activities carried out up to that time by the company itself.

Guideline No. 6: Rules of Procedure for the General Assembly of Shareholders

The General Assembly of Shareholders must have a body of binding rules (through the regulations of the General Assembly of Shareholders or at least at the level of the Bylaws) where the guidelines and provisions relating to its operations are expressly defined.

The legislatures of the different countries in the region have incorporated rules that determine the minimum formalities that the Assembly of Shareholders must comply with when they are held. Furthermore, the company needs to supplement these legal minimums with a series of rules relating to aspects such as the notification of meetings, the advance notice and conditions under which information is provided, and the quorum required for certain decisions to be made. This is to ensure the effective exercise of the economic and political rights of the shareholders.

The purpose for these rules is to ensure appropriate participation of the shareholders, and that the shareholders are provided with sufficient information for a properly informed decision-making process and mechanisms that make effective decision-making possible.

The provisions adopted by the company in relation to the operation of the Assembly of Shareholders should be formalized in a Shareholders' Assembly regulation (see model guide in Appendix 5). In it, the following aspects, at least, must be regulated:

i. Meeting regime (ordinary and extraordinary).
ii. Deadlines for sending the notification of the meeting.
iii. Content of the notification.
iv. Means of disseminating the notification.
v. Conditions for member participation.
vi. Rules for representing members.
vii. Voting rights regulations
viii. Rules for proposed changes to the agenda or proposed resolutions.
ix. Mechanisms for exercising the right to information prior to and during the General Assembly of Shareholders
x. Participation of Directors and committee chairmen at the General Assembly of Shareholders

i. Meeting regime (ordinary and extraordinary).

In some jurisdictions, the maximum periods within which the Regular Shareholders' Assembly must be held at the end of each fiscal year are established by law. In any case, unless otherwise provided by law, the regular assembly must be held within the period established in the Bylaws which should never be later than the first 3 months of the year following the end of the fiscal year.

The Bylaws or the regulations of the Shareholders' Assembly must provide the rules for holding the meeting in the event that it is not expressly called. To this end, the corporate documents may set a specific date and time for the annual meeting to be held at the registered office or at the main office of the company in the absence of a formal call.

Moreover, when the circumstances of the company so require, the Board of Directors and the shareholders themselves should be able to call an extraordinary assembly.

Therefore, the company should adopt mechanisms to regulate the conditions under which shareholders may request the calling of an extraordinary meeting. To do so, it is advisable to establish that an extraordinary assembly must be called when requested by a group of shareholders representing a significant participation in the capital stock of the company. The company's Bylaws must establish the minimum percentage of participation in the capital stock that the group of shareholders must meet in order to request the call for an extraordinary meeting. To determine this percentage, the company must consider its size, shareholder base, and level of the corporate governance system's development in order to adopt the necessary measures to enable the effective exercise of the right to call an extraordinary meeting of the assembly.

In any case, two conditions must be met: for starters, the request must be made by a plural number of shareholders and the representation with respect to the capital stock should preferably be between 10% and 15% of the capital stock. The company must define this percentage considering its capital structure, size, and complexity, so that, without disregarding the shareholders' right to call the extraordinary assembly, the company is, at the same time, protected from a possible abusive exercise of this right.

ii. Deadlines for sending the notification of the meeting.

One of the factors that works against the principle of shareholder participation is the short time that elapses between the call and the holding of the meeting.

Therefore, the company should implement in its Bylaws minimum terms for publication and dissemination of the calls to the regular and extraordinary assemblies that give shareholders timely knowledge of when the meetings will be held so that the appropriate conditions for their participation and the effective exercise of their vote are provided. Although it is usual for local legislation to establish the minimum periods within which the assemblies must be called in order for the decisions to be valid, it is important to consider the fact that the periods established by the company in its Bylaws may be better than those legally established and thus, implement a more robust standard for notifying shareholders of the meetings.

In any case, a period of at least 30 calendar days from the announcement of the call until the regular assembly is held seems to be a reasonable lead time for shareholders.

The extraordinary assembly, in turn, must be called within a period that should not be less than 8 calendar days nor more than 30 days. This type of meeting must be held in strict compliance with the agenda proposed by the promoters.

iii. Content of the notification.

In order to ensure suitable participation of the shareholders, the announcement of the call must contain the place, date, and time as well as the order of business of the meeting and the proposed resolutions. Likewise, the manner and place in which the documentation related to the order of business of the meeting must be included and the proposed resolutions should be made available to the shareholders.

The proposed resolutions are those proposals associated with each of the items on the meeting agenda and are ideally accompanied by the recommendation of the Board of Directors to the shareholders on how to vote. This way, the Board of Directors states its position on the various items on the meeting agenda, reinforces the shareholders' right to information, and contributes to minimizing the pernicious effects of blank proxies.

The content of the meeting notification must be designed so that every shareholder is able to understand it and be sufficiently informed of the issues to be discussed at the meeting. Therefore, the agenda or order of business included in the notification must contain precisely the content of the items to be discussed and prevent important issues from being hidden or confused under imprecise or generic or too general or broad mentions such as "other" or "various." Likewise, the order of business should be structured so that the items requiring individual discussion and approval are duly identified, thus facilitating their analysis and separate voting.

In the case that the agenda proposes amendments to the Bylaws, measures should be taken so that each article or group of articles, which are substantially independent, are voted on separately. In this regard, the company should establish in its Bylaws or in the regulations of the Shareholders' Assembly, the right of a shareholder or group of shareholders that represent between 5% and 10% of the capital stock to request a separate vote on an article, if deemed appropriate.

In the event that the law grants a right of withdrawal or separation of shareholders, the announcement of the call must expressly mention it with reference to the legal rule that establishes it.

iv. Means of disseminating the notification.

Companies currently operate in a market environment with a greater inclination towards globalization and internationalization. In this context, a company's investors or shareholders may be in different countries and jurisdictions. For the company, this means the challenge of finding mechanisms that allow for an effective and appropriate dissemination of the notification that, on many occasions, has a much wider scope than what was provided for in local legislation. Thus, the company must make use of digital mechanisms to disseminate the notice, recognizing that the mere publication of the notice in printed medium circulating throughout the country where the company's registered office is located[9] is insufficient.

Therefore, in addition to the means provided by local legislation, the company must ensure the maximum dissemination and publicity of the call. All the available digital means such as email, alert service, corporate website, or corporate social networks would be used for this.

v. Conditions for member participation.

The shareholders' assembly is the forum par excellence through which the owners: have access to reports on the company's performance by the Board of Directors and upper management; where they can raise concerns regarding the company's results; and are able to exercise their economic and political rights. Thus, the company must provide shareholders with all the necessary mechanisms to be able to participate and follow up on the annual regular and extraordinary Assemblies of the companies in which they invest.

Traditionally, these meetings have been held in person. However, different circumstances such as the company's presence in different markets and jurisdictions or restrictions on holding in-person meetings means that the company must adapt the mechanisms and resources to provide greater possibilities for shareholders' remote participation in the Shareholders' Assembly. That is why, the company must implement digital resources that facilitate shareholder participation and remote monitoring of the Assembly.

To this end, the company, depending on its size, nature, and shareholding structure, must adopt the appropriate mechanisms to ensure that shareholders who do not attend the Assembly in person can participate in the session and keep abreast of its progress in real time. The purpose is to expand the options for shareholders to be informed about what is happening at the Assemblies, and to be able to interact with the Board of Directors and management in these virtual environments openly and unrestrictedly. The company must make all the mechanisms to participate virtually in the Assembly available to shareholders under conditions similar to those of in-person attendance.

The use of digital resources means that the company must visualize and effectively manage new types of risks that may arise in these scenarios so as to preserve the validity of the decisions made by the shareholders. To that extent, the company must take measures to at least:

9. As is usually provided for in most of the current legal frameworks.

i. Adopt proper security conditions for information that is made available to shareholders remotely.
ii. Ensure the identity of those who enter the meeting remotely or virtually in order to avoid possible impersonation.
iii. Prevent the participation of unauthorized third parties.
iv. Ensure the conditions for the proper conduct of the meeting including the stability of the remote connection in order to enable the effective exercise of the owners' rights. Due to this, the company would be well advised to have contingency plans in case there are problems with the connection or with the platform by means of which the shareholders enter the meeting.

Recognizing that situations that require the company to hold exclusively remote meetings may arise more frequently, it is advisable for the company to adopt clear and publicly known rules and protocols regarding the circumstances under which virtual meetings are held, including provisions such as: identifying remote access channels to the meeting, remote voting options, and provisions on shareholder involvement during the meeting, etc.

Finally, note that most of the legislation in force recognizes the right of shareholders to intervene and ask questions during the assembly on matters related to any item included in the agenda of the meeting. However, the company's Bylaws need to expressly provide for the possibility that shareholders may request the dismissal or exercise of liability actions against the members of the Board of Directors at the assembly without the need for this to be included in the agenda of the meeting beforehand.

vi. Rules for representing members.

The Bylaws and the regulations for any type of company's assembly must enable all shareholders who have the right to participate in the assembly may be represented by the person they freely designate, whether or not said person is a shareholder.

To this end, and when it is not possible to implement remote voting, companies should establish simple and secure mechanisms so that shareholders, both individuals and legal entities, can grant their representation and that, ideally, the vote cast by the proxy should be in accordance with the instructions received from the owner of the shares.

Therefore, it is advisable for companies to adopt a standard form of proxy or representation letter, which includes:

i. the order of business for the meeting:
ii. the proposed resolutions to be submitted to the shareholders for their consideration; and
iii. the shareholders are asked to indicate how they will vote on each of the proposed resolutions.

This model must be sent to the shareholders together with the call to the meeting or be published on the corporate website, so that the document is easily accessible for the owners or investors.

When the shareholder delegates his vote to a third party who is not a director or employee of the company without giving precise instructions as to how to vote, the latter does not lose its validity although this is not a recommendable practice.[10]

In those countries where proxy voting in favor of a director of the company (member of the Board of Directors or upper management) is possible, the shareholder must clearly indicate how to vote in the letter of representation with respect to each of the proposed resolutions detailed in the agenda of the assembly. In these cases, directors representing shareholders must disclose the number of proxies they hold, the number of shares represented and how they are to vote.

In any case, companies should not allow shareholders to delegate votes in favor of the Chairman of the Board of Directors, any other member of this collegial body or members of upper management, without instructions, since the ultimate will of the shareholder is subject to that of his representative. This may be problematic since it may be the source of potential conflicts of interest on the part of the employee or director representing the shareholder.

The directors of the company, in turn, cannot accept or request proxies when the agenda of the assembly includes issues in which the director may have a conflict of interest such as a termination, a liability action, or the approval of a transaction in which the director or his related parties have a particular interest.

Except in cases where there are regulatory restrictions, directors who are themselves shareholders should have the option to exercise their own voting rights on any issue except in those situations in which a conflict of interest arises.

Finally, if the Board of Directors formally solicits voting proxies from the shareholders as a whole for the assembly, they should indicate how the Board will vote on each of the proposed resolutions in the request. That way the delegating shareholder can adhere to the Board's recommendation or require a vote to the contrary.

vii. Voting rights regulations.

As previously mentioned, companies have increasingly found it necessary to enable shareholders to exercise their voting rights remotely. This is the case, for example, for foreign investors who do not live in the company's country of residence. Stakeholders like these are increasingly frequent players in the region's capital markets. In this regard, companies must ensure that they incorporate technologically secure mechanisms and tools that minimize the risks associated with possible errors and fraud in the use of electronic voting.

In addition, and to the extent that the regulatory framework allows it, companies are advised to allow split votes so that financial intermediaries who appear as shareholders, but act on behalf of different clients, can cast their votes as instructed by the latter.

Finally, the Bylaws should recognize shareholder groups, whether temporary or permanent, as a legitimate alternative for exercising their political rights such as voting at shareholders' assemblies through a single representative or even nominating a candidate to be a member of the Board of Directors to represent the group of shareholders.

10. Several legislatures in the region prohibit the delegation, with or without voting instructions, to the Board of Directors or to the Directors and, in general, to the company's administrators.

viii. Rules for proposed changes to the order of business or proposed resolutions.

Shareholders should have the chance to propose items to include on the agenda of the ordinary Assemblies of Shareholders to be discussed during the meeting. Therefore, the company should adopt rules to facilitate this right for the owners. The reason for this practice is to make it easier for shareholders to use the time between the notification and assembly to introduce aspects that they think should be reviewed there and thus avoid calling a new meeting. The preparation and holding of a Shareholders' Assembly entails a cost for the company, both in purely economic terms and in the use of the organization's resources (human, technological, time, etc.).

To this end, the Bylaws should recognize the right of shareholders to propose the introduction of items or proposed resolutions in the agenda of the ordinary meetings, within a reasonable limit, during the period between call and assembly. Therefore, the company must adopt clear rules and procedures that allow shareholders to exercise this right while preserving the smooth calling and holding the shareholders' meeting. Remember that any measure adopted by the organization must harmonize with the corresponding regulatory framework in force in terms of the form and timing of the call for the shareholders' meetings.

In addition, it should be established in the Bylaws that the Board of Directors is obliged to respond only to those requests supported by at least 5% to 10% of the capital stock. The determination of this percentage should be made based on each company's situation as well as the degree to which ownership is concentrated. In cases where the Board of Directors is obligated to respond and decides that the request should be rejected, the Board's response must contain the reasons for its decision in writing.

ix. Mechanisms for exercising the right to information prior to and during the General Assembly of Shareholders.

The principle of transparency of information should permeate all relations between the company and its shareholders. This is a principle that should be applied particularly within the framework of the General Assembly of Shareholders for which the organization should adopt all necessary and appropriate mechanisms to ensure the delivery of information to shareholders before and during the meetings under principles of quality, timeliness, and sufficiency.

To that end, the company must go beyond the minimum legal requirements for shareholders to have access to the information related to the items on the order of business of the assembly. Nowadays, companies can make use of different digital mechanisms that allow them to make corporate information available to shareholders under efficient and secure conditions such as e-mails, datarooms, exclusive access for shareholders on the corporate website, etc. The use of these mechanisms is valid for both in-person and on-line or remote meetings. For the latter type of meetings, ensuring that shareholders have proper access to information before and during the meetings is particularly important for the validity of the decisions as well as the orderly flow of the proceedings.

In addition, the Bylaws should recognize the right of shareholders to request, in writing, any clarifications or additional information they deem pertinent regarding the documentation made available to them and related to the topics to be discussed at the General Assembly of Shareholders

The company must clearly define and make the channels through which shareholders may request information or clarification as well as the advance notice and procedures to exercise this right widely known while ensuring in any case respect for the principle of transparency and accessibility.

The company may provide for the denial of the requested information in the event that the request is unreasonable, the information is irrelevant to an informed decision-making process, or that in effective monitoring of the organization's performance, access to such information may be detrimental to the company's interests, or is confidential or privileged.[11]

The Bylaws should also stipulate that in the event that certain information is requested by a significant percentage of the company's capital, the Board of Directors may not refuse to provide it. The determination of the percentage shall depend on the ownership structure of the company although, in any case, it should not exceed 25% of the capital stock.

x. Participation of Directors and committee chairmen at the General Assembly of Shareholders.

The General Assembly of Shareholders is the best place for shareholders to interact with the company's managers and thus get first-hand information on the development and performance of the business as well as how these managers carry out their job.

To this end, the members of the Board of Directors, and particularly the chairmen of the committees (especially the audit and risk committees and the appointments and remuneration committees) must attend the assembly unless there are justified exceptions communicated to the chairman. The Chief Executive Officer, the main executives, and the company's external auditor must also attend.

The Chairman of the Assembly may authorize the attendance of any other person he deems appropriate although the Assembly may revoke such authorization.

Guideline No. 7: Quorum and Special Majorities

The Bylaws must establish a quorum and general and special majorities for making certain decisions associated with sensitive or material matters that have an impact on the company.

Some regulatory frameworks in the region establish certain rules regarding the minimum quorum required for the Assembly of Shareholders to both deliberate and make decisions. The most frequent quorum established by most of the mercantile legislation for valid decision making by the shareholders in the framework of the Assemblies is the simple majority.

It is to be expected that, due to their nature and transcendence, certain types of decisions may be considered extraordinary or strategic operations and require certain reinforced quorums both for the convening of the Assembly, especially at the second call as well as for the approval of resolutions.

11. In other words, information containing industrial secrets or information that jeopardizes the company's competitiveness.

These quorums must be clearly defined and formalized in the Bylaws and associated with matters such as:

i. amendments to the Bylaws relating to the modification of the purpose, corporate objective, or the rights and obligations of the shareholders;
ii. significant changes in ownership or control of the company such as acquisitions or sales of shares above certain thresholds;
iii. sale or pledge of the company's strategic assets;
iv. mergers and spin-offs;
v. issuance of preferred stock or other convertible securities that grant special rights to shareholders;
vi. sale of portfolio (for financial institutions) above certain levels;
vii. other types of corporate transactions that, due to their characteristics, may significantly affect the rights of minority shareholders.

To that extent, and depending on the capital structure of the company, the decision-making quorum should be between 60%-70% of the company's capital stock, so that a special majority is required for approval. In any case, the percentage defined must not be such as to make the adoption of resolutions impossible, thus granting disguised veto rights to an undetermined number of minority shareholders.

Guideline No. 8: Recognition of Shareholders' Special Rights

The Articles of Incorporation and other corporate documents (such as shareholder agreements) must expressly state the rights of the shareholders, in particular, in relation to making certain decisions that are material to the company.

A sound corporate governance system must have the necessary mechanisms to ensure appropriate protection of shareholders' rights so that their position is not affected by certain decisions.

Therefore, the Bylaws, the regulations of the Assembly of Shareholders or, if applicable, shareholders' agreements, must formalize the measures adopted by the company to protect shareholders' rights, in matters such as:

i. Advice on strategic operations.

Extraordinary or strategic transactions such as a capital increase, the issuance of shares, debentures, bond issues above certain thresholds or a merger, although infrequent, can have a significant impact whether it is on the development of the company, on the rights of minority shareholders, or the possibility of generating risks associated with misappropriation by stakeholders close to the governing bodies (controlling or significant shareholders, Directors and members of upper management).

Thus, when such proposals are submitted, the company must make a prior and specific report from the Board of Directors available to the shareholders. In this report, the conditions of the transaction must be explained in detail and be supported by the opinion of an external advisor (fairness opinion), whose appointment should ideally have the favorable vote of the independent members of the Board of Directors (if any).

It should be noted that this tool not only provides suitable protection to minority shareholders against transactions that may affect their interests, but also operates as a mechanism to safeguard the liability of directors.

ii. On the change or takeover of control by another group and the non-implementation of defense mechanisms such as anti-takeover bid protection.

Corporate governance systems should be structured such that they do not prevent minority shareholders from taking advantage of opportunities to sell their shares at the best possible price. Thus, from a good corporate governance perspective, the existence of bylaw rules that limit or attempt to hinder IPOs should not be admissible.

The company should eliminate shielding against a hostile takeover bid, so as to expand the company's possibilities to get access to financing under favorable conditions and be more attractive to a larger investor base.

In general terms, practical examples of what could be considered as anti-IPO shielding may be the following:

a. Requirement of a minimum number of shares to become a Director.
b. A minimum number of years as a Director to become the Chairman of the Board.
c. Limitation on the number of votes that a shareholder may cast, regardless of the number of shares held.
d. Nationality requirements to be a shareholder.
e. Nationality requirements to be a Director.
f. Shielded contracts of upper executives without the knowledge of the Assembly of Shareholders.

In the case of unlisted companies, to some of the above safeguards that could be adopted, it would be necessary to add the establishment of the right of first refusal for current shareholders to acquire old shares offered for sale by a shareholder, or the need for the sale of a company's shareholding to be approved by the rest of the shareholders or by the Board of Directors.

The takeover bid regime adopted by the company must clearly establish the scenario of a change of control of a company. This applies regardless of whether said change occurs through the acquisition of the majority of the capital or not, and the acquirer is obliged to launch a tender offer to all shareholders who have not approved of or do not consent to said change of control. These prices must be the same one at which he acquired the percentage of capital by virtue of which control of the company was gained.

In order to achieve an equitable distribution of the so-called "control premium" with respect to unlisted companies or those that the controlling shareholders have withdrawn from stock exchange trading, it should be established (normally through agreements between shareholders) that in the event that a shareholder with a certain level of shares, such that the sale of such shares represents a change in control of the company, a tag along right in favor of the remaining shareholders should be established as long as this is permitted by law.

From the perspective of the actions of a controlling shareholder and minority shareholders, it is relevant to give a detailed description of the conflict of interest situations that may arise in corporate groups when a subordinated company is listed on a stock market. Similar problems may even arise in unlisted companies that are part of a corporate group.

In this situation, as a measure to protect the minority shareholders of the subordinated company, it is recommended:

a. That the parent company and the subordinate define a frame of reference or, when possible, enter into an agreement that will be made public by both parties and that will precisely define:

- The respective areas of operations and any business relationships between them as well as with the other companies in the group.
- The mechanisms envisioned to resolve possible conflicts of interest that could arise.

b. That when there are any related-party transactions or they are foreseen between a listed subordinated company and its parent company, whether listed or not, the policy for managing conflicts of interest should be applied with special sensitivity and rigor.

iii. Tag along and drag along rights.

In merger and acquisition situations, the rights of the different shareholders with respect to these corporate changes become relevant. In this respect, the company may consider defining a series of mechanisms such as shareholder agreements or bylaw stipulations that allow the implementation of actions to protect the position of the associates when there is a possibility of a sale or acquisition of their interest in the company.

These agreements may focus on the conditions regarding the exercise of figures such as tag along[12] or drag along.[13] Through these mechanisms, conditions can be created to balance the relationship between majority and minority partners by establishing clear rules to protect the economic interest of the partners (due to the definition of the conditions under which a sale or acquisition transaction may be executed).

The company, in turn, may adopt rules regarding the recognition of preemptive rights for minority shareholders in the event of capitalizations or share issues, etc.

iv. The possibility of requesting specialized audits on specific company matters that have not been previously audited by the outside auditor or statutory auditor.

In these cases, it is advisable that the company define the minimum number of shareholders or the minimum percentage of capital necessary to request these audits and the procedure to be followed for their request and approval.

II. BOARD OF DIRECTORS

From the point of view of corporate governance, the Board of Directors[14] has been at the center of the conversation since it is the company's main management and control body. In practice, it has been proven how important it is for companies to have an exclusive area for strategic and prospective conversations within the organization as well as to generate the appropriate conditions for the company's governance system to clearly separate the areas of ownership, direction, and management for the benefit of a healthy system of checks and balances.

The suitability of the Board of Directors as a management body compared to other alternatives is based on its character as a collegial body, the dynamics of its meetings, and the fact that it is the body that can best represent the capital structure in the management of the company.

12. This mechanism allows minority shareholders to sell their interest in the company under the same conditions as the majority shareholder who decides to sell his own interest. In fact, the minority partner may join the transaction under the same conditions as the majority partner.

13. Through these agreements, all of the partners may be required to dispose of their participation in the event that the purchasers intend to acquire the totality of the shares in the company in order to have full control of it.

14. The highest governing body of a company is also known as the Board of Directors, Administrative Council, or Governing Board in the different countries in this region. In this document it will be referred to as the Board of Directors

The benefits that a Board of Directors brings to a company are manifold. For one thing, it brings together the best knowledge and talent that the company can attract. It is a way to incorporate independence and objectivity into the company's management process to benefit from the greater professionalism in the decision-making process. As a collegial body, it enriches the discussions through a diversity of visions, experiences, and backgrounds. This is of particular importance given that better decisions lead to better companies.

Moreover, it is well known that the Board of Directors accompanies upper management in working on decisions that generate value since it challenges and inspires them to find the best options for the company. The mere exercise of preparing the information and positions for the Board of Directors makes upper management build a more solid argument or at least take the time to review the factors that may have an impact on the decision.

Furthermore, the Board of Directors contributes to balancing the company's long- and short-term horizon while considering the organization's strategic risks. It is a body that protects and ensures compliance with the corporate purpose and likewise considers the visions and expectations of the company's stakeholders.

Nonetheless, today's Boards of Directors face great challenges to carry out their work effectively. For one thing, they must meet increasing responsibilities and expectations while having limited time to do so. In addition, insofar as they are external members from outside management, they must manage a natural asymmetry of information between this collegial body and upper management. This means they must adopt strategies to make their work more effective.

The Board of Directors has undergone an important change as it has gone from being considered a body that is almost exclusively for controlling upper management and supervising certain specific matters to a body that is key for defining strategic orientation, monitoring the company's performance, ensuring a reliable and effective structure of the control model, and being the guardian of the corporate purpose.

Once the company's strategic orientation has been defined, the Board of Directors delegate their practical implementation to upper management, which controls and is accountable to the shareholders, the company's true owners.

Ultimately, the key responsibilities of the Board of Directors include:

1. The definition of the company's strategy with a long-term vision.
2. Oversight of the organization under appropriate risk management and control systems.
3. Control and monitoring of the upper management.

In view of the responsibilities of the Board of Directors as well as the challenges they must manage to optimize their contribution and the generation of sustainable value for the company, it is important to bear in mind that, from a corporate governance perspective, a series of good practices must be implemented, both formally and in terms of the operation and dynamics of the collegial body, to ensure the best use of this governance body.

Thus, these Guidelines address fundamental factors that need to be properly coordinated such as the structure, composition, appointment, and removal of Board members, their functions and capacities, their rights and duties as well as the dynamics of the meetings. The purpose of all this is to contribute to the creation of efficient, active, and sufficiently empowered Boards of Directors that are able to carry out the critical tasks that correspond to them for the best governance of any company.

In short, the goal is to avoid the existence of Boards of Directors that, due to their excessive activism, tend to co-manage and invade the areas that correspond to upper management, or Boards of Directors that, due to their passivity, may become hostages of upper management. Both situations are pernicious since they dilute the value that this body should effectively generate.

In this pillar, the ultimate objective of corporate governance is to establish Boards of Directors that understand their responsibilities and have a clear separation between their duties and those of upper management. Thus, the Board members must have the appropriate profiles to contribute value, guided by a desire to make the Board of Directors the key governing body, and characterized by sessions where discussion and debate, in-depth review of issues, and the free expression of different well-founded opinions are a priority. Ultimately, the purpose of these Guidelines is to facilitate the conditions for the Board of Directors to be the ideal scenario for making better decisions for the company, having a vision of long-term sustainability, and proper risk management.

Guideline No. 9: Structure and Makeup of the Board of Directors

The company's Board of Directors must have a structure that is adjusted to the size of the organization, its actual business situation, and its main strategic challenges while, at the same time, allowing them to properly fulfill their responsibilities.

Every company needs to have a collegial body in its corporate governance system, whose purpose is to serve as a forum in which the analysis of the strategic orientation and prospective approach of the organization takes place. This body must be able to not only build the organization's strategy but also strategically address material issues that may impact the company. This enables the organization to effectively manage the strategic risks and challenges of a rapidly and abruptly changing environment.

Traditionally, this is a role played by the Board of Directors, who are expected to be responsible for defining the strategic guidelines for the long-term sustainable growth of the organization; provide expert and objective knowledge of the environment and business conditions; ensure compliance with the corporate purpose; monitor the performance of the company and the upper management team; ensure the effectiveness of the company's risk management and control system; and when applicable, serve as a liaison with shareholders.

Today there is wide recognition of the advantages that the figure of the Board of Directors, as a management body, brings to companies. However, it must be recognized that, for some companies, such as family businesses, start-ups, or smaller companies, the particular challenge of incorporating a Board of Directors is that their size, ownership structure, and business situation must be considered in order to make it play a proper and effective role. In any case, what is essential is that companies have a collegial body that brings together not only the interest of shareholders or investors, but also the knowledge and experience specific to the company, so that it can support the upper management team in a process of quality decision making focused on generating value and sustainable growth under criteria of objectivity and independence in the best interest of the organization.

The Board of Directors makes an essential contribution to the company since it facilitates the professionalization of management decision-making processes based on deliberation by bringing together different visions, experiences, and backgrounds (personal and professional). A Board of Directors based on good corporate governance practices and standards contributes to strengthening the company's reputation since it is a sign for stakeholders of the company's commitment and conviction to have quality decision-making processes based on business and technical criteria for the benefit of the company's sustainable performance.

The establishment of an effective Board of Directors that generates value for the company should take into account the company's type of business, its size, its strategic challenges and risks, market conditions, its ownership structure, legal and regulatory requirements[15] as well as the company's level of institutionalization. Hence, the structure and size of this body should respond properly to the company's governance needs. For the makeup of the Board of Directors, it is advisable to take the ownership structure into account in order to maintain a certain symmetry with it, or at least to preserve an effective criterion of representation. Furthermore, there must be a suitable balance of independence, knowledge, and experience for the proper management of the organization.

The structure and number of members of the Board of Directors must be established in the Bylaws, and it is the responsibility of the General Assembly to appoint the members of this collegial body as well as to determine the number of directors within the minimum and maximum limits established in the Bylaws. A recommendation on its optimal size will depend on the size of the company itself. However, it is advisable to have an odd number such as 5 to 9 members. In the case of large listed companies, this number can be as high as 11. Larger numbers can make decision making more complex and impair the effectiveness of the collegial body.

In this respect, note that it is essential to avoid increasing the number of Board members under any circumstances to "accommodate" specific shareholders who, on the basis of a certain number of shares, aspire to or demand to be included on the Board of Directors. In determining the number of members, the needs and efficiency of the body must be paramount and, consequently, the aspirations of specific individuals or shareholders must be adjusted to this reality.

It is also considered good practice to not appoint alternate members[16] to the Board of Directors. This is because, when there are alternate members to cover temporary absences, the continuity of the decision-making process is broken. Furthermore, unlike the incumbent Director, the alternate Director is not necessarily aware of the current events of the organization or of the decisions made at previous meetings that may affect the current discussion. However, if the alternates attend all the meetings in order to have a suitable level of information (sometimes with a right to speak, but in no case with a vote), the Directors' accountability structure may be affected and, at the same time, it would generate additional costs for the company since the alternates must be remunerated. Last of all, there is a risk of having an oversized Board of Directors that is difficult to manage.

In the event that the regulatory framework requires the appointment of alternate members, each alternate Director should be appointed for a specific Director or, in any case, and without fail, there should be a guarantee that the Director and the alternate Director are always included in the same

15. Of particular importance for financial institutions and issuing companies.

16. In some jurisdictions they are called alternate directors, who may be general or specific substitutes for certain directors in situations of temporary or permanent absences in the event of removal or resignation.

category of Board members. For example, in the case of independent Directors, they could only be replaced by other independent Directors. In any scenario, the company must ensure that both the principal and alternate directors are duly informed of the different matters submitted for their consideration, so as not to affect the quality and efficiency of the decision-making process.

i. Regarding categories of Directors

The company's Board of Directors may be made up of different categories of Directors, depending on the origin of their appointment which include the following:

a. Internal or Executive Directors: They are the ones with responsibilities in upper management or senior management of the company or of its subsidiaries (subordinates or affiliates).

   In the region, especially in the case of listed companies and financial institutions, the existence of internal or executive directors is not common, since, as a general rule, the company's chief executive is invited to Board meetings with the right to speak but not to vote. The case of business groups deserves to be considered differently. In these cases, the corporate governance system enables the presence of internal or executive directors on the different Boards of Directors of the group's subsidiaries in order to facilitate a proper alignment with respect to the unity of corporate purpose and effective information flows to the different governing bodies in the organization.

   Likewise, in the case of unlisted companies, particularly those with a family ownership structure, the position of internal or executive director is very frequent. In these situations, it is not unusual for the same person to be a shareholder, a member of the Board of Directors, and a member of upper management.

   Normally, the Chief Executive Officer is the one who assumes the role of Internal or Executive Director[17] since this allows the Board of Directors to be closer to the day-to-day management of the business and thus facilitate the efficient performance of its functions. Nevertheless, it is crucial that the company adopt appropriate mechanisms to effectively manage potential conflicts of interest so that those responsible for the day-to-day management of the company also make decisions regarding the monitoring of the company's performance and the definition of the organization's long-term vision.

   To this end, the Board of Directors should not, as a general rule, consolidate a majority of internal or executive directors or persons related to each other by marriage, or by kinship within the third degree of consanguinity or second degree of affinity, or first civil relationship at the level of the Board.

b. External Directors: are those that, without being linked to the ordinary management of the company, represent all the general and diffuse interests of the company, including those of significant shareholders.

   These Directors may be of three types:

   - External Proprietary Directors: are shareholders or representatives of shareholders. They do not have an employment relationship with the company and their

17. This is a practice recognized by the Organization for Economic Cooperation and Development (OECD) itself.

membership on the Board of Directors is derived from the will of a specific shareholder or group of shareholders acting in concert. In several countries these types of directors are also known as shareholder directors, proprietary directors, dominical directors, or non-independent directors.
- Independent External Directors: are those people with renowned professional prestige who can contribute with their experience and knowledge. Their relationship with the company, its shareholders, other Directors and members of upper management is limited exclusively to the condition of being members of the Board of Directors.
- External Directors: are those people who, due to their personal circumstances or those of the company, cannot be qualified as Internal or Executive, nor as Proprietary or Independent.

With respect to the distribution of internal and external directors, the company shall ensure that in the process of appointing them, the external directors represent a majority over the internal ones. Likewise, an attempt will be made to ensure that all the Directors that the Board is composed of represent a relevant percentage of the capital stock through the presence of external proprietary directors. This does not invalidate the decision of those shareholders who agree to establish a Board of Directors with a majority of independent external directors as a good practice, if they believe that this is the best way to defend the corporate interest.

Note that a Board with many independents is not necessarily more representative than one with a majority of proprietary directors. In any case, the important thing is that a supportive relationship is established between the Board of Directors and the General Assembly of Shareholders and that this relationship is known to the relevant stakeholders. Based on this, corrective mechanisms can be created to allow the presence of independent directors, whose function is precisely to ensure that the interests of the majority shareholders are not confused with the interests of the company.

ii. Regarding the profiles of Directors

The formation of an effective Board of Directors, which generates sustainable value for the company and makes decisions based on technical and objective criteria that meet the needs and realities of the organization, depends on the company identifying the profiles and personal and professional suitability requirements it needs for its highest management body.

The professional experience and personal skills required for the Board of Directors need not necessarily coincide in all Directors. The purpose of defining profiles is to avoid an excessively homogeneous group and rather to ensure that the Board as a whole meets the conditions of suitability and diversity of experience and skills based on the needs of the company so as to provide maximum value at all times.

In any case, the proper exercise of the duties assigned to the Board of Directors requires that its members meet three fundamental characteristics: ability, commitment, and dedication.

While the commitment and dedication of Board members are aspects related to their performance in carrying out their duties, ability is directly linked to the Director's personal and professional profile. Therefore, in order to appoint capable Directors, a set of requirements must be established. These requirements should be included in the company's Bylaws and the Board of Director regulations in order to determine the eligibility criteria to be considered formally. Among these, in addition to qualifications, experience, and professional prestige, other no less important requirements must be met.

In this respect, when the requirements to be a member of the Board of Directors are defined, it is advisable to, at least, consider the following criteria:[18]

I. Ability: Competence that enables them to carry out their duties diligently. This includes qualifications, professional prestige and reputation, experience, and proven honesty.
II. Commitment to their work and aligning their performance with the company's interests.
III. Dedication and availability of time to meet their responsibilities as Directors. The quality of Director implies having sufficient time available to not only attend the meetings, but also review the information associated with the agenda of the sessions, in order to ensure that the decision-making process is of high quality and informed. To this end, candidates for board membership should not belong to more than 3 Boards of Directors[19] when serving as CEO in another company or no more than 5 Boards of Directors if they do not hold this executive position.
IV. Age to be appointed Director. The purpose of considering age criteria for membership on the Board of Directors is not to establish rigid rules in this regard. The recommended approach is for the Board of Directors to achieve a suitable balance of ages that will enable the confluence of experience and knowledge with a focus on innovation. Thus, the decision-making process is enriched by a diversity of visions, experiences, and backgrounds.
V. Have cross-disciplinary skills that contribute to the positive dynamics of the Board of Directors. Directors should have the skills that will enable them to be part of a collegial decision-making process. This implies a willingness to learn, to adapt, to be assertive, curious, and practical, along with other capabilities.
VI. The existence of potential conflicts of interest that may affect the Director's objective judgment in the performance of his duties. This may relate to events in which the Director, alone or through an intermediary, holds positions or is a representative of companies that are regular customers or suppliers of goods and services to the company, and where that business relationship is material to the customer or supplier. It may also occur in cases in which he/she acts as a director or advisor of competing companies or in companies that hold a position of dominance or control in competing companies.
VII. Not be involved directly or indirectly in a judicial proceeding that could, in the opinion of the Board, jeopardize the reputation of the company in the future.

The makeup of the Board of Directors should not be solely the result of a balance of skills and talents. These collegial bodies should be built on criteria of diversity, equity, and inclusion that enrich the decision-making process with varied visions and take the expectations of the company's different stakeholders into account. It should be recognized that diversity includes multiple dimensions as well as professional elements (academic specialization and professional experience) which may include personal factors: age, experience, gender, ethnicity and culture, nationality, or geographic location. Therefore, it is up to each company to determine the best composition of its highest management body and to reasonably ensure that the principles of suitability and diversity are respected.

18. To be considered an independent director, additional requirements are detailed in Guideline 10 of this pillar.

19. Therefore, the Boards of Directors of investee companies (subsidiaries or affiliates) should not be counted. However, this limit does include the Boards of Directors of non-profit entities.

iii. Regarding the turnover of the Board of Directors

For the Boards of Directors, preserving corporate memory and continuity in the decision-making process is essential to the soundness of the corporate governance system. However, it is equally important to ensure an orderly process of staggered turnover at the Board level, so that the changing needs of the collegial body as well as those of the company itself can be effectively addressed and tackled.

Therefore, companies need to carry out periodic evaluations[20] of their Boards of Directors in order to identify, in a timely manner, their requirements in terms of profiles, visions, experiences, and skills so as to contribute to the growth and sustainability of the company. Likewise, Board turnover processes should allow for an appropriate balance between longer-term Directors and those of medium or short tenure.

Guideline 10: Minimum Number of Independent Directors and Definition of Independence

The Board of Directors should have a number of independent members corresponding to the size and needs of the board so as to ensure decision-making processes with sufficient objectivity to ensure the best interests of the company.

As mentioned above (see Guideline 9 of this pillar), the makeup of a company's Board of Directors must maintain a suitable balance between shareholder representation and the incorporation of members with objective criteria who provide specific knowledge and a diverse point of view that considers the best interests of the company and the positions of its stakeholders. To this end, the company's Board of Directors must have independent members who contribute to this objective.

In the case of listed companies, it is advisable to consider the free floating capital criterion for determining the number of independent outside directors, so that the percentage of free float corresponds as closely as possible to the percentage of independent outside directors on the Board of Directors.

Independent directors do not have this status solely because they do not have material ties to the company, its shareholders, or managers. They also bring knowledge, experience, and specific personal skills to the decision-making process in terms of the company's actual situation and needs. To this end, the position of independent directors must combine the qualities of impartiality and objectivity of criteria, good name, trajectory, knowledge, and cross-disciplinary skills that contribute to good dynamics of the Board of Directors. Likewise, the director must have sufficient recognition and ascendancy within the collegial body such that he/she has the authority to express his/her disagreement, especially with respect to any proposal of the Chairman of the Board or the proprietary directors.

In particular, the presence of independent directors is especially advisable for closely-held, family-owned, or smaller companies. This is because they not only provide knowledge and objectivity, but also contribute with potential contacts, an outside view, and can act as a possible counterweight to the majority shareholder as well as challenge management to reinforce the decision making process. The appointment of independent outside directors is normally the result of a governance decision by the shareholders who consider it advisable to include people with different approaches and more distant from shareholder ownership on the Board of Directors.

20. See Guideline 19 of this pillar.

The personal and professional profile of independent directors should inspire a presumption of confidence in shareholders and third parties regarding their independence.

Likewise, it should be understood that an independent director is the one that has the ability to say "no" to a proposal made by the Chairman of the Board and/or the Proprietary Directors as a whole: The greater this ability, the greater the degree of independence and this prevents the fear of disagreement from prevailing over the Board of Directors' desire for transparency. It does not prevent managers from being aware of the responsibilities they assume when they take their positions and do their jobs and whose non-compliance with the most advanced laws falls within the scope of criminal liability.

To be effective independent directors who serve as a counterweight on the Board of Directors, it is necessary to have a broad field of professional activity and, in economic terms, to not be economically dependent on the Board of Directors, through the remuneration received for being a member of it.

Like any other director, their mission is to look after the general interests of the company, but to also ensure that the positions of minority shareholders and the company's various stakeholders are taken into account in the decision-making process. They must also make sure that the company is managed in such a way that the interests of the proprietary directors are not confused with those of the company.

It is the responsibility of the appointments and remuneration committee (see Guideline 12 of this pillar), when it exists, or failing that, of the Board of Directors to assess the independence of a candidate for independent director. These bodies may believe that the candidate or the Director meets the formal requirements, but does not due to specific circumstances with respect to the person or the company.[21]

The Bylaws should establish the criteria for being independent directors. They should include considering negative conditions associated with not having direct or indirect links with the company or other relevant stakeholders, and positive conditions associated with requirements of knowledge, skills, and personal qualities.

Among the qualities that it is advisable to take into account to be considered an independent director are:

i. Not having material links to voting shares, either directly or indirectly, that represent at least 2% of the total of that class of shares of the company or its affiliates.
ii. Not be or have been a Director or employee of the company or of another company in the same business group unless 3 years have elapsed since the termination of said relationship.
iii. Not having or not having had a commercial or contractual business relationship, directly or indirectly, in the last 5 years that is significant in nature with the company or any other company in the same group, their executives, proprietary directors, or with any other company in the same business group whose shareholding interests in the company represent the latter either in their own name or as a shareholder, director or senior executive of an entity that maintains or has maintained such a relationship.
iv. Not have a significant employment or contractual or commercial business relationship[22] with a shareholder of the company who has a share ownership equal to or greater than 5% of the capital stock or of any company related to it.

21. It is not advisable for independent directors to be elected separately by the minority shareholders since they are not strictly speaking representatives of the minorities. However, management cannot put up barriers to the possibility of minority shareholders grouping together.

22. Business relationships are considered to be those of a supplier of goods or services including the cost of financial services, and work as an advisor or consultant. The business relationship shall be presumed to be significant when invoices or payments for values of more than 1% of the annual income of either party have been exchanged.

v. Not have any close family relationship[23] with significant shareholders, the proprietary directors, or the company's upper management team.

vi. Not be a director or member of upper management of another company in which any director or member of the upper management of the company is an external director.

vii. Not have been an employee or member of the upper management team of a company or companies in the same business group, or of companies that are shareholders of the company in the last 5 years.

viii. Not receive from the company or from any other company in the same group any amount or benefit for any reason other than the remuneration of a director unless it is insignificant.[24]

ix. Not have been a partner or employee of the external auditor or of the auditor of any company in the same group during the past three years.

x. Not be a shareholder, director, or member of upper management of an entity or institution that receives or has received significant donations from the company or from any other company in the same group during the last three years. Those who are mere employers of a foundation receiving donations shall not be considered included in this point.

xi. Not have more than 8 continuous or alternating years as an independent director of the company during the last 15 years.[25]

xii. Have a professional and personal profile that contributes with specific knowledge and personal qualities that ensure an objective and independent criterion as well as having cross-disciplinary skills that facilitate the good dynamics and effectiveness of the Board of Directors.

If an independent director presents any circumstance that affects his or her independent status, this shall not be grounds for his or her dismissal. He will simply lose such status and will be considered an outside director. In any case, it is important for the appointments and remuneration committee, where it exists, to be the body responsible for assessing the situation and incorporating it in the company's Annual Corporate Governance Report (see Guideline 50 of the Transparency and Disclosure of Financial and Non-Financial Information pillar) or, failing that, in the annual report.

Directors' Statement of Independence.

The selection process must be supplemented by a double obligation:

- an active obligation of the candidate to declare publicly and explicitly that he/she is independent both with respect to the company itself and with respect to its shareholders and directors. The candidate also has an express duty to state any factor or fact that, in the eyes of a third party, could call into question such independence.
- The Board itself must declare that they consider the candidate to be independent based on his own declaration and any additional inquiries the Board may have made.

Guideline 11: Director Appointment Process

The company must have a procedure approved by the General Assembly of Shareholders that defines the rules and requirements for the appointment and removal of directors. This process must consider guidelines for the nomination, verification of qualifications, and election of those who aspire to be part of the collegial body.

23. A close family relationship is understood to exist in the case of a spouse or persons with a similar emotional relationship, ancestors, descendants, and siblings of the manager or of the manager's spouse and spouses of the ancestors, the descendants, and the siblings of the manager.

24. Pension benefits received by the director due to his or her previous professional or employment relationship shall not be considered in this item provided that such benefits are unconditional and, consequently, company pays them may not, at its discretion, suspend, modify, or revoke their payment without breach of contract.

25. An independent director may be re-elected, although the appointments and remuneration committee, or in the absence thereof, the Board of Directors itself, shall give special consideration to the length of time in office and the concurrence at the time of re-election of the independent status of the director.

The General Assembly of Shareholders has the sovereign and non-delegable power to elect the Directors. Nevertheless, the company must have mechanisms in place to ensure the appointment of directors with the best qualities for the company's needs. Therefore, the company must define a process for the election of directors that considers technical, professional, and diversity criteria.

It should be the responsibility of the Board of Directors itself to ensure that this procedure is as formal and transparent as possible, and there should be no intervention by the internal directors.

The procedure adopted by the company must include the following phases:

i. Identifying the Board of Directors' needs: The purpose of this step is to establish the set of profiles and suitability requirements that, under any circumstances, are advisable for the Board of Directors, so that they can be communicated to the shareholders with the capacity to nominate candidates for the position of Director.

   Within the company's corporate governance model, it is the Board itself, because of its knowledge about its dynamics and the conclusions of the annual evaluations, who may have the best information and be in a better position to make recommendations to shareholders about their needs and the appropriate mix of members that will enable the Board to identify strategic risks and take on the challenges that need to be addressed while fulfilling the responsibilities assigned to it. This means being able to identify and evaluate the profiles needed to face such challenges as a balanced collegial body. To this end, the inclusion of members with new specific knowledge, innovative visions, cross-disciplinary skills or qualities of diversity that contribute to joint decision-making processes and that have the ability to generate sustainable value for the company should be considered.

ii. Search for and nomination of candidates: This stage should make it possible to nominate candidates to be elected as members of the Board of Directors based on clear rules and through an orderly procedure. When nominating candidates, the profiles identified in the first phase of the process must be taken into account. In the process adopted by the company, sufficient time should be allowed before the General Assembly of Shareholders so that shareholders may nominate candidates, and there is sufficient opportunity to verify compliance with the profiles.

   At this point it should be noted that a shareholder who insists on nominating candidates for Director directly at the General Assembly of Shareholders would be acting legitimately, but in practice is acting as an outsider compared to the rest of the shareholders who have agreed to follow a coordinated and transparent process in which the evaluation of the candidates is a key aspect.

   The following mechanisms can contribute to the implementation of this step in the process:

   - Databases of directors: developing databases of directors to keep candidates up to date and considered as potentially eligible candidates is a possible source of candidates.
   - Networking with Board members or shareholders: networks are a real source of potential candidates.

- Support from specialized firms: these include headhunting firms that specialize in identifying and selecting Board members and who, because of their knowledge of the market, are able to present a wider range of candidates than through mere networking per se.

iii. Evaluation of the candidates: This phase of the process makes it possible, through a process of verifying the candidates' compliance with the requirements, to determine their suitability for the needs of the Board of Directors and the conditions previously defined by the company. The positive evaluation of the criteria and the fulfillment of the requirements to become a Director shall determine the candidate's suitability.

In the case of candidates for independent outside director, this phase involves verification of compliance with the requirements for said position.

To this end, and in particular for listed companies, it is advisable for the candidate to sign a declaration in which he/she declares his/her independence and undertakes to indicate any factor or supervening event that could jeopardize his/her independence.

Once the candidate's qualifications have been verified, the Board itself must declare that they consider the candidate to be independent based on his own declaration and any additional inquiries the Board may have made.

Likewise, at this stage, the statements that the candidates nominated are not in situations that disqualify them or make them incompatible with their duties as Director must be verified. Finally, in the case of re-election of Directors, the appointment process adopted by the company must provide that the results of the annual evaluations of the Board of Directors and its members individually considered that were carried out during the previous period be taken into account at this stage of evaluation.

The evaluation of the candidates should be done prior to the General Assembly, so that the shareholders have sufficient information in advance about the candidates proposed to serve on the Board of Directors.

Note that the Board of Directors is the most appropriate body to verify the candidates' compliance with the requirements, since it is the only body in the company with sufficient resources to fulfill this purpose. In the case of Boards of Directors that have an appointments and remuneration committee, the latter may support the Board in the evaluation process. It is also possible to draw on resources outside the company such as the opinion of a firm specializing in personnel selection (headhunter). In any case, the committee or the Board of Directors, as the case may be, must submit a recommendation with the results of the evaluation that must be made known to the shareholders prior to the Assembly of Shareholders or during the meeting.[26]

Nevertheless, the combination of the options for proposing candidates for director, and the different voting mechanisms (electoral quotient, cumulative vote, simple majority, minority appointments, closed lists, individual election, co-optation, etc.) in effect in nationally passed legislation for electing them, may have a direct and

26. This model, known as board-driven in contrast to the so-called shareholder-driven one, does not attempt to and cannot suppress the inviolable right of the shareholders to elect the members of the Board of Directors at the Assembly. However, in this model, the Board of Directors itself assumes certain preliminary tasks for the execution of which it has resources and knowledge that are not available to the shareholders.

substantial influence on both the final qualitative composition of the Boards, and the body or entity that may be competent to evaluate the suitability of the candidates proposed for director.

iv. Election of directors: This is the final phase of the process of forming the Board of Directors and takes place during the Assembly of Shareholders. Ideally, the candidates presented to the General Assembly of Shareholders for election should have been evaluated previously on their compliance with the suitability requirements defined by the company.

In this respect, the proposal and appointment of the members of the Board of Directors must be subject to a formal and transparent procedure, with a justified proposal from an appointments and remuneration committee if it exists, or from the Board of Directors itself if it does not.

There are different voting mechanisms or systems for the election of directors, and some countries in the region have passed legislation making the use of one system or another mandatory. Others, in contrast, leave each company free to apply the one it deems most appropriate. If possible, the best practice is to encourage mechanisms for the individual election of directors. In the case of a closed slate or single list of candidates, a prior consensus of a relevant group of shareholders who represent a very high percentage of the capital is recommended.

Of all the voting mechanisms for the election of directors and for any type of company, the cumulative vote should be chosen, whenever legally possible, since it is technically the fairest when it comes to integrating different opinions into the administrative bodies, and prevents the controlling shareholder, when there is one, from imposing with his/her votes alone the makeup of the entire Board of Directors. It is a system that is fully in force and accepted in several countries where this principle is established given the advantages it offers compared to other existing voting mechanisms.

Guideline 12: Board of Director Committees

The Board of Directors, depending on its size and needs, may set up specialized committees to enable it to carry out its duties better.

The Boards of Directors have a significant number of responsibilities and a limited amount of time to meet them. Therefore, it is a challenge for these collegial bodies to maintain an appropriate focus on the material issues of the company and to address them with a suitable level of time and depth.

Considering the above as well as the size of the Board of Directors in terms of number of members, this management body has the possibility of setting up support committees that specialize in certain material aspects for the company in order to act as study and support bodies that are able to submit proposals to the Board itself and, possibly, to exercise certain duties by delegation. These committees may be temporary or permanent.

In order to ensure the effectiveness of the committees' support, there must be clarity about what is expected from these bodies. This involves defining whether they have decision-making powers or, rather, only analytical powers with a greater level of depth in certain key matters and after which they submit a proposal for subsequent consideration by the Board of Directors who will make the final decision.

Since the committees are specialized in certain key issues, they should be made up of directors with knowledge relevant to the purpose of the respective committee. It is also important that they be composed solely of outside directors with, ideally, a significant participation of independent outside directors. Taking into account the size of the company's Board of Directors, these bodies should have a minimum of 3 members and a maximum of 5.

The appointment of the members of the committees must be the responsibility of the Board of Directors itself that will consider the profiles and specific knowledge with respect to the topics and purpose of each committee.

The committees must have a chairman, who, in addition to establishing the agenda and annual work plan, must serve as a liaison between these bodies and the Board of Directors, and present the reports and recommendations that were the object of study and analysis. Ideally, the committees should designate an independent outside director as chairman, who also has the necessary knowledge to spearhead the issue in question.

Likewise, it is important that the Board of Directors and the committees adopt an interaction model that optimizes the work of these bodies. Ideally, the chairman of the committee should be responsible for providing the Board of Directors with reports on the committee's work as well as a brief summary of the analysis and conclusions reached by the committee.[27] At this point, it is important to emphasize that an appropriate model of interaction between the committees and the Board of Directors is fundamental. This is to ensure that committee conversations are not repeated at meetings of the highest management body since, in such a case, the committees lose their meaning and purpose, and the dynamics and effectiveness of the Board's actions are affected.

Committees should have internal regulations, approved by the Board of Directors, that define the guidelines for their operation, composition, and the expected performance of their members. These regulations should include at least the following elements:

- Membership of the Committee.
- Members' area of expertise.
- Specific roles.
- Minimum frequency of sessions.
- Reporting lines to the Board of Directors and communication arrangements with upper management. Ideally, the committees should keep the Board of Directors informed about the progress of their work. To this end, it is important to define the procedures and information that the committee chairmen must provide to the Board of Directors.
- This aspect may be coordinated with the preparation of the annual work agenda in order to ensure suitable times for the committee chairmen to present their reports.
- Appointment and dismissal of its members.
- Modification of the Regulations.
- Evaluation of its performance and proposal of improvements.
- Rules for holding in-person and on-line or remote sessions.
- Management of conflicts of interest and confidential information.
- Chairman and Secretary of the committees.
- Annual work schedule.
- Conditions for the compensation of committee members.

27. Based on their frequency and in accordance with the procedures defined in the regulations of the Board of Directors or the committee.

In defining the aforementioned aspects, the corporate governance practices detailed for the Board of Directors administration as a whole must be implemented, so that the committees are fully aligned with the company's current corporate governance approach and operations. It should also be understood that, unless otherwise legally defined, the Board of Directors as a whole is responsible for the decisions made.

The most frequent standing committees are:

i. The audit committee is responsible for overseeing three specific matters: finance, integrity of accounting and financial information, and risks and controls. Their responsibility is to ensure the quality of the company's financial information, that the risk management system is comprehensive and effective, and that the controls developed by the company are effective and provide reasonable security. Due to the importance of this committee within the control architecture, it will be discussed in greater detail under this pillar (see Guideline 43 of the Control Architecture pillar).

ii. The appointments and remuneration committee which supports the Board of Directors in matters related to the appointment, evaluation, and compensation of the members of the Board of Directors and the upper management team. Their main responsibilities include:

- Inform the General Assembly of Shareholders about their actions and the issues raised by the shareholders therein on matters within their purview.
- Propose and periodically evaluate the criteria to be followed for selecting the membership of the Board of Directors and evaluating candidates as well as the suitability requirements to be met by the members of the Board in order to organize a process of planned succession.
- Report on the suitability of candidates for Board membership to be proposed to the General Assembly of Shareholders by the Board of Directors or directly by the shareholders. In the cases of re-election or ratification of directors, the committee shall make a proposal containing an evaluation of the work and effective commitment to their position during the latest period of time in which the proposed director has held the position.
- Inform the Board in those cases where directors may adversely affect the work of the Board or the credit and reputation of the company and, particularly, when they are involved in any case of incompatibility or prohibition provided by law.
- Identify the succession risks of the upper management team and define strategies to mitigate them.
- Propose the appointment and removal of the Chief Executive Officer of the company and evaluate the candidates to occupy said position.
- Define and organize a planned succession or replacement procedure in the event of dismissal, announcement of resignation or retirement, incapacity, or death of the Chief Executive Officer of the company, other upper management positions, and key executives of the company and submit the proposal to the Board of Directors.
- Propose and periodically monitor compliance with the directors' remuneration policy –that should be approved by the assembly– and the remuneration policy for upper management to the Board of Directors. Likewise, propose the individual amount of the directors’ compensation including for the

Chairman of the Board and the internal directors, if any, for the discharge of duties other than those of the Board and other conditions of their contracts to the Board.
- Prepare the annual report on the remuneration policy for directors and the remuneration policy for upper management.
- Review/Revise a human resources policy for the company.

Given its duties, it is advisable to have this committee headed by an independent director.

iii. Corporate governance committee: Their main task is to assist the Board of Directors in their duty to propose and supervise the corporate governance measures adopted by the organization since they are responsible for aspects such as:

- Ensuring that shareholders, investors, and stakeholders have full, truthful, and timely access to company information that should be disclosed.
- Review and propose that the Annual Corporate Governance Report be included on the website with the approval of the Board of Directors along with any other corporate governance information that the Board must communicate or include in the company's public documentation.
- Oversee compliance with the requirements and procedures for the election of Board members by the appointments and remuneration committee.
- Define the systems for monitoring the company's corporate governance practices included in the Bylaws or internal regulations and consider the commitments assumed in relation to each of the stakeholders, the results obtained, and the conflicts that have arisen.
- Propose a corporate governance structure for the company and evaluate and inform the Board about the degree of compliance with corporate governance practices and suggest adjustments and reforms that are deemed necessary for its reinforcement.
- Monitor the alignment of the company's corporate governance practices with applicable laws and regulations, with the corporate governance rules approved by the supervisory bodies, and the corporate governance regulations in general applicable to the company.
- Coordinate the induction process of the new members to the Board of Directors with the Secretary of the Board or the unit responsible and encourage their training and updating in areas related to their skills.
- Study the proposals for reforming the Bylaws or internal regulations that relate to the company's governance practices and present the modifications, updates, and repeals of the provisions they deem necessary.
- Ensure that the Board of Directors carries out performance evaluation processes at the intervals established in the corporate documents.
- Act as support for the Chairman of the Board of Directors in the annual evaluation process of the collegial body itself.
- Support the Board of Directors in the study and analysis of events that generate conflicts of interest that are within the jurisdiction of the collegial body.

Depending on the specific needs and reality of the company, the following committees may also be structured:

i. Strategy Committee: while recognizing that the Board of Directors is directly responsible for defining and monitoring the company's strategic orientation, some particular situations may require the creation of a strategy

committee to support the Board in implementing a new strategy, or developing new products and services as a result of the organization's innovation dynamics. This body could also support the Board of Directors in the periodic monitoring of corporate strategy in order to identify opportunities or strategic challenges for the company in a timely manner and make the necessary decisions.
It is advisable for the Chief Executive Officer to attend strategy committee meetings as a permanent guest as well as members of upper management when the committee deems that their presence is necessary to enrich the discussion and decision making process of the members of this body.

ii. Innovation and technology committee: Said committee can advise on the management of risks linked to technology and cybersecurity, on the impact of digitalization on the company and its business model, on the fostering of innovation as well as on the design and implementation of a data management governance model.

iii. Sustainability committee: the Board's responsibilities regarding environmental, social, and governance issues may be assigned to a committee specifically created for this purpose (see Guideline 27 of the Corporate Sustainability pillar).

iv. The risk committee, apart from the audit committee in the case of financial institutions or complex organizations that require this, is responsible for supporting the Board of Directors in the exercise of its duty to supervise the effectiveness of the company's comprehensive risk management system (see Guideline 44 of the Control Architecture pillar).

In the event that any of the aforementioned committees are not created, their tasks shall be carried out by the Board of Directors as a whole.

The establishment of additional committees is at the discretion of the Board of Directors and should be flexible based on the needs of the company and the strategic timing.

Guideline 13: Responsibilities of the Board of Directors

The Bylaws and/or the rules of the Board of Directors should expressly state the duties and responsibilities of the Board.

The Board of Directors is the highest management body of the company and is responsible for providing strategic and business direction, controlling the performance and upper management team, overseeing the fulfillment of the corporate purpose, and the governance of the company. To this end, the Bylaws should clearly define the mission of the Board of Directors and those responsibilities that cannot be delegated.

In particular, the strategic definition of the company, which is a responsibility par excellence of the Board of Directors, should be one of those duties that should not be delegated to any other governing body in the organization. Nor can the Board of Directors ignore the supervision of a series of matters that, if not properly managed, could have a negative impact on the company as a whole. These aspects are associated with the control architecture, conflicts of interest, operations with related parties, guidelines for the appointment, removal, evaluation, and monitoring of upper management, and leadership in ethical business culture.

Finally, the Board of Directors, as the liaison body between the ownership, represented by the shareholders, and the ordinary management, in the figure of the Chief Executive Officer, must take the lead in developing and implementing a governance model that is appropriate to the nature and characteristics of the company.

The model should be structured in the form of checks and balances between the three levels of ownership, board, and management, thus facilitating the alignment of interests among the various stakeholders. This should undoubtedly strengthen the company's reliability and, ultimately, the generation of shareholder value.

Based on the foregoing, the Bylaws and the Board of Directors regulations must establish at least the following responsibilities that cannot be delegated:

i. The approval, and when appropriate, the proposal to the General Assembly of Shareholders of the company's general policies.
ii. The definition, approval, and follow-up of a strategic plan for the company.
iii. The definition and periodic follow-up on management objectives and the company's annual financial budgets.
iv. The definition of risk management policies including risk appetite and risk map (to monitor strategic, financial, operational, and compliance risks, which are the most relevant). In addition to the definition of guidelines for the company's risk culture.
v. The approval of material investments or divestments that jeopardize the disposition of the company's strategic assets.
vi. The determination of the relationship and communication strategy with the company's different stakeholders.
vii. The definition of the organization's corporate governance model and the supervision of the practices implemented.
viii. Leadership of the climate and ethical and behavioral tone of the entire organization.
ix. Monitoring the process, which should always be formal and transparent, for the nomination and election of Directors.
x. The appointment, compensation, evaluation, and termination of the Chief Executive Officer.
xi. Determining the criteria and general policy for compensating and evaluating the upper management team.
xii. Succession risk management of the Board of Directors, the Chief Executive Officer and the entire management team.
xiii. Approval and monitoring of the conflict of interest policy.
xiv. The definition of guidelines with respect to the company's control environment and ensuring the integrity and reliability of the accounting and internal information systems.
xv. Defining and monitoring compliance with the corporate purpose as well as the company's sustainability strategies (environmental, social and governance issues - ESG and climate change). The definition of the risk appetite and the monitoring of the risks identified on these fronts also.
xvi. Serve as a liaison between the company and the shareholders.
xvii. Propose the policy for the repurchase of the company's own shares or treasury stock.

A company's Board of Directors plays an essential role in defining and monitoring the organization's ethical and integrity culture since the latter includes the principles and values that guide the behavior of employees, collaborators, and managers.

To this end, the collegial body must be ultimately responsible for ensuring that strategic planning incorporates the definitions adopted by the company in matters of ethics and integrity as well as for approving the risk appetite in these matters.

Likewise, the Board of Directors must lead in fulfilling the company's ethical and integrity objectives and commitments. To do that, they must ensure that they are properly and timely informed about the company's level of compliance on these fronts. To this end, they must receive periodic reports from upper management and ensure that there is effective risk assessment in these areas, including at the level of the Board's committees.

To fulfill this task, the Board of Directors must have an appropriate level of expertise in ethics and integrity management as well as receive regular training on these issues.

All the aforementioned responsibilities can be included both in the Bylaws and in the Board's operating regulations. Therefore, there is clarity on the Board's scope of action and their effectiveness in fulfilling its responsibilities can be monitored.

Guideline 14: Rules of the Board of Directors

The Board of Directors must have a regulation that sets out the rules for their operations and the performance expectations of the Directors that must be binding on the members of the Board.

The effectiveness of the Board of Directors depends on the clarity of its operating rules as well as on the performance expectations of its members. Under this criterion, common understandings and agreements are sought to facilitate the dynamics of the collegial body. Therefore, it is important for the Board of Directors to have an operating regulation (see model in Appendix 5) that regulates and coordinates the operating conditions of the collegial body. The regulations should establish the guidelines associated with its duties and responsibilities, procedures for the appointment of its members, categories and requirements to be a director as well as for holding meetings, their frequency, rules for convening meetings, conditions for providing information, handling confidential information, roles of the main stakeholders, management of conflicts of interest, rights and duties of the directors, conditions for termination, etc. These regulations must be approved by the Board of Directors itself and be made public in order to make non-compliance with them difficult.

i. Duties and responsibilities

The regulations should include a reference to the duties and responsibilities of the Board of Directors in line with the provisions in the company's Bylaws. (See Guideline 13 of this pillar)

ii. Appointment

The General Assembly of Shareholders is sovereign in the election of Directors. This power to elect the Board of Directors is exclusive and may not be delegated. Nonetheless, as described in detail in Guideline 11 of this pillar, it is good practice for the company to establish a procedure for the selection of Board members in its internal rules.

iii. Categories and requirements to become a director.

As detailed in Guideline 9 of this pillar, in order to represent the ownership structure of the company, the Board of

Directors should have different categories of members each of which will represent a different view based on the origin of their appointment. Likewise, the requirements that must be met in order to be eligible for election as a Director must be established by Bylaws for those of a general nature, and by regulations for those of a more specific nature.

iv. Meetings of the Board of Directors - frequency

The Board of Directors' rules of procedure shall establish the frequency of the regular meetings of the Board during the year. Regarding what the most appropriate number of meetings per year is, it is difficult to recommend a specific number since this depends on multiple factors such as the complexity of the issues, the situation of the company, its regional presence, structure of the Board, and other variables that must be considered when preparing the work plan.

For publicly listed companies and financial entities, the most reasonable number of meetings should be between 8 and 12 meetings per year while for closed companies that are not overly complex, this figure could range from 6 to 10 meetings per year. For all types of companies, an exclusively strategic, growth, and innovation focus is advisable for 1 or 2 meetings per year. If the need is identified, these two sessions may be supplemented by up to two more meetings for follow-up or specific analysis of prospects and compliance with the plans drawn up by the company. The Board of Directors may meet in extraordinary session as often as necessary.

Although the traditional model for Board meetings has been in-person, there is a growing tendency currently on the part of companies to adopt virtual or on-line meeting models. This has been an option that, although it is an opportunity for Boards of Directors to gain in precision and efficiency as well as the chance to enable greater possibilities of attracting Directors with international knowledge and experience, it also entails a series of challenges that need to be effectively addressed by the companies. The first of these is associated with the challenges of interaction between the Directors themselves since communication via virtual platforms undoubtedly generates a different dynamic than in-person sessions do. Therefore, if companies adopt a hybrid system of in-person and remote meetings, they are advised to identify which topics require the physical attendance of all the Directors, and which matters can be addressed through virtual meetings for the sake of efficiency in decision-making.

Furthermore, companies must implement digital tools that make efficient and secure information management possible and enable them to generate value in the management decision making process. It is necessary to identify and effectively manage the risks in this area of information security while at the same time creating conditions of accessibility for collectively building conversations at the Board level that will lead to strengthening the quality of its decisions.

Likewise, the platforms and channels for connection must be sufficiently robust to allow for stable communication and ensure effective participation for all meeting attendees. It is also important that the platforms adopted by the companies allow meetings and deliberations to be recorded.

Protocols should also be adopted to organize the meetings, facilitate and encourage the participation of the attendees, establish clear rules for voting, and define the scope of the moderators' role in order to ensure an effective decision-making process.

Finally, the directors themselves have an important role to play in encouraging a culture that recognizes that the adoption of virtual mechanisms for holding Board meetings is already a recurring practice, and as such should be adopted for the greater effectiveness of the Board of Directors.

v. Roles of key stakeholders

a. Regarding the Chairman of the Board of Directors

The role of the Chairman of the Board consists of different dimensions: the chairman is responsible for moderating the meetings, serves as an internal facilitator for the group of Directors, ensures that the focus of the discussions is on matters of importance to the company, and ensures that the agendas of the collegial body are properly planned. This is why the appointment of the Chairman should not be based on factors such as age, percentage of shares held or length of service on the Board of Directors. It is important to consider the ascendancy that the Chairman has over the other members of the collegial body.

The Chairman of the Board of Directors is the most relevant figure within the collegial body, since he is the person who facilitates an effective and valuable interaction among the members of the Board for collectively making decisions, and not a member who leads the conversations towards what he considers should be the result of the decision-making process.

Considering the dominance of the Chairman of the Board in the dynamics of this governance body, it is important that certain measures be adopted to limit an excessive concentration of roles and potential conflicts of interest.

It is therefore recommended that the Chairman of the Board of Directors be elected from among the independent outside members and that this role should not be shared at the same time with the Chief Executive Officer of the company.

In cases where the role of the Chief Executive cannot be separated from that of the Chairman of the Board, the necessary counterbalances of power must be established. This could be, for example, through mechanisms such as the position of a Vice-Chairman of the Board of Directors, detailed later in this same guideline.

The responsibilities of the Chairman of the Board of Directors must be expressly set forth in the Board regulations and even in the Bylaws, among which are the following:

a. Ensure that the Board of Directors efficiently sets and implements the strategic direction of the company.
b. Act as liaison between the shareholders and the Board of Directors.
c. Coordinate and plan the work of the Board of Directors by means of actions such as: establishing an annual work plan based on assigned duties; the convening of meetings; preparing the order of business for the meetings (in coordination with the Chief Executive Officer, the Secretary of the Board of Directors and the other Directors); ensuring the timely delivery of information to the Directors; chairing the meetings and managing the discussions; enforcing the resolutions of the Board of Directors; and following up on assignments from the Board of Directors are among the main ones.

d. Monitor the contribution of the directors and the annual evaluation of the Board of Directors and the committees.
e. Exercise a certain degree of institutional representation in coordination with the Chief Executive.
f. Moderate and lead the discussions at the meetings and ensure that the conversations are participatory and not only informative, that they focus on material issues for the company and that the contributions of the Directors keep a balance of timeliness, precision, and input while promoting deliberation when necessary.
g. Have the power to entrust certain members of the Board of Directors with the performance of certain tasks.

In short, an important part of the good or poor functioning of a Board of Directors can be attributed to its Chairman. The interpersonal management as well as the knowledge and follow-up of the business must be such that it is possible to extract from the members of the Board their maximum capabilities for the proper fulfillment of the Board's duties.

Moreover, in view of his special responsibilities, the Chairman of the Board should be treated differently from the other directors, in terms of both his commitment and dedication as well as his remuneration.

Although the Chairman of the Board of Directors should not have a casting vote, the Bylaws may provide that he could have such a vote in very exceptional situations, provided that the laws in force do not prevent it, arising from the existence of vacancies on the Board where the number of members is even and it is not possible to adopt resolutions.

However, experience shows that, in most cases, if a decision requires a casting vote to be adopted, it is usually more appropriate, when possible, to postpone the decision to a later meeting in order to obtain more information and to be able to adopt the decision without the need to make use of the casting vote.

b. Regarding the Vice-chairman of the Board of Directors

Succession risks, at the level of the chairman of the Board of Directors, must be properly managed. That is why, in the event of temporary or permanent absence, it is important for the Board of Directors to have a Vice-Chairman to replace the Chairman in his functions.

As in the case of the Chairman of the Board of Directors, it is advisable for the Vice Chairman to be elected from among the independent members of the Board and the Bylaws should establish his duties as well as the cases in which he is to replace the Chairman.

If the Chairman of the Board is an executive member, the Vice-Chairman should have some additional powers such as the ability to convene the Board of Directors, on his own initiative, sign the notice of the General Assembly of Shareholders, hold meetings with the independent directors and take the lead in the evaluation of the Chairman of the Board of Directors.

c. Regarding the Secretary of the Board of Directors

The Secretary of the Board of Directors is considered to be the unit (or person) that mainly provides operational support for the Board of Directors to carry out its duties and activities. Although, in the region, this has traditionally been a role that has been mainly associated with the drafting and keeping of minutes, in reality this is a key player in the efficiency of the Board of Directors' performance. In addition to supporting the Board of Directors in the fulfillment of its responsibilities, the Secretary ensures that the Board's decisions comply with the formal and material laws applicable to the company.

Therefore, it is advisable to undertake an internal reinforcement of the position of the Secretary of the Board of Directors. In this regard, the Bylaws as well as the rules and regulations of the Board of Directors must include the rules for appointment as well as their duties and responsibilities. Among these, it would be advisable to incorporate the ones listed below:

- Collect and organize documentation and information for Board meetings, and in general serve as a liaison between upper management and the Board of Directors, by facilitating the flow of information to the Board and ensuring that the information made available to the directors complies with appropriate standards of quality, timeliness, and sufficiency.
- Support the Chairman of the Board of Directors in structuring the annual work plan of the Board and the orders of business for the meetings of the Board.
- Preserve the documents of the company, duly record the progress of the sessions in the minutes, and attest to the agreements between the corporate divisions.
- Verify the statutory regularity of the actions of the Board of Directors, the compliance with the regulations issued by the regulatory bodies, and the consideration, if applicable, of their recommendations.
- Ensure the formal and material legality of the actions carried out by the Board of Directors and the adherence to the principles, procedures, and rules of corporate governance adopted by the company.
- Provide the Board of Directors with assistance on issues related to corporate governance.
- Coordinate the topics discussed and agreements reached with the Secretaries of the Board committees (if any).
- Lead and oversee the proper application of corporate governance practices and in many cases the main responsible guarantor of the organization's corporate governance.
- Follow up on the decisions and mandates of the Board of Directors.
- Provide information to outside third parties and groups of interest commissioned by the Board of Directors.
- Organize the induction process for new directors.

In order to ensure the proper fulfillment of his/her responsibilities, the Secretary of the Board of Directors should enjoy a certain degree of autonomy in his/her role. To this end, their functional reporting line should be directly to the Board of Directors, and their appointment, evaluation, and dismissal should also correspond to this collegial body, and their profile should include legal knowledge, without this meaning that they should be career lawyers.

The Board of Directors may appoint a Vice-Secretary to assist the Secretary and replace him/her in his/her absence.

For an in-depth review of the role and functions of the Secretary of the Board of Directors, see the study "Profile of a Corporate Secretary in Latin America" (CAF 2018).

vi. Notification of meeting and advance notice for the delivery of information

The notice of Board meetings must be accompanied by sufficient documents or information to enable the Directors to make their decisions in a reasoned and justified manner. The regulations should provide for the prior notice to call regular meetings of the Board of Directors and for the corresponding information to be sent. For regular meetings, it is advisable to give at least 5 days' notice, and 3 days' notice for extraordinary meetings.

The Chairman of the Board of Directors must ensure that the Directors receive the information sufficiently in advance and in accordance with the parameters of quality and sufficiency agreed upon with management.

The directors, in turn, must assume the responsibility of studying the documents received well in advance of the meeting on the understanding that the purpose of the Board meeting is to deliberate and make decisions and cannot be seen as a forum for obtaining general information about the company, even including what had been sent previously.

vii. Rights and duties of the Board members

Regarding duties

The regulation of directors' duties (including the duty of diligence and loyalty) is a crucial issue in corporate governance. Nonetheless, the legal development of this matter, in most cases, is far from being exhaustive and specific, and this leaves room for uncertainty as to the scope and effects in the event of non-compliance with these duties.

Therefore, the company is advised to include in its corporate instruments an express and specific definition of the duties of the directors, among which are the following:

1. Duty of diligence: This means that the Director must comply with the duties imposed by law, the company's Bylaws, and other internal regulations, place the company's interests first, and seek to create sustainable value. To this end, all means at their disposal must be made available for the efficient execution of their work.

2. Duty of loyalty: Directors must act in good faith in the interest of the company with the honesty and scrupulousness of a manager of other people's business. They may not use the name of the company or their position to carry out transactions on their own behalf or on behalf of people related to them, nor may they use their powers for purposes other than those for which they have been appointed.

   No director may carry out, for his own benefit or that of people related to him, investments or any transactions linked to the company's assets of which he has become aware in the course of his duties when the transaction has been offered to the company or the company has an interest in it, provided that the company has not expressly rejected the transaction without the influence of the director concerned.

The director may not charge commissions for the conclusion of contracts between the company and its suppliers nor for the provision of the company's services to third parties.

3. Duty of non-competition: This duty has a twofold implication. First, there is the duty to disclose the Director's equity interest in the capital stock of any other company that is competition of the company or the positions the Director holds in that company. Likewise, the Director must state whether he/she is engaged in work similar to the corporate purpose of the company on his/her own account or on behalf of others. Moreover, the Director must not provide services to the competitor for a specific period of time from the moment of termination.

   The limitations on providing services to the competition should not be extended to independent or proprietary directors, who in any case would be subject to the duty of secrecy.

4. Duty of confidentiality: Directors, in the performance of their duties and after leaving office, must keep secret any confidential, data or background information they may have become aware of in the course of their duties. The Director may not use the company's non-public information for private purposes without the prior approval of the Board of Directors.

5. Duty to not use corporate assets: The Director may not use company assets for his personal benefit, nor may he use his position to obtain a proprietary advantage that does not correspond to him by reason of his duties unless he has provided an appropriate service.

Regarding rights

If Directors are assigned duties, the proper exercise of their office also requires that they be granted a set of rights. Among the main ones are:

1. Right to Information: For the proper performance of their duties, the directors may request information regarding the matters to be discussed during the meetings of the Board of Directors sufficiently in advance and appropriately as well as any other information that may be relevant for the proper performance of their duties. In particular, Directors have the right to request:

   (i) Information on any aspect of the company,
   (ii) Examine its books, records, and other relevant documents, and
   (iii) Contact the heads of the various departments and visit the facilities whenever necessary for the performance of their duties.

   Although there is a right to information for Directors, it must be recognized that some matters are subject to special confidentiality. In such cases, the Directors shall be informed of these matters during the Board meetings.

2. The right to have the assistance of experts: The Directors, in the exercise of their duties, should be able to rely on the advice of the company's internal experts as well as to propose hiring external advisors to the Board of Directors to assist them in specific matters on which they must decide. The corporate documents must establish the rules under which the directors may request the hiring of external experts. For example, there will be limitations on

the directors' rights if the Board of Directors itself considers the hiring to be unnecessary, or that its cost is disproportionate, or if said advice could be suitably provided by the company's own experts and technicians.

3. Right to remuneration: Directors must receive a sufficient remuneration in the performance of their duties (see Guideline 17 on Remuneration in this pillar).

4. Right of induction and training; Directors who have just joined a Board of Directors should have the opportunity to bring their knowledge up to par with that of incumbent Directors. Thus, Board members have the right to receive a proper induction on the company's actual situation, its complexity, and key issues so that they can have the deepest possible vision of the company in the shortest possible time and be able to carry out their duties to the best of their abilities.

   The conditions, rules, contents, and people in charge of induction for directors must be included and formalized in the company's documents and policies such that it becomes a systematically applied practice in the company.

   Likewise, the company must have formalized rules regarding the framework within which directors can exercise their right to training and coaching that will enable them to acquire the necessary knowledge to strengthen the managerial decision-making process.

viii. Management of conflicts of interest

Potential conflicts of interest at the Board member level are events that may arise at any time during the discharge of their duties and cannot be avoided. That is why the company must have clear policies regarding their analysis, treatment, disclosure, and follow-up so that these situations are properly managed, thus guaranteeing compliance with them and ensuring that the duty of loyalty and the social interest prevail (on the conflict of interest policy, see Guideline 41 of the Control Architecture pillar).

The rules provided by the company for the management of conflicts of interest at the Board level should identify the nature of such conflicts, i.e., whether they are sporadic or permanent.

If the conflict of interest is sporadic, there should be a mechanism in the internal regulations of the company that indicates the applicable procedure that includes details of the rules and steps to be followed and should be relatively easy to administer and difficult to circumvent.

In the case of permanent conflicts of interest, the procedure must consider this situation a cause for mandatory resignation or, failing that and if possible, a proposed dismissal.

The procedure adopted by the company must establish that in the event of a conflict of interest situation:

a. The Director who is in a potential conflict of interest must inform the appointments and remuneration committee or the Board of Directors regarding the situation.
b. The director must abstain from voting on the matter that is the subject of the potential conflict of interest.
c. If previously identified, information associated with the subject matter of the conflict of interest will not be shared with the director.
d. When the director's conflict of interest arises within the framework of a transaction with a related party, it is

advisable for the company to have, via a related party transaction policy (see Guideline 41 of the Control Architecture pillar), guidelines for classifying a counterparty as a related party.[28]

The relevant conflict of interest situations in which the directors find themselves shall be disclosed in public information on an annual basis.

With respect to financial institutions, due to the possible complexity of their structures, the volume of transactions, and the diversity of financial services offered, situations of conflicts of interest may arise that affect the institution itself, or the relationship between the institution and its customers.

Directors must have continuous training on the rules that the company has adopted regarding conflicts of interest as well as potential situations that may generate them. This will help to generate greater awareness and understanding on the part of the Board of Directors and enable them to manage them effectively and in the best interest of the company.

ix. Removal of Directors

The Board of Directors may not propose dismissal of a director to the General Assembly of Shareholders except on one of the grounds set forth in the Bylaws and after a favorable report on the matter by the Board itself (see details in Guideline 16 of this pillar).

x. Other aspects to be considered in the regulation

In the Board of Directors' regulations, consideration should be given to including rules on aspects such as:

a. Deliberative and decision-making quorum as well as the majorities required for special decisions (e.g., the disposition of certain strategic assets, in certain contexts the appointment or removal of the Chief Executive Officer, decisions on certain businesses that are outside the corporate purpose of the company).
b. Guidelines for the preparation of minutes (see model guide in Appendix 5),
c. Handling of confidential and privileged information,
d. Rules of interaction and participation of the executive team in Board meetings.

Guideline 15: On the Dynamics and Effectiveness of the Board of Directors

The Board of Directors must identify their different moments and the components that contribute to their effectiveness so that they can manage them properly for quality management decision-making processes.

The formal rules of the Board of Directors are important to operate properly. Nevertheless, recognizing that the effectiveness and proper operations of a Board of Directors depends on properly coordinating various components such as those associated with the Board's responsibilities, the way in which the Directors organize themselves as a team, and the operating agreements for the Board's work, etc. is important.

Furthermore, it is advisable to recognize the different moments of the collegiate body (reflected in the instances before, during, and after the sessions) in order to identify the activities that need to be carried out and the internal agreements that must be reached in order to have effective meetings that create value.

28. The definition of a related party must conform to international standards such as International Accounting Standard No. 24 (IAS 24) by virtue of which following may be related parties for directors:

- The spouse of a director or a person with a comparable relationship of affection.
- The ancestors, descendants, and siblings of the director or the director's spouse.
- The spouses of the ancestors, descendants, and siblings of the Board member.
- The legal entities with which the director, or any of the above people related to him, maintain a stable and significant share in the capital or have the ability to intervene in the financial and operating policy decisions of the entity even though they do not have control of the same but may also obtain the ability to intervene through ownership interest, legal or statutory provision, or agreements.

Thus, the correct operation of the Board of Directors depends on a proper understanding of their responsibilities and what is expected of them in terms of management and control, the existence of a structure and configuration that meets the needs of the company (see Guideline 9 of this pillar), and effective planning. In this last aspect, it is essential to bear in mind that the operations of this body are not limited only to holding meetings.

The preceding and subsequent moments, that is, the before and after the meeting are fundamental and, therefore, an annual work plan that establishes the dates of the meetings and the topics to be reviewed in each session should be organized with the support and contribution of the different stakeholders (Chairman of the Board, Secretary, and Senior Management Team). This makes it easy to prepare the order of business for the Board of Directors' meetings and there are mechanisms to guarantee that the Board fulfills its formally assigned responsibilities. Simultaneously, the board can focus on the company's material and strategic details in order to generate sustainable value.

The information must be delivered in advance as foreseen in the corporate documents in order to facilitate appropriate preparation for the meetings.

During the sessions, it is essential for the Board of Directors to be clear about what is expected of them at all times. This means that when an issue is submitted for consideration by the Board of Directors, upper management should expressly state whether it expects the Board of Directors to be informed, make a decision or help the company's management team to reach a decision on the matter.

The Board of Directors also needs to adopt mechanisms to monitor the effectiveness of its meetings (through periodic evaluations or interviews with its members) in order to review and eventually take timely action on the level of attendance and participation of its members, the depth and sufficiency of the analysis and deliberations carried out during the meetings, the frequency of voting versus unanimous voting, and the contribution of the Directors to the decision-making process.

When the composition of the Board of Directors includes internal or executive directors (see Guideline 9 of the Board pillar), it is a good practice to hold regular meetings in which only external directors participate, without the presence of internal directors. This facilitates an environment of discussion in which Directors can express opinions and perspectives without possible bias from those in charge of the day-to-day management of the company to the benefit of the independence and objectivity of the decision-making processes. Additionally, these sessions can be an appropriate place to evaluate the performance of the internal directors as part of upper management.

Finally, the Board of Directors is strongly advised to adopt suitable mechanisms to follow up on their decisions and resolutions in order to ensure the effectiveness of their decisions and agreements.

It should be clear that the effectiveness of the Board of Directors requires that all Directors are committed to assuming the responsibilities inherent to their position and are aware of the need to generate contributions during the sessions that meet the principles of timeliness, precision, and a drive to generate proposals with a focus on innovation and growth.

Guideline 16: Causes for Removal of Directors

The Bylaws should establish the grounds for the dismissal of directors as well as their obligation to resign if they no longer meet the conditions for their appointment or may cause damage to the organization's prestige and good name.

The grounds set forth in the Bylaws for the removal of directors must be express and specific, so as to preserve the breakdown of the board of directors as far as possible, particularly with respect to proprietary and independent members. To this end, the Board of Directors may propose the removal if any of these grounds are met to the assembly and after a favorable report on the removal by the appointments and remuneration committee or, lacking that, by the Board itself.

The following are circumstances in which a proposal for removal may be submitted to the General Assembly of Shareholders:

i. When the Internal or executive directors cease to hold office within the company.
ii. When a situation of incompatibility or disqualification arises.
iii. When remaining on the Board of Directors may negatively affect their operations and may impact the reputation or jeopardize the interests of the company.
iv. When a proprietary director represents a shareholder who divests himself of his shares in the company or his shares are reduced to a level that does not allow him to have a representative on the Board of Directors.
v. When the director does not attend, without justified cause, a significant number of meetings of the Board of Directors within a fiscal year. In each case, the qualification of significant shall be determined based on the number of annual meetings scheduled for the Board of Directors. For example, the following may be considered significant: three absences out of twelve meetings; two absences out of six meetings per year.

If a director is in any of the situations described above, the Board of Directors, with the support of the appointments and remuneration committee (if any), may take the initiative to request the director's resignation.

Moreover, if a director no longer meets the conditions for appointment to the position (see Guideline 9 of this pillar), and this situation could cause damage to the prestige or good name of the company, he/she must immediately resign from his/her position.

Guideline 17: Remuneration of the Board of Directors

The company should formalize a public model of Board remuneration that is approved by the General Assembly of Shareholders (via a Board remuneration policy) and considers market conditions, the time needs required to fulfill the duties of the position, and the level of the directors' responsibilities.

The Board of Directors' incentive model is significantly supported by the definition of the compensation system set by the company for its directors. The growing responsibilities of Board members and the expectations regarding their contribution to generating value for the company should be correlated with the amount of compensation they receive.

That is why the company must formalize the conditions and types of compensation for its directors in a remuneration policy for the Board of Directors. The policy guidelines should be based on the principle that directors' compensation should be commensurate with the responsibilities they assume as well as with the time required to discharge their responsibilities. Thus, the company will have the mechanisms to attract the best talent for its highest management body.

i. About the Compensation Policy

The company should formally adopt, through a Board remuneration policy approved by the Assembly of Shareholders, a remuneration model for the Board of Directors that is publicly known to shareholders and interested third parties and contributes to the attraction, retention, and motivation of professionals with the capability to contribute to the generation of sustainable value for the company. The compensation model adopted by the company must be adjusted to the size of the organization, the industry in which it operates, the responsibilities and commitment requirements of the Directors and the contribution expected from them. The remuneration to be fixed must be sufficient so as not to cause conflicts of interest or affect the independence and objective judgment of the Directors.

Board remuneration may include fixed items such as a retainer fee, or compensation for attendance at Board or committee meetings. It may also incorporate variable components subject to the company's long-term results and performance.

The Board of Directors' remuneration policy should address all the components of remuneration that are effectively recognized for directors which may include:

a. The value of fees, per diems, and other emoluments of any kind incurred during the year (in cash or in kind).
b. The company's contractual obligations with respect to pensions or payment of life insurance premiums, or
c. Liability insurance premiums contracted by the company in favor of the Directors.

The Assembly should be the body with authority to approve the guidelines for the remuneration policy following a proposal from the Board of Directors with the support of the appointments and remuneration committee, if any.

Some of the aspects to be considered in the compensation policy are the following:

i. The remuneration of the Board of Directors may include fixed and variable components so that it is compatible with the company's objectives, its appetite for risk, and the risks actually assumed.
ii. In the total remuneration, the fixed and variable components must be properly balanced. The fixed component is a relevant part of the total remuneration and thus allows for flexibility in the design of the variable component.
iii. Total annual compensation should take into account the participation of the Directors. Therefore, their membership in committees should be considered and whether or not any special remuneration is provided for the Chairmen of the Board of Directors and the committees. Thus, the principle of "paying those who work harder more" is recognized.
iv. The fixed component is established on the basis of a per diem for attendance at Board meetings and possibly a fixed monthly fee. This fixed component should consider

the level of responsibility of the duties carried out, and should be reasonably equivalent to that of comparable companies in order to attract and retain talent on the Board.

v. The variable component, within the limit set in the Directors' remuneration policy, must:

   a. Avoid being so significant as to motivate strong risk-taking, especially in the short term.
   b. Consider the company's returns, long-term objectives, and profitability for shareholders while, at the same time, factoring in the level of risk assumed.
   c. When stock options or share-linked payments are included in the variable component, their actual payment in the long term should be considered even including the termination of directors as long as it is not for actual serious non-performance of their duties.
   d. Determine its amount and have it distributed ex post, i.e., after the close of the fiscal year when the economic and financial indicators that trigger its accrual are verified to have been reached.
   e. Provide for the possibility of ex post adjustments and deferral clauses designed so that a portion of the variable compensation is deferred in view of the occurrence of contingencies not identified by the outside auditor.

The remuneration structure for internal or executive directors must bear in mind their status as members of the company's upper management, and therefore be consistent with what is defined in the remuneration policy for members of upper management (see Guideline 24 of the pillar on Upper Management).

There may be no other remuneration, or assumption of expenses, or benefits in kind other than what has been approved pursuant to the remuneration policy. This should limit the possibility of access to the company's means or assets, or the possibility of transactions in which an unjustified benefit is obtained as an alternative way for the directors to obtain compensation.

ii. Transparency in Compensation

Both the remuneration policy and the remuneration actually paid to the directors must be public, known, and duly explained to the shareholders, which is why it must be expressly approved by the Assembly of Shareholders. This involves disclosure of the compensation package as well as the value of the specific compensation the Board receives.

Transparency of remuneration should undoubtedly be a matter of mandatory compliance for listed companies and financial institutions due to which the legislator and the regulator should incorporate it into the applicable regulations.

Guideline 18: Work Plan and Agendas

The Board of Directors should plan properly and adopt an annual work plan under the leadership of the Chairman of the Board of Directors. Likewise, the Chairman of the Board of Directors should work in coordination with the Chief Executive Officer to prepare the order of business for each meeting.

It is in the interest of any company for the Board of Directors to achieve their best contribution and focus effectively on the organization's material aspects. Thus, it is important for this body to have the appropriate mechanisms to plan its work efficiently, and thus align its members and the upper management team around common objectives.

The Board of Directors brings together the best talents in the organization, so the monetary and organizational efforts for that collegial body to operate must be properly rewarded in terms of contribution and generation of value for the company.

One of the Board of Directors' mechanisms par excellence for proper planning is the annual work plan which must be approved by the Board itself. This plan must be designed based on the duties of the Board of Directors and the strategic risks that the company must manage at certain times. Based on these points, the dates for the ordinary meetings of the Board of Directors, the topics to be addressed at each meeting, and their estimated duration should be planned for. This should include the identification of recurring topics (strategy, supervision, risk analysis, management, evaluation, budget, etc.), and the frequency with which they should be analyzed. This way, it is possible for the Board of Directors to have a panoramic view of its approach and work during the year.

This is an instrument that should be set up at the beginning of each fiscal year in coordination with the Secretary of the Board and the upper management team under the leadership of the Chairman of the Board Likewise, this tool should give the executive team sufficient time to prepare the topics to be discussed by the Board at each meeting during the year and foster effective interaction between the Board and upper management.

The annual work plan is the basis for preparing the agendas for each of the Board's meetings and give an individual view of the Board's work.

These orders of business are also the Board of Directors' basic tool for planning, since they make it possible, prior to the meetings, to identify the topics to be discussed during the session, advise the members of upper management of the information they should prepare, and plan the timing of the meetings During meetings, the order of business enables the Board to organize their conversation and to follow up on the effectiveness of the discussions, so that each topic is assigned the appropriate time based on its level of importance. Regarding this point, building a dynamic on the Board that allows sufficient room for discussion among its members is important. That is why, internal agreements should be adopted so that upper management presentations represent a minimum proportion of the meetings as opposed to the time for discussion by the directors (an estimated ratio could be 20/80). Finally, after the meetings, the agendas allow for follow-up on the topics discussed by the Board of Directors, so that their effectiveness can be measured.

It is important to emphasize that the agenda for board meetings should be drawn up jointly by the Chief Executive and the Chairman of the Board with the support of the Secretary of the Board.

Guideline 19: Evaluation of the Board of Directors and their Committees

The Board of Directors should do an annual evaluation of its performance, incorporating different methodologies (self-evaluation or evaluation with an external facilitator) and providing for a system of periodically monitoring its results.

The evaluation of the Board of Directors and its committees is a very beneficial and necessary practice for reinforcing the performance of the Board of Directors, their committees and their individual members. However, it could be seen as a complex and delicate process. Complex given that in the evaluation, aspects related to the Board itself as a whole as well as the individual performance of each Director, may be reviewed. It is delicate since it is a matter of analyzing the exercise of the Board's real power. This, on many occasions, could generate tensions among its members, especially when the specific performance of the directors is being evaluated.

There are different methodologies for evaluating the Board of Directors. The company could implement a collegial self-evaluation exercise through which the collective performance of the Board of Directors is monitored and reviewed. With regard to the Board of Directors as a body, the evaluation is based on the composition of the Board and analyzes the set of profiles represented in relation to t he needs at any given time, the focus on the duties attributed, its dynamics (proceedings at meetings, frequency and duration, treatment and handling of the order of business, organization and depth of the debates), the purpose and value of the committees set up (when they exist), the quality of the information received, and, in short, the effectiveness of its performance as a collegial body.

Furthermore, an evaluation exercise in which the upper management team gives its vision of the Board's performance and feedback on the areas in which it expects the Board to optimize its contribution and support can be carried out by management.

Last of all, an individual evaluation in which the members of the Board give individual feedback to the other members of that body on their participation and contribution may be used. The individual evaluation of the directors may have an impact on their actual compensation as well as their eligibility for re-election.

The most appropriate evaluation model depends on the Board's level of maturity in recognizing their opportunities for improvement and generating the self-commitment to become more efficient.

The evaluation makes it possible to obtain feedback on the work done during a given period from the point of view of fulfilling the body's responsibilities in order to identify the strengths, the level of efficiency, and the areas where the Board of Directors and its committees as well as its members individually, have opportunities for improvement.

As a result, this practice is very beneficial for strengthening the work of the Board of Directors, the committees, and their individual members and is only now beginning to be carried out by companies on a regular basis.

Ideally, the evaluation of the Board of Directors should be carried out by an external firm that specializes in this field and will contribute to giving the exercise objectivity, independence, and confidentiality for better feedback from the different methodologies.

However, it could also be interesting for the company, and certainly less costly, to combine the evaluation by an external firm with a self-evaluation by the Board itself the following year based on the questions and methodology of the external firm.

In any case, evaluations should not always and in all cases be self-assessments carried out by the Board of Directors since, in addition to the lack of knowledge of the methodology and the delicate and complex nature of this process, it is advisable to consult external professionals on a regular basis to ensure greater value generation (approximately every 2 or 3 years).

III. UPPER MANAGEMENT

A balanced corporate governance system involves the effective separation of ownership, direction, and management. Thus, the day-to-day management of corporate affairs should be the responsibility of the upper management team under the leadership of the Chief Executive Officer. This is the one responsible for business performance and for carrying out the directions and corporate strategy approved by the Board of Directors. The Chief Executive, supported by upper management, is accountable to the Board of Directors, who are responsible for monitoring results and compliance with the objectives set by the Board.

The appointment of the Chief Executive Officer is the responsibility of the Board of Directors. To this end, the company must define guidelines and directives for nomination, designation, and appointment to ensure that the best talent with the necessary qualities is incorporated based on each of the company's strategic needs.[29]

As a result of an actual separation of the governing and management bodies, the Board of Directors should not fall into co-management and unduly influence the company's day-to-day decisions. The Chief Executive Officer, in turn, cannot assume the decision-making role in the management of the company and thus detract from the role of the Board of Directors. The company's corporate governance system must ensure that, within a proper separation of the roles and powers of directors and management, there is a smooth coordination and interaction between the Board and upper management. This way, everyone contributes to the fulfillment of the company's goals within his or her own sphere of responsibility

Whether or not the Chief Executive is a member of the Board of Directors is the subject of various opinions. Those who think that the CEO should be a member this body do so based on the logic that this ensures a greater flow of information from the management of the company's business to the executive decision making processes. However, note that this situation may lead to the existence of potential conflicts of interest that need to be properly managed by the organization. In any case, it is essential that the Chief Executive Officer is not designated as Chairman of the Board of Directors.

Being responsible for the day-to-day management of the business and implementing the business strategy defined by the Board of Directors, the Chief Executive plays an essential role in the company's sustainability. Therefore, he/she must adopt mechanisms to attract, incorporate, and retain people with the necessary qualities to lead the company towards meeting their goals and objectives and achieving the corporate purpose. All of the above is in line with a strong

29. Depending on the needs and reality of the company, external firms that specialize in the selection of executive personnel may be used.

corporate culture. To this end, the Board must be able to properly identify and manage succession risks at the level of the CEO and the upper management team, build a team that meets suitability and diversity criteria, and generate an incentive model that ensures an effective balance between the achievement of results and the preservation of the company's long-term purpose. All of this is based on a logic of continuous monitoring and improvement for the benefit of business sustainability.

Guideline No. 20: Appointment and Dismissal of the Chief Executive Officer

The appointment and removal of the Chief Executive Officer is a function of the Board of Directors.

The appointment of the Chief Executive Officer is a Board responsibility and should follow rules and procedures similar to those used for the nomination of board members although for this executive position, it is much more common to use the services of specialized executive recruitment firms.

Likewise, he/she will be subject to the same selection and proposal regime by the appointments and remuneration committee, or in its absence by the Board of Directors, and to the duties of the members of the Board of Directors.

As for removal, at the proposal of the appointment and remuneration committee, or failing that, of the full Board of Directors, the Board itself should be able to remove him at any time and without the grounds for removal applicable to the directors.

The change, and therefore the removal of a Chief Executive Officer, should be analyzed from a business perspective as a natural process and part of the cycles of companies. It should be understood that organizations go through several stages and some intermediate crises, from their birth to their mature age, and even to their potential decline throughout their corporate life. Thus, a CEO who is successful in one stage of a company's life cycle may not have the necessary qualities to maintain the same results in the next. This is why The Board of Directors must constantly evaluate whether it has the executive with the appropriate experience and capabilities that correspond to the cycle in which the organization finds itself. If it is not the appropriate one, the Board of Directors has the responsibility to evaluate finding a new one, in order to ensure the continuity, sustainability, and growth of the company and avoid a potential crisis.

Guideline No. 21: Appointment and Dismissal of Members of Upper Management

The appointment and removal of the members of upper management are duties that correspond to the Chief Executive Officer.

The company's upper management is a group of people with technical and executive profiles who normally report directly to the Chief Executive Officer.

The upper management members can be identified, evaluated and appointed by the CEO since, in the final analysis, they will be his direct assistants in the day-to-day management of the company. However, from a corporate governance perspective, it is also perfectly admissible for the company's executives to be appointed by the Board of Directors at the proposal of the Chief Executive Officer.

In any case, and regardless of who makes the final appointment, candidates for executive positions in the company should be known and evaluated by the appointment and remuneration committee of the Board of Directors who should issue their opinion, or by the Board itself in plenary session.

Regarding their removal, the recommendation is that in all types of companies their removal should be the exclusive responsibility of the Chief Executive Officer and not the Board of Directors even if the latter has the power to appoint them.

This is due to the fact that the removal of an executive may be urgent in nature. In this case, the Board of Directors having to make the decision at the request of the CEO would not be justified. In any case, the Board of Directors must be promptly informed of the removal of a member of upper management.

Guideline No. 22: Succession Risk Management at Upper Management Level

The organization must identify its main succession or transition risks at the upper management level, and adopt mechanisms for their effective management.

Talent at the upper management level is a key factor for the sustainability and durability of the company. Therefore, the organization must have a map of critical positions that identifies key personnel within the upper management team in order to establish the risks of succession at this level, either by resignation, dismissal, or temporary disability. This way, possible contingencies arising from abrupt changes in the upper management team can be appropriately mitigated, or executive transition processes can be effectively planned.

In this respect, it is necessary for the company to have guidelines and definitions to manage succession or transition risks at the upper management level. Thus, the decision-making processes are preserved as well as the corporate information and know-how. One mechanism is through the adoption of a succession policy for the upper management team that is approved by the Board of Directors and provides rules and mechanisms for the nomination, evaluation and selection processes of the Chief Executive Officer and other members at upper management.

Guideline No. 23: Commitments to Diversity

The company's key decision-makers and, in particular, the Board of Directors must commit to adopting effective measures to ensure conditions for the formation of the upper management team under principles of suitability and diversity through a diversity policy.

The company's upper management team is responsible for managing and implementing the corporate strategy, achieving organizational objectives, and preserving the company's purpose. To this end, the makeup of the executive team must meet the criteria of suitability and diversity. Thus, the goal is to bring together the appropriate capabilities for the generation of value for the company.

The commitment to diversity at all levels, and specifically at the upper management level, helps the company to attract and retain talent with a multiplicity of knowledge, visions, skills, abilities, and experiences that enhance the company's performance and competitiveness.

To this end, the company must adopt guidelines through a diversity policy approved by the Board of Directors and made public. This policy should consider and describe how it implements factors associated with gender, age, ethnicity, nationality, and cultural origins, etc. for the makeup of its upper management team.

It is the responsibility of the Board of Directors to approve the policy as well as to monitor the effective application of the provisions set forth therein. Likewise, the company must adopt effective mechanisms to communicate to its shareholders and other stakeholders what guidelines they have adopted in terms of diversity at the upper management level and how they are complying with them.

Guideline No. 24: Incentive Model at the Upper Management Team Level

The company should have an incentive model for the upper management team that is approved by the Board of Directors and that facilitates an alignment of the executive team with the performance objectives, the long-term vision, and the purpose of the organization.

The design of remuneration mechanisms for the executive team may be one of the most relevant strategies for encouraging and retaining human talent as well as aligning the visions of the executive team with the objectives and purposes of the company.

The compensation structure must appropriately incentivize and reward executives and provide a drive to generate value for the company for the benefit of the different stakeholders.

The Board of Directors is responsible for setting the guidelines for the incentive model for the Chief Executive Officer and upper management and for monitoring the compensation plans that are defined based on those guidelines. This is so that they can verify that the incentives for the executive team are based on objective criteria, are consistent with the corporate strategy and market practices, apply the policies adopted by the company, and consider performance monitoring and evaluation processes.

To this end, the upper management compensation policy adopted by the company should consider at least the following key aspects:

i. The fixed and variable components that are part of executive compensation and must be properly balanced.

   The fixed component must be sufficiently relevant to allow flexibility in the design of the variable component as well as to recognize the level of responsibility, professional trajectory in the company, and effective dedication of the executive.

   The variable component should be based on the achievement of previously established objectives, prudent risk management (present and future), and consider incentives that are in line with the long-term interests of the organization and should also include the fulfillment of goals related to ESG criteria and climate change.

ii. Total compensation should reflect the results of the company as a whole, and not be linked solely to the results of a single unit or line of business. This effectively contributes to long-term value creation and rewards performance based on prudent and responsible risk-taking.

iii. When golden parachute contracts are envisaged for the Chief Executive Officer and other members of upper management, they must be linked to the company's actual performance, and must be formally approved and monitored by the Board of Directors subject to a report from the appointments and remuneration committee (if any).

The company should adopt mechanisms to ensure proper disclosure of the compensation model for upper management, and if necessary, the compensation of the Chief Executive Officer, so that shareholders and other stakeholders have the necessary data to validate whether the organization's incentive model contributes appropriately to the creation and protection of sustainable value in the long term.

Guideline No. 25: Evaluation of the Chief Executive and Members of Upper Management

The company should implement annual evaluation mechanisms for the Chief Executive Officer and upper management to ensure effective monitoring of their work and the encouragement of a culture of continuous improvement and accountability.

The implementation of a culture of monitoring, accountability, and continuous improvement is crucial for the sustainability of companies. To this end, the Board of Directors must lead the annual evaluation of the CEO's performance. These processes should be seen as an opportunity to generate a constructive interaction between the Board of Directors and the Chief Executive who has the ability to enable the development of the latter and the generation of value for the company.

The periodic evaluations of the Chief Executive Officer by the Board of Directors should be a factor in the analysis for defining his compensation as well as for the Board of Directors with the support of the appointments and remuneration committee to evaluate whether or not he should be removed from office.

Finally, as is the case with the CEO, the performance of the members of upper management must be evaluated annually and the results shared with the appointments and remuneration committee or, in its absence, with the Board of Directors.

IV. CORPORATE SUSTAINABILITY.

For companies, there is a growing expectation regarding their role and impact on the environment in which they operate. Thus, it is now recognized that companies, in exercising their corporate purpose, must consider not only the interests of their shareholders and investors, but also comprehensively take into account the vision and expectations of their stakeholders such as customers, employees, suppliers, regulators, and supervisors, and, in general, the communities that are influenced by their activities.

In this context, it is increasingly more common to see institutional investors, for example, demanding greater responsibility from company decision-makers with respect to corporate management that is oriented to both achieving financial results and effectively and committedly incorporating environmental, social, and governance aspects (Environmental, Social and Governance - ESG) into the company's medium- and long-term vision and mission. Furthermore, regulators, supervisors, and communities have raised their demands on how companies measure and manage their ESG risks and incorporate aspects of ESG as well as climate change adaptation and mitigation criteria. This likewise applies to the information and means on how to report regarding the application of these principles to the market.

Therefore, companies must recognize that the adoption of responsible business conduct, under a governance framework that integrates social and environmental measures, has transcended the mere reputational sphere and is now a true benchmark for measuring the management and results of an organization. This is why organizations must adjust their corporate governance model to ensure that the decision-making processes and, in general, the actions of the Board of Directors and the upper management team develop and consolidate the ability to properly and responsibly manage their environmental and social risks.

This pillar includes the measures that companies must adopt within their governance system, and the commitments that their Boards of Directors and upper management teams must assume. As a result, the social and environmental factors incorporated into their own business situation, the environment in which they operate, and the risks they represent for their business model become part of their decision-making processes and measuring the company's results.

Guideline No. 26: The Definition of the Corporate Purpose and Sustainability Strategy is the Responsibility of the Board of Directors.

The Board of Directors must ensure that the company is publicly committed to a business purpose that guides its actions, and is oriented to the creation of long-term value for its stakeholders. They must also take responsibility for defining the approach and strategy on social, environmental, and climate change issues by considering the impact of the company's activities on these matters. Therefore, the organization should develop tools and mechanisms that make it possible to effectively manage the risks involved.

The Board of Directors is ultimately responsible for defining the company's strategic direction and establishing its long-term objectives which will enable the company's culture, corporate purpose, and corporate values to be translated into concrete actions and deeds. This process must not only involve the financial results expected in the long term. Definitions and objectives that the company must achieve that are associated with the environmental and social impacts resulting from its operations must also be incorporated. Considering the above, this front becomes a core component of the company's management and its organizational results.

To that end, the Board of Directors should be responsible for:

i. Incorporating the elements associated with ESG aspects and climate change into the company's general strategy, so that they are considered part of the organization's long-term horizon and results.

ii. Approval of the company's ESG and climate change strategy and policies. Therefore, the main social and environmental impact of the organization depending on the industry, size, geographic location, and situation of the company as well as its main stakeholders should be considered. Based on this exercise, the company must prioritize the areas to be implemented.

The strategy defined must be accompanied by standards of good practice in the areas of sustainability, goals, measurement indicators, monitoring and reporting so that the company has uniform mechanisms that align the actions of both the management team and all employees on this front.

Likewise, the frequency with which the validity and updating of the standards and best practices applied should be reviewed must be considered.

iii. The inclusion within the overall risk management system, appetite and analysis of the risks to which the company is exposed that arise from material ESG and climate change factors may have an impact on both the company's long-term strategy and its ability to create value for its stakeholders.

iv. Periodically request and analyze reports prepared by management regarding the implementation of the sustainability strategy and risk management, under ESG and climate change criteria.

Guideline No. 27. The Board Should Consider Environmental, Social, Governance (ESG) and Climate Change Issues in Setting up Committees to Support them in Addressing these Issues in more Detail.

The Board's responsibilities associated with ESG and climate change issues may be assigned to one or several committees specifically created for this purpose, such as a sustainability committee, but they may also be assigned to another already existing committee, or be assumed by the Board itself.

The Board of Directors must carefully evaluate the need to set up committees to address any ESG issue. If the committee is not properly structured, it may even be ineffectual in fulfilling its responsibilities and limit the Board's effectiveness on these fronts. One option is to evaluate whether or not these responsibilities can be assumed by other committees already in operation such as the audit, risk, appointment and remuneration, or corporate governance committees. Likewise, if it does not require debate or cannot be discussed at the committee level due to the size of either the organization or the Board of Directors, the issue must be assumed by the Board itself.

When establishing the Board of Directors, its members should be evaluated to see if they have an appropriate level of expertise in matters related to corporate sustainability and, based on this, decide whether or not it is necessary to include Directors with knowledge in this area. In any case, the Board needs to be provided with training or awareness-raising opportunities on these issues and on the role played by the company's governance bodies in the effectiveness of the measures implemented in terms of environmental, social, and climate change issues.

Guideline No. 28: Monitoring ESG System Performance - Environmental, Social, Governance, and Climate Change

The company should adopt mechanisms to periodically monitor the organization's ESG and climate change strategies and policies in order to guarantee a timely decision-making process.

As part of its ESG and climate change strategy, the Board of Directors must establish key performance indicators that make it possible to measure the impact the company expects as well as to determine those responsible for it and a plan to monitor the compliance with the agreed goals.

The upper management team, in turn, should implement a system of reporting to and accountability with the Board of Directors that will allow them to know the actual level of compliance the company has with its own ESG and climate change plans and strategies.

Along these lines, the compliance officer must carry out a periodic evaluation of proper compliance with sustainability using ESG and climate change criteria. Simultaneously, internal audit must carry out a periodic evaluation of the policies and procedures in place.

Similarly, there must be mechanisms to follow up on updates to regulatory requirements, locally and internationally, to comply with these criteria.

Guideline No. 29: Risk Management Regarding Exposure to ESG (Environmental, Social and Governance) and Climate Change Factors

In its strategy, the company should consider a comprehensive risk management system, and in its risk management policy consider identifying, assessing, managing, and monitoring risks associated with exposure to environmental, social and governance (ESG), and climate change factors.

All organizations, in one way or another, face material risks associated with environmental and social issues as well as those related to climate change. However, these risks represent different types of contingencies that depend on the industry to which the company belongs, its operations, workforce, structure, geographical location, and other specific factors.

In this respect, and as part of its comprehensive risk management strategies, the company must identify the type of social, environmental, or climate change risks that could affect it and adopt the necessary mechanisms to assess, manage, and monitor them effectively. The risks identified in these areas should be incorporated into the company's risk matrices and their follow-up be part of the reports to which the Board has access.

To this end, the general risk management policy adopted by the company must consider at least the following elements in terms of ESG and climate change:

i. Direct environmental and social risk: Refers to economic contingencies that arise from environmental and social risks that result from the company's operations.

ii. Regulatory risk: Refers to possible losses derived from potential or real modifications to ESG and climate change regulations that affect the company's operation or strategy.
iii. Legal or reputational risk: Refers to contingencies from negative publicity and potential costly litigation due to failure to take action on significant environmental or social issues.
iv. Governance risk: Refers to contingencies due to inadequate oversight of potential environmental and social events on the part of the Board of Directors and upper management.
v. Risks due to changes in consumer preferences: Refers to the company's potential inability to adapt itself to changes in consumer demand for products and services with lower environmental impact.
vi. Physical risks: Refers to potential damages to the company's infrastructure and assets as a result of extreme weather changes (floods, droughts or intense storms).

Periodic training of the company's personnel and, as far as possible, extending the internal control policies and procedures related to ESG and climate change criteria to suppliers, contractors, and subcontractors, as appropriate, is essential to managing these issues effectively.

Likewise, upper management needs to carry out annual analyses of possible situations to assess the company's resilience to risks related to these issues.

Guideline No. 30: Disclosure of Information on ESG (Environmental, Social and Governance) and Climate Change Factors

The company must secure mechanisms for timely and sufficient disclosure of the information associated with its strategies and compliance with environmental and social goals as well as those related to its adaptation to, and mitigation of risks associated with climate change.

Disclosure of information is essential for the company's investors and other stakeholders to effectively assess the organization's environmental, social, and governance practices, risks, and opportunities. It is also vital to validate the credibility and progress towards achieving the company's stated goals in terms of corporate sustainability.

Therefore, the company's procedures for disclosing information to stakeholders should include reports on its ESG and climate change strategies as well as its mechanisms for managing the risks derived from them and the opportunities identified in this regard.

To this end, the company is well advised to make known the reporting methodology used in its ESG and climate change disclosures, which should take into account globally accepted standards.

This way, it will be able to provide third parties with information that can be considered reliable, easily analyzed, and eventually comparable in order to effectively follow-up on the company's activities and achieved an informed decision-making process. All of the above will benefit the strengthening of trust relationships with its employees, customers, investors, and, in general, with its different stakeholders.

These sustainability reports can be integrated into the annual report (see Guideline 50 of the Transparency and Disclosure of Financial and Non-Financial Information pillar) or become a stand-alone document. The inclusion of key ESG and climate change indicators should also be considered and how ESG and climate change challenges are incorporated into their strategy along with opportunities for innovation and efforts to reduce environmental impact.

Upper management should be responsible for structuring the sustainability reports and the Board of Directors for their review and approval in addition to monitoring their effective disclosure.

Guideline 31: Makeup of the Board of Directors under Corporate Sustainability Principles

In order for the Board of Directors to be able to assume their responsibilities under sustainability principles and generate value in an environment that demands greater responsibilities in ESG matters, aspects of makeup, remuneration, and monitoring must be considered.

In addition to the criteria recommended in these Guidelines for the creation and operations of the Board of Directors, it is important to consider corporate sustainability principles for the creation, remuneration, and operations of the Board.[30]

- Criteria for reelecting directors: In the process of reelecting directors, it is important to evaluate:
  * The performance and attendance level of the Directors during the previous period as well as in previous years.[31]
  * Relevant experience and skills, especially in ESG and climate change that will be useful to the Board as a collegial body in its next period.
  * The evaluation of possible permanent conflicts of interest that may influence decision making.
  * The number of Boards and Board committees of other companies in which they participate, since serving on an excessive number of Boards and committees may limit their ability to contribute to each Board (on the recommended number of Boards, see Guideline 9 of the Board of Directors' pillar). In this sense, this information should be disclosed as part of the résumé that should be made public.

- Diversity, Equity, and Inclusion on the Board of Directors: When the membership of the Board of Directors is evaluated, verifying that, as a whole, the Directors meet a series of criteria that allow for a diverse, equitable, and inclusive selection of people is advisable to ensure that the discussions of the collegial body are enriched by different points of view (see Guideline 9, which includes the criteria to be taken into account for greater diversity at the Board level).[32]

- Turnover of Boards of Directors: Companies are advised to adopt measures that facilitate the periodic turnover of the Boards of Directors in order for that body to benefit from personal and professional profiles as well as knowledge and experience, which can be flexibly adapted to the ever-changing conditions in which companies operate. (see Guideline 9 of the Board of Directors' pillar).

30. Notably, these elements are the object of special observation by institutional investors, proxy advisors, and regulators, for whom these criteria are considered good practices.

31. A good attendance standard for Directors could be a minimum of 75% of the meetings of both the Board of Directors and the committees in which they participate.

32. In some contexts, institutional investors consider it good practice for at least two members of the Board of Directors to be female, although this is not the only element of diversity to be taken into account.

- **Individual voting for directors (not by ballot):** If the regulatory framework applicable to the company so permits, the candidates for Directors should be presented within the order of business of the Assembly individually and not grouped together. This way the shareholders can decide and vote for each candidate and thus not be subject to voting for a slate in order to elect a Board of Directors. As indicated in Guideline 11 of the Board of Directors' pillar, when a slate or single closed list of candidates is applied, it should have been agreed upon by a relevant group of shareholders who represent a high percentage of the capital.

- **Chairman of the Board of Directors:** As stated in Guideline 14 of the Board of Directors' pillar, the Chairman of the Board of Directors is a very important position as the person who facilitates interaction among the members of the Board for the collective decision-making process. Therefore, the company must implement practices to limit excessive role concentration and potential conflicts of interest. It is therefore recommended that the Chairman of the Board of Directors be elected from among the independent external members. Likewise, this role should not overlap with that of the CEO. Last of all, in view of his special responsibilities, the chairman should be treated differently from the other directors, in terms of both his commitment and dedication as well as his remuneration.

- **Executive Compensation:** The Board of Directors should establish a compensation structure that appropriately incentivizes and rewards executives and is aligned with the objectives and purposes of the company and the interests of stakeholders, particularly the generation of long-term sustainable value. Along these lines, the variable compensation items should be based on the achievement of previously established objectives, prudent risk management (present and future), and consider incentives that are in line with long-term interests. These should also consider the fulfillment of goals related to ESG criteria and climate change (see Guideline 24 of the Upper Management pillar).

Guideline No. 32: Overview of Stakeholders' Rights, Roles, and Interests.

The company's corporate governance model should consider the rights, roles, and interests of stakeholders. It should also encourage active cooperation between the company, its shareholders, and other stakeholders in order to generate shareholder value, sustainable jobs, and resilient companies.

Companies are increasingly aware that they need the contributions of their various stakeholders (investors, employees, creditors, suppliers, customers, and communities involved) in order to achieve their goals and purposes since they provide various resources necessary for the growth of the company's business and operations. In addition, companies are subject to greater expectations from their stakeholders regarding their ability to generate value for the environment in which they operate.

In this regard, and as indicated by the OECD in its latest update of the "OECD and G20 Principles of Corporate Governance" (2023), the company's corporate governance model should consider and recognize the rights, roles, and interests of the various stakeholders and their contribution to the long-term success of the company. Thus, based on an understanding of the visions and expectations of stakeholders, the Board of Directors can structure the company's strategic orientation with a long-term vision and under principles of sustainability.

Guideline No. 33: Fostering Dialogue between Directors, Key Executives, Shareholders, and Stakeholders

The company's corporate governance model should promote dialogue between Directors, key executives, shareholders, and stakeholders to exchange views on sustainability issues that have been identified as relevant to the company's strategy and the assessment of which issues should be considered materially significant.

While the General Assembly of Shareholders provides an important forum for structured decision-making, as mentioned by the OECD in its latest update of the "OECD and G20 Principles of Corporate Governance" (2023), dialogue between Directors, key executives, shareholders, and stakeholders can play an essential role in shaping management's decision-making process as well as in building the confidence of investors and other stakeholders in a long-term strategy.

This dialogue may also be useful for the company to assess which social, environmental, governance, and climate change issues may be material and therefore should be disclosed.

Along these lines, in order for the opportunities for dialogue between the company's corporate governance bodies and stakeholders to generate results that have a positive impact on the organization's decision-making, the latter should have timely and regular access to relevant, sufficient, and reliable information on the company, its corporate governance system, performance, and the impact in terms of corporate sustainability and responsible business conduct, etc.

Guideline No. 34: The Company's Corporate Governance as a Facilitator of Exercising Bondholder Rights

The company's corporate governance model should facilitate the exercise of bondholders' rights, in particular the interests of minority bondholders.

Given the growing importance and presence of companies in the public debt issuance markets, in line with what was stated by the OECD in its latest update of the "OECD and G20 Principles of Corporate Governance" (2023), companies' corporate governance systems must have mechanisms to ensure the protection of bondholders' interests, particularly those of minority holders.

These events are particularly relevant in cases of non-compliance with contractual conditions or in situations of debt restructuring. To this end, it is important to encourage the participation of institutional bondholders as active and involved creditors to the extent that they are part of the companies' stakeholders.

Guideline No. 35: Dissemination of a Culture of Corporate Governance and Business Ethics to Stakeholders

Disclosure of the company's corporate governance culture, its ethical principles, and business integrity to the various stakeholders, both internal and external, fosters effectiveness in the fulfillment of the commitments and objectives assumed by the company and facilitates the accountability processes of its main decision makers.

The effectiveness of a company's corporate governance system is based on appropriate coordination between the various control structures, decision-making processes, and efficient risk management in the organization.

In addition, the involvement of the different stakeholders within the organization is needed for the principles and guidelines of the company's corporate governance model to permeate to all levels, so that this is not seen as simply a series of formal and static regulatory documents, but as a dynamic tool that creates value and thus establishes an effective corporate governance culture.

To the extent that corporate governance is an intangible asset that creates value for the company, it is necessary to disseminate it to the different stakeholders and position it permanently through all available means. These awareness strategies should focus on the purpose, fundamentals, main elements of the corporate governance structure, and the company's ethical principles and corporate integrity. In this regard, it is also recommended that external dissemination talks be held to present the progress made in these matters. This would be part of a communication and stakeholder engagement strategy in line with Guidelines 47, 48 and 50 of the Transparency and Disclosure of Financial and Non-Financial Information pillar.

V. CONTROL ARCHITECTURE

The carrying out of any business activity implies being exposed to and having to manage a whole set of corporate risks. Totally avoiding any risk is absolutely impossible since it would imply the total absence of business activity, and even then, we would still be exposed to unpredictable or unforeseen risks.

The control architecture refers to the items related to the control environment, risk management, internal control systems, compliance, information and communication as well as monitoring. Thus, it constitutes an integrated system made up of the structure, policies, and procedures implemented by each company to fulfill its business purpose and strategic objectives reliably and securely.

This is a system whose effectiveness depends to a large extent on the correct involvement of all the company's governance bodies (from the Board of Directors, upper management, to all employees). A suitable control architecture allows the Board of Directors to effectively exercise their control over upper management and, in general, over the company's operations while, at the same time, coordinating appropriate risk management.

According to the Committee of Sponsoring Organizations of the Treadway Commission - COSO, which establishes the main guidelines for the implementation, management, and control of an internal control system (COSO I) and risk management (COSO II), the control architecture is structured on the basis of 5 major components:

1. **Environment of Control:** understood as the organization's approach to risk management and control which must be defined at the highest levels of corporate governance. It relates to the philosophy and principles implemented by the organization for risk and control management, the definition of the structure to effectively comply with risk and control actions (roles and responsibilities), and ethical values.

2. **Risk Management:** Understood as the system for identifying and managing risks in the company, which includes:

    - Establishment of goals to be achieved (strategic, operational, reporting of financial and non-financial information, and compliance).

    - Identification of events, which may affect (positively or negatively) the achievement of the goals.

    - Risk assessment (probability and impact) through which potential events can affect the business goals.

    - Response to risk (avoid it, mitigate it, share it, or accept it).

3. **Control activities:** refer to the policies, systems, and procedures that help upper management and the company's employees to ensure that responses to risks are carried out appropriately and in a timely manner and that the company's operations are properly carried out.

4. **Information and Communication:** refer to communication systems in the company for operating the control architecture.

5. **Monitoring:** refers to evaluation to ensure the effective operation of the Control Architecture. Monitoring activities should be periodic and based on ongoing evaluations to verify that each of the components of the control system is working, or if not, what actions should be taken to correct possible deficiencies.

The main benefits of COSO include the following:

- Facilitate the incorporation of consistent and aligned procedures.

- Improved monitoring of performance against strategic objectives.

- Increase the ability to appropriately manage the risks required for the business strategy.

- Facilitate the understanding of risks during the decision making process.

- Reinforce the control of all risks to which the organization is exposed.

All companies must have control and risk management systems which, in certain cases, may be supplemented by external control systems such as the outside auditor or supervisory bodies (in the case of companies supervised by governmental authorities).

The complexity of the control architecture must be based on factors such as size, business model, the sector or industry in which the company operates, and its geographical presence.

Guideline 36: Principle of Self-monitoring as a Pillar of the Company's Control Architecture

The company must create a control culture at all levels. The Board of Directors and upper management are responsible for ensuring that all company employees carry out their responsibilities under the principle of self-control[33] and commitment to an effective control plan.

A control architecture based on the principal of self-control recognizes that control is the responsibility of everyone at all levels of the company due to which it cannot be delegated to solely the areas of auditing or those who supervise. Nor can they be seen as a responsibility of the Board of Directors and upper management alone. An effective internal control system must be structured in such a way that all stakeholders contribute to fostering a discipline of risk assessment and implementing controls to achieve the company's objectives.

The company needs to adopt mechanisms to help all of the company's stakeholders understand and commit themselves to a solid control architecture that covers all areas and levels of the organization. This could occur through training or a suitable plan of incentives that include all levels of the company.

Guideline 37: Comprehensive Risk Management System

The company's corporate governance system should incorporate structures and mechanisms that make up a comprehensive risk management system. Thus, the company would have the means to identify, evaluate, and manage the possible contingencies that may impact their business model.

Business activities involve a series of risks that require appropriate and effective identification and management since they can impact their business model, sustainability, or the profitability of their operations. Enabling the sustainability of the company depends on correct risk management since this makes it possible to mitigate economic, reputational, or legal impacts.

In this respect, it is the Board's responsibility, as the company's highest level of management and control, to define the risk management system from a strategic perspective and to ensure that, in developing this system, policies and procedures are implemented that are in line with the organization's reality.

In line with international standards, the company must adopt a risk management framework under a three-line model.[34] The update promotes an appropriate relationship between the audit committee or the Board of Directors and the various lines thus giving them the opportunity to align their work through communication, coordination, and accountability.

i. The first line corresponds to operational management where risks are managed directly by management and operational areas in the exercise of their duties;

33. Understood as the responsibility of the company's decision makers and employees to act in line with the organization's objectives as defined by the Board of Directors and apply the policies, principles, and standards that govern the company's control architecture.

34. The Institute of Internal Auditors (IIA) revised the 'Three Lines of Defense' model in 2020, and transformed it into 'The Three Lines Model' that uses a comprehensive approach to managing risk.

ii. The second line includes the risk management role and the compliance role;
iii. The third line corresponds to internal audit, whose objective is to follow up on and monitor the effective application of controls for risk management.

The compliance office is responsible for structuring policies and procedures to ensure that a company, in the carrying out its business, complies with current regulations and the organization's internal policies and procedures. The purpose of this function is to promote a culture of ethics, integrity, and compliance within the company so that risks in this matter are properly managed. The scope of the compliance role depends not only on the size of the company but is also determined by the business they do, the industry to which it belongs, and the geographic location. These aspects influence the type of risks that the company must assess and consider in terms of compliance.[35]

The person responsible for exercising compliance duties must:

i. Be appointed by the CEO and have direct access to the Board of Directors;
ii. Have a managerial position within the organizational chart with sufficient autonomy for decision making; and
iii. Have sufficient resources to carry out their responsibilities including the possibility of training and coaching at different levels of the company.

In general, the risk management system should be structured based on the following elements:

i. The identification of risks: For this, the company must take into account their business model, the nature of their purpose, the environment in which they operate, the sector to which the company belongs as well as the strategy defined by the organization.
ii. The evaluation of risks and measurement of the degree of exposure to them which implies determining their impact and probability of occurrence.
iii. Risk management, which includes risk management decisions (risk avoidance, risk mitigation, risk sharing, or risk acceptance).
iv. Risk monitoring, understood as the evaluation that risk assumption decisions are in line with the risk policy (issued by the Board of Directors) and with the maximum exposure limits defined by the Board itself.
v. Mechanisms for reporting to the Board of Directors and upper management on risk management.

It is important for the company to adopt a "risk map," which identifies the financial and non-financial risks to which it is exposed. For example, strategic, financial, operational, digital, reputational, compliance, and fraud risks, etc.

The risk map must be formalized and known to the Board of Directors, and must be built in such a way as to provide a comprehensive view of the company's risks. This way, the Board of Directors has the means to define the guidelines of the risk management system and to supervise the actions adopted for its administration. This map should be monitored periodically by upper management and the Board of Directors and should be updated when deemed necessary.

35. Although in certain industries, particularly the financial industry, a compliance officer is appointed to be in charge of the management and prevention of money laundering and terrorist financing - ML/TF processes. This position cannot be fully equated with the person responsible of the compliance function. The latter's functions are more extensive and may even incorporate responsibilities associated with ML/TF.

The company's risk management system should be formalized in policies or manuals, which expressly define that:

i. The Board of Directors is responsible for:

   a. Defining a comprehensive risk management policy.
   b. Approving the risk delegation policy that establishes the risk limits that can be directly managed by each level of the company.
   c. Setting some maximum limits of exposure to each identified risk.
   d. Being aware of and periodically supervise the company's effective exposure to the maximum risk limits defined and to propose and supervise actions to correct and monitor them in the event of deviations.

ii. The responsibility of the upper management to identify, evaluate, control, monitor, and report the risks identified, define methodologies, and ensure that risk management is consistent with the strategy, defined risk policy, and approved maximum limits.

iii. The company's business units, departments or operating areas must incorporate a risk management culture
iv. into their daily operations that enables them to be aware of the risks generated by their own work.

Effective risk management requires a control system that ensures that the risks identified in the company's various processes are properly managed in accordance with the risk policy and culture and that the policies, processes, and measures developed for risk management are effectively applied in practice.

Therefore, internal control systems must be effective mechanisms that ensure that the information that reaches the Board of Directors and upper management on the quality of the risk management system is reliable, truthful, timely, and in line with the company's real situation.

The company's overall risk management system must incorporate the company's ethical and integrity risks, so that the organization has mechanisms in place to prevent the occurrence of illegal practices such as fraud, corruption, bribery, and other behaviors. Proper risk management on these fronts helps to protect the company from possible legal sanctions and damage to its reputation.

In line with the above, the ethical standards must be clear and, through periodic training of personnel, an organizational ethical culture will be fostered in which the expected behaviors are aligned with the company's values. This makes employees feel committed to complying with rules and regulations and reduces the risk of misconduct.

Likewise, the compliance officer must carry out a periodic review of correct compliance with the policies while internal auditing must continuously evaluate the procedures on ethics and integrity issues.

Moreover, starting with upper management, the company must appoint a person to be responsible for the implementation of tools, instruments, and methodologies in the daily management. This position is usually held by the risk manager (essential for listed companies or companies engaged in financial activities) although depending on the size and complexity of the company, this task may be assigned to another executive.

The Risk Manager must be a person who has:

i. High internal status, exclusive defined competencies (i.e., no other management duties in addition to those associated with risk management) and sufficient resources for carrying out his duties. This means full access to the information necessary for the exercise of his/her duties.
ii. Direct relationship with the Chief Executive Officer and upper management, and direct reporting to the Board of Directors (or to the audit committee or risk committee in cases where the Board of Directors has one).
iii. Ability to influence decisions that affect the degree of exposure to corporate risks.
iv. Reinforced position, so that their appointment and removal is a responsibility and decision of the Board of Directors.

Guideline 38: Risk Management Culture

The structure of the company's integrated risk management system must enable the implementation of a risk culture at all levels of the organization.

An effective risk management system requires, along with other factors, an organizational culture in which upper management and all employees in the organization manage the risks generated by their own actions and apply the pertinent controls. It is therefore essential that the risk management culture, principles, and policies (defined by the organization's corporate governance system) as well as the approved exposure limits are communicated and disclosed at all levels of the company so that they can be effectively implemented and complied with.

In order to be efficient, the risk management system needs a system for reporting to the Board of Directors and upper management that is truthful, understandable, and complete in order to enable informed decision making.

Internal risk information systems or processes should enable the company to have appropriate information flows to facilitate:

i. The establishment of a common language of risk.

ii. The identification of the roles and responsibilities of each individual in risk management. The above is to ensure that the company's personnel understand their role in risk management and identify controls as well as their individual contribution in relation to the work of others. Upper management should get the entire company involved by highlighting their responsibility in risk management and the definition of controls.

iii. Knowledge at all levels of the organization of the limits of risks tolerated in the company, acceptable and unacceptable behavior, and the internal and external communication channels available to the company.

iv. The establishment of information and communication channels and mechanisms at all levels of the organization.

    In this context, particularly for listed companies and financial institutions, implementing internal whistleblower hotlines that allow employees to anonymously report unethical behavior or behavior that contravenes the company's risk management and control culture including suspicious activities related to bribery and corruption is essential. Anonymous reporting lines should be an independent channel (in some cases managed by an external third party) through which employees, members of the upper management team, directors, and outside parties can communicate with the internal audit manager, legal counsel, compliance officer, ombudsman, or whoever is responsible for receiving and managing reports of corporate fraud, unethical behavior, or ethical concerns.

Depending on the company's size, complexity, or business structure, the company must define the policies and guidelines for managing the whistleblower channels, who is responsible for doing so, and the procedures to be followed in the event of a report. Likewise, the tools available for making complaints must be accessible to all the stakeholders to whom they are addressed and be practical and user-friendly.

In any case, the mechanisms for implementing anonymous hotlines must protect the identity of the person filing the report, the confidentiality in the handling of the information and ensure that there will be no retaliation in the event of a report being made. Likewise, the rights of the accused must be safeguarded until the complaint is proven.

Therefore, the company must adopt a code of ethics that sets out the corporate ethical commitments and the expectations the company has of its employees and executives in the performance of their duties. Note that the absence of ethical complaints does not necessarily indicate a high level of integrity in the organization, but may rather be a warning sign about the effectiveness of the policy and the tools available. In this respect, the organization needs to hold training sessions for the staff, propose permanent corporate mechanisms for communications and feedback and, especially, ensure that the behavior of upper management becomes an example for the rest of the staff.

Thus, an efficient whistle-blowing channel, due to its impact on the internal control systems and on the integrity of the organization, is of utmost importance since it results in generating the trust of the various stakeholders of the organization thus mitigating both legal and reputational risks.

Guideline 39: Internal Communication

The Board of Directors is responsible for ensuring that the company implements a system of internal communication flow between the different levels of the organization of the information generated by the risk management process and the internal control system.

From the perspective of the control architecture, the challenge is to generate reliable, quality, timely, and accurate financial and non-financial information so that it becomes the basis for decision-making in achieving the company’s objectives.

The information is considered high quality, when the following features are present:

1. Proper: it has the appropriate level of detail.
2. Timely: it is available when required and within a proper time frame.
3. Updated: it is the latest information available.

4. Exact: the data are correct.
5. Accessible: it can be obtained with relative ease.

In addition to generating quality information, it is equally important that this information is properly transmitted so that all parties involved (employees, upper management, and Board of Directors) can exercise their responsibilities using valid information.

To this end, the risk culture, philosophy, and policies must be communicated vertically and horizontally throughout the organization so that the entire institution incorporates risk management and control features in its daily work.

To do so, the company must: have effective communication channels, define clear lines of authority and responsibility, and establish the relationship (functional or hierarchical) between different positions and levels of the organization in order for information to flow appropriately, as follows:

At the implementation level:

1. The employees, as the people in charge of each process, are responsible for managing the risks in their processes following criteria given by the upper management and the CEO, who, in turn, comply with the risk policies defined by the Board of Directors. At the same time, the employees gradually define controls for their processes in order to identify and evaluate the risks present.

2. The Chief Risk Officer (CRO), or risk manager, is responsible at the highest executive level for the effective management and control of risks in the company in accordance with defined policies. These duties must be exercised by the CEO if the above position does not exist.

3. The Chief Executive Officer, as the highest executive responsible for the day-to-day running of the business and ultimately responsible for the effective management of the risks and the strength and upgrading of the internal control system.

In terms of communication, the relationship between the employees, the CRO, and the CEO becomes key for the information to flow up and down between these levels and ensure that the business decisions made to achieve the established objectives are made using quality information, and that the business risks are properly managed.

Upper management should get all of the organization's personnel involved by highlighting their responsibility in risk management and the definition of controls. The company's employees themselves should understand their role in risk management and identifying controls as well as their individual contribution in relation to the work of others.

At the supervision level:

1. The audit committee is responsible for supervising whether the system for internal control has a proper scope in terms of information reliability. This is usually done with the support of internal auditing which must design a plan that includes an analysis of the scope of the internal control system, ideally based on risks, so that the audit is not carried out like a checklist but instead based on the intensity of the risks faced by the organization.

2. The risk committee, as the one responsible for understanding and monitoring each one of the risks to which company is exposed as well as the techniques used for measuring and managing them, must approve the

general policy on risks, and review the information on risks provided by upper management. In the absence of this committee, its duties are usually discharged by the audit committee or the Board itself.

3. The compliance officer is responsible for the culture of regulatory compliance, both internal and external, of the organization.

4. The internal auditor is responsible for carrying out and closely monitoring internal control activities, communicating the findings, and proposing improvements to the employees, the CEO, and the Board of Directors when appropriate.

5. The external auditor is responsible for providing shareholders with a reasonable degree of assurance that the financial information made public by a given company faithfully reflects its real equity.

Guideline 40: Information Governance and Data Strategy

The Board of Directors must ensure the existence of a proper information governance and data strategy aligned with the company's strategy and its control architecture model.

The data and information produced and accessed by companies are a highly valuable asset since they are the source of potential improvements in operational efficiency, constitute an essential component for the definition of strategic direction, and are the basis for a whole set of risks that must be identified and properly managed in order to correctly measure and monitor the risk profile.

Thus, defining and knowing the organization's data strategy is key for its highest governance bodies to be able to make strategic, informed, and value-oriented decisions as well as to appropriately manage strategic, reputational, or compliance risks, etc.

Therefore, it is important for the Board of Directors with the support of upper management, to define a data strategy whereby guidelines are established so that the information to which the company has access, or that which it generates in the course of its operations, is transformed into data that can be used as input for informed decision-making and the strategic orientation of the organization.

Thus, it is critical that the Board of Directors, in collaboration with upper management, makes sure that:

- **Create a data culture in the company:** The first step is to define a data culture for the organization which is understood as a common language and comprehension based on generally accepted principles regarding the benefits and risks of "datafication" in the company and in its sector. Datafication is understood as the process of reformulating internal processes, products, and business models based on data.
- **The data generated is aligned with the business strategy:** data are essential assets for defining the business strategy. As a result, the Board of Directors must make sure that the data obtained after the company's datafication becomes known, controlled, and interpreted in the process of defining the strategic orientation and its subsequent monitoring.

- **An internal datafication process is developed:** datafication is a long and, in many cases, ambiguous process. Therefore, it is essential that upper management, under the oversight of the Board of Directors, develop a plan for gradual datafication fully aligned with the company's strategic orientation.
- **The company's readiness to incorporate a data culture is assessed and determined:** in addition to monitoring the aforementioned steps, the Board of Directors should guarantee the existence of sufficient profiles, expertise, and capabilities within the Board itself and upper management to enable the creation, implementation, and supervision of a data culture in the entity.

This means making sure that the Board of Directors has sufficient knowledge, skills, and expertise to ensure that a data culture and information governance are properly implemented in the company.

Guideline 41: On Managing Conflicts of Interest and Transactions with Related Parties

The Board of Directors, as the body primarily responsible for the company's culture of ethics and transparency, must adopt policies and strategies for managing conflicts of interest at all levels of the organization and for entering into transactions with related parties.

As the company's highest management and control body, the Board of Directors is responsible for ensuring that both the management decision-making processes and the company's daily operations are carried out in the best interest of the organization and with a view to generating value for the owners and other relevant stakeholders.

A. Conflicts of Interest

The Board of Directors should define and approve a conflict of interest management policy for the entire organization. This policy should contain the company's provisions and commitments for the declaration, management, and disclosure of conflict of interest situations. The Board of Directors is also responsible for ensuring compliance with the policy and periodically reviewing its validity and relevance.

In order to define the rules for managing conflicts of interest, the company must take into account the fact that these situations may arise in three dimensions so that it can adopt the most appropriate mechanisms for managing them. With respect to this, conflicts of interest may arise:

i. At the management and control level, i.e., at the level of the Board of Directors and upper management,
ii. At the level of the operational areas, i.e., those that make up the business operations of the company, and
iii. At the corporate level when dealing with business groups and when conflicts of interest and ethical dilemmas arise at the consolidated group level.

The guidelines defined by the Board of Directors for the management of conflicts of interest in the company should be focused on ensuring the soundness of the company's ethical and compliance culture, and that situations that generate conflicts of interest are managed under principles of transparency and in the best interest of the organization.

Therefore, it is advisable that the conflict of interest management policy define rules on at least the following fronts:

i. The principles that support the company's ethical environment.
ii. Definition and classification of conflicts of interest: These could be
   a. Material: conflicts in which there is a real situation of conflicting interests.
   b. Apparent: those in which the conflict does not exist, but third parties may perceive the appearance of one.
   c. Potential: those conflicts that may arise in the future.

   Likewise, these conflicts may be sporadic or permanent. In the latter case when the conflict constitutes an impediment for the person to carry out his or her responsibilities or work, the policy should provide mechanisms so that the person involved in the conflict may sever his or her relationship with the company.

iii. Procedures in the event of a conflict of interest or if there is any doubt as to whether or not a conflict of interest exists.

iv. Bodies responsible for being aware of conflict of interest situations and bodies responsible for studying and resolving such situations.

v. Provisions on the obligation of each person to disclose, autonomously and in a timely manner, the conflict of interest situations that may apply to him or her, and the obligation to abstain from participating in or accessing information on the situation that generates the conflict of interest.

vi. The mechanisms adopted by the company to carry out awareness-raising activities and periodic training for employees, upper management and members of the Board of Directors on conflicts of interest and the rules implemented by the organization for managing them.

vii. The strategies and tools that the company uses to monitor and ensure compliance with the measures and rules designed to manage conflicts of interest regularly and systematically.

viii. Procedures to ensure that quarterly reports to the Board of Directors detail conflicts of interest identified at the upper management level.

ix. Ensure that relevant conflict of interest situations in which members of the Board of Directors and upper management have been found are disclosed in the annual corporate governance report or other annual public report (see Guideline 50 of the Transparency and Disclosure of Financial and Non-Financial Information pillar).

B. Transactions with related parties.

In some cases, and particularly in the area of business groups, organizations may enter into transactions with third parties that, due to their particular connection with the company, may involve a conflict of interest that requires special treatment in terms of their identification, study, approval, monitoring, and disclosure. These are transactions with related parties.

Thus, transactions with related parties do not necessarily have to be negative per se. Indeed, they can be economically beneficial and generate value. However, the fact that they can sometimes generate a risk of abuse or tunneling to the detriment of minority shareholders and to the benefit of individuals closer to the company's management bodies should not be overlooked.

As in the case of conflicts of interest, the key aspect of related-party transactions for any type of company is to have a formalized policy that defines the procedure for their assessment, eventual approval, and disclosure.

For these events, the company should establish specific guidelines focused on these types of transactions (through a policy of transactions with related parties approved by the Board of Directors), so that they are carried out based on the best interest of the company, at market prices, under the same conditions as those that would be entered into with unrelated third parties, and in compliance with the legal and regulatory provisions applicable to the company.

The policy should include the following items at a minimum:

i. The definition of related party, depending on the company's situation. To do so, it is advisable to take the definition of a related party contained in the international accounting standard, the International Accounting Standard - IAS 24, as a frame of reference.
ii. The definition of related party transaction. For this, using IAS 24 as a reference is also recommended.
iii. The type of transactions carried out with related parties. That is, material and non-material transactions as well as recurring and non-recurring transactions.
iv. The bodies responsible for the valuation, study, approval, and disclosure of transactions.
v. The mechanisms for reporting and monitoring the transactions entered into. This refers to periodic reporting to the Board of Directors from the upper management team.
vi. The mechanisms for disclosure of operations, for example, in the financial statements and in the annual corporate governance report (see Guideline 50 of the Financial and Non-Financial Transparency and Disclosure pillar).

Guideline 42: Board of Directors' Responsibility in the Control Architecture

The Board of Directors should be the one ultimately responsible for defining the company's control architecture (based on a principle of self-control and compliance) and ensuring its effectiveness.

A company's control architecture, in order to ensure its soundness and effectiveness, must have the commitment and involvement of its highest decision-making bodies, particularly the Board of Directors. The leadership and commitment of the collegial body in relation to the company's control system is crucial for creating a culture at all levels based on the principle of self-control.

The Bylaws and other corporate documents should expressly reflect the responsibility of the Board of Directors in this matter. Therefore, this board should be responsible for fostering a culture of risk and control throughout the organization, define the roles and responsibilities of the risk management and internal control system, and do the corresponding evaluations of the effectiveness of the control architecture through clearly defined reporting lines and information flows.

In terms of control architecture, the Board of Directors must be able to:

i. Have a comprehensive view of the components of the control system.
ii. Be aware of and identify the risks inherent to the company's operations, the environment in which they operate, and those derived from growth opportunities in order to define an effective framework for their evaluation, management, and follow-up.
iii. Establish guidelines to implement appropriate controls within the company based on the risks identified.

The control strategy should be approached comprehensively on the basis of a "governance, risk and compliance" structure. This allows the Board of Directors to define a methodology that unifies the language and generates consolidated and comprehensive information on auditing, legal compliance, risk, and finance.

Guideline 43: Board of Directors' Auditing Committee

Depending on the size of the Board of Directors and the company's situation, the Board should set up an audit committee to assist it in monitoring the company's financial management and performance, evaluating accounting policies, and supervising the effectiveness of the control model components.

In order to support its oversight of the company's control architecture, the Board of Directors must set up an audit committee whose main purpose is to evaluate accounting procedures, liaise with the outside auditor, supervise audit management within the company and review the control architecture. This body plays a fundamental role in ensuring that the company's financial information accurately and completely reflects the organization's financial situation.

The Board of Directors shall be responsible for determining the number of committee members (minimum 3 and maximum 5) and appointing them. The audit committee should be made up of exclusively external directors, the majority of whom must be independent ones. Likewise, the Chairman of the Board of Directors should not be chairman of this committee and the person heading up this committee should not hold this position on the risk committee (if there is such a committee).

In setting up this committee, knowledge and professional experience in banking, finance, auditing, accounting, or other matters related to the mandate and objectives of this body should be taken into account. The audit committee should include at least one financial expert. The members of the committee shall cease to hold office when they cease to be directors of the company, or when so agreed upon by the Board of Directors.

The commissary, statutory auditor or the trustee may attend the meetings with the right to speak but not to vote. In addition, high-level executives of the company with experience in the matters within the committee's competence may attend as guests. These shall include the head of the financial area, the internal audit unit and the compliance unit.

The audit committee must appoint a chairman from among its members who must be an independent director. The Bylaws of the company, the regulations of the Board of

Directors or the regulations of the committee should establish a maximum term of office, which should not exceed five years. He/she may be re-elected eventually, after a period deemed appropriate, for example, two years from the date of having resigned that position.

The committee must have a Secretary to support it in: the handling of its agenda, the recording of conclusions and conversations in the minutes, a proper follow-up on commitments, and the fulfillment of its duties and responsibilities. The Secretary may be the Secretary of the Board of Directors, but should not be the internal auditor. This must the person who ensures that all the committee's areas of responsibility are incorporated into the annual work plan. This allows the committee's mandate to be broadly and comprehensively fulfilled without limiting this body's focus to the follow-up of audit plans.

The corporate documents should establish the specific duties of the audit committee of the Board of Directors and should include the following:

i. Report on questions raised by the shareholders at the General Assembly of Shareholders regarding matters within its responsibility.

ii. Suggest that the Board submit the appointment of an external auditor, the contracting conditions and, if applicable, the revocation or non-renewal of the contract to the General Assembly of Shareholders.

iii. Supervise the external audit services and manage the relationship with them. This means to act as their counterpart, evaluate all those issues that could jeopardize their independence, monitor the audit plan and the progress of the audit as well as other communications provided for in the legislation regarding auditing accounts and in the technical auditing standards.

   The committee is also responsible for receiving the final outside audit report and, for explaining its contents and scope to the shareholders or the securities markets, in the event it contains reservations and qualifications and the company is listed or registered as a securities issuer. Last of all, the committee should verify that upper management is taking the outside auditor's recommendations into account and, when appropriate, leading the process of responding to the observations included by the auditor in his management letter.

iv. Learn about and evaluate the financial information process and ensure that the accounting criteria in effect at the time are properly applied in the preparation of the financial statements that the Board submits to the Assembly while also making sure the company does not remain on the sidelines of the implementation processes of the International Financial Reporting Standards (IFRS) on the national or sector level.

v. Receive the final financial audit report and study the financial statements to be submitted to the Board of Directors for consideration.

vi. Verify that all periodic information offered to the markets is prepared according to the same professional principles and practices as the annual accounts and monitor this information before it is disseminated.

vii. Supervise the operation of the company's website and other information dissemination mechanisms.

viii. Follow up and monitor the effectiveness of the company's compliance system and ensure the proper implementation of the organization's ethical environment. This includes regularly monitoring the degree of compliance with the Code of Ethics and the effectiveness of the whistleblower system. For the cases previously established in the organization's policies, the committee must evaluate the ethical situations and conflicts of interest that fall within its competence in order to submit the pertinent recommendations to the Board of Directors.

ix. Propose the structure, procedures, policies, and methodologies needed for the company's control model to operate to the Board of Directors, and periodically evaluate its effectiveness.

x. Supervise the internal audit services, check its annual work plan and annual activity report in order to ensure its independence and the effectiveness of its work. The committee is also responsible for receiving periodic reports on internal audit activities and verifying that upper management is considering the conclusions and recommendations contained in these reports.

   The committee is also responsible for recommending the selection, appointment, re-election, and dismissal of the heads of the internal audit service to the Board of Directors.

xi. In those cases in which the Board of Directors does not have a risk committee, monitor and periodically report on the application of the company's risk policy so that the main risks, whether financial or non-financial, on balance sheet and off balance sheet, are properly identified, managed, and publicized.

xii. Review compliance with actions and measures resulting from reports or inspections by supervisory and control authorities.

xiii. Review and study, in order to eventually formulate recommendations for the Board of Directors' authorization of the transactions that the company carries out, directly or indirectly, with directors, significant shareholders or shareholders represented on the Board, members of upper management, intra-group transactions, or with persons related to them.

Guideline 44: Board of Directors Risk Committee

The Board of Directors is responsible for evaluating, based on the size and reality of the company, the advisability of setting up a risk committee to support them in fulfilling their responsibilities in this area.

In the event that the Board of Directors determines that a risk committee is needed to support them in carrying out their responsibilities associated with risk management strategies, it is up to the Board to determine the number of members on the committee (minimum 3 and maximum 5) and to appoint them.

As in the case of the audit committee, the risk committee should be made up of exclusively external directors, the majority of whom must be independent ones. Likewise, neither the chairman of the Board of Directors nor the chairman of the audit committee should preside over this committee.

In setting up this committee, professional knowledge and experience in risk management and related matters that is at a sufficiently high level to understand the scope and complexity of these matters in the company should be deemed necessary. The members of the committee shall cease to hold office when they cease to be directors of the company, or when so agreed upon by the Board of Directors.

The commissary, statutory auditor, or the trustee may attend the meetings with the right to speak but not to vote. In addition, high-level executives of the company with experience in the matters within the committee's competence may attend as guests. These shall include the head of the risks area, the internal audit unit, and the compliance unit.

The risk committee must appoint a chairman from among its members who must be an independent director. The Bylaws of the company, the regulations of the Board of Directors or the regulations of the committee should establish a maximum term of office, which should not exceed five years. He/she may be re-elected eventually, after a period deemed appropriate, for example, two years from the date of having resigned that position.

The committee must have a Secretary to support it in: the handling of its agenda, the recording of conclusions and conversations in the minutes, a proper follow-up on commitments, and the fulfillment of its duties and responsibilities. The Secretary may be the Secretary of the Board of Directors, but should not be the risk manager. This must the person who ensures that all the committee's areas of responsibility are incorporated into the annual work plan. This will enable the committee's mandate to be broadly and comprehensively fulfilled and managed without limiting the focus of this body to the follow-up of risk management plans.

The primary responsibility of the risk committee is to support the Board of Directors in fulfilling its responsibilities with respect to risk management, specifically by periodically reviewing and evaluating:

i. Review and monitor the integrity and suitability of risk management and the sufficiency of the company's economic and regulatory capital and its allocation to the different lines of business and/or products when appropriate.
ii. Propose a risk policy for the company to the Board of Directors.
iii. Systematically assess the strategy and general risk policies in the company, especially the establishment of limits by type of risk and business with the breakdown level to be established by business, economic or business groups, clients, and areas of activity.
iv. Analyze and evaluate the ordinary risk management in the company in terms of limits, risk profile (expected loss), profitability, and capital mapping (capital at risk) as well as risk reports and make the pertinent recommendations to the Board of Directors.
v. Analyze and evaluate the company’s risk control systems and tools.
vi. Prepare improvement initiatives on the internal oversight and risk management systems that are considered necessary.
vii. Submit the proposed delegation rules for the approval of the different types of risks to be assumed at each level of the company to the Board of Directors.
viii. Inform the Board of Directors about the transactions that the Board must authorize that are beyond the powers delegated to the lower levels or bodies.
ix. Evaluate and follow the indications prepared by the supervisory authorities in the exercise of their duties.

x. Foster the adaptation of the organization's risk management treatment to an advanced model that allows a risk profile to be configured to be in line with the strategic objectives and monitor the degree of adaptation of the risks assumed under that profile.

Guideline 45: Responsibility for the Internal Auditing of the Company

The company must have an area or person responsible for internal auditing who is appointed by the Board of Directors and reports directly to this board.

Monitoring[36] is a basic component in evaluating the effectiveness of the control architecture. This monitoring task should be carried out by an area or person in charge who is designated exclusively for this purpose, i.e., an internal audit unit. The exercise of this role must be aligned with international practices such as the standards of the International Institute of Internal Auditors - IIA. All the above is not intended to overlook the work of the external auditors in this area (see Guideline 46 of this pillar).

The purpose of the internal audit area or the person responsible for these functions is to provide the company with an evaluator and integrator of the organization's control system with an objective criterion. Thus, actions to improve the components of the control architecture are safely and securely proposed.

The internal audit function should facilitate verification, from a constructive and non-policing perspective, of the effectiveness and sufficiency of the internal controls defined by the upper management team and that the required corrective and improvement actions are implemented in a timely manner. In any case, the evaluation and securing of the controls in effect cannot be the responsibility of those who design the controls, which is why this function must be structured in such a way as to ensure their independence.

Note that internal control policies and procedures related to ethics and integrity issues should, as appropriate, be extended to suppliers, contractors, and subcontractors while ensuring that contractual safeguards include anti-corruption clauses.

In order to do the job objectively and independently, the appointment, removal, and evaluation of the person in charge of internal auditing must be the responsibility of the Board of Directors and report directly to them through the audit committee (if there is such a committee on the Board of Directors).

Finally, it is important that companies (particularly listed companies and financial entities), depending on their size, complexity, and level of progress in control matters, adopt an internal audit bylaw that is approved by the audit committee, which should include:

i. The autonomy and independence of the person in charge of internal auditing in discharging his/her duties.
ii. The work of assessment and verification of the processes of risk management and that the risks are correctly evaluated.
iii. The evaluation of reports on key business risks.
iv. The review of the management of key risks.

36. Monitoring means providing objective assurance to the Board of Directors on the effectiveness of controls and risk management in an organization, to help ensure that key business risks are being managed appropriately, and that the internal control system is being operated effectively.

Guideline 46: Regarding the External Audit

The company should adopt formal guidelines for hiring an outside auditing firm in order to guarantee their independence and autonomy in their role.

In addition to the internal audit work, there is an external perspective on monitoring, usually done by the outside audit firm. They are appointed by the General Assembly of Shareholders based on a proposal of the Board of Directors.

In the case of listed companies and financial entities, the external audit should provide external evaluations on the effectiveness and operability of the company's internal control system in order to detect possible weaknesses and mitigate the risk of errors in the financial information generated by the company.

The outside auditor must maintain a clear independence from the company, a quality that must be declared in the respective audit report.

In the case of corporate groups, the external auditor must be the same for the entire group including off-shore subsidiaries.

The company must formalize the rules to ensure the independence of the outside auditor by means of a policy for the appointment of the outside auditor approved by the Board of Directors, which should include at least the following:

i. Rules for the selection of the auditor considering his professional experience, honesty, and prestige. Therefore, the Board of Directors may not propose the appointment of auditors who have been subject to disqualification, suspension or any other type of sanction by a judge or regulatory authority of the corresponding country to the General Assembly of Shareholders.

ii. The maximum duration of the contract and applicable extensions. A maximum limit to the period of their appointment should be established in order to avoid an excessively strong link between the auditing firms and/or their work teams and the audited company. This maximum should be between six and ten years as decided by the company. It is advisable to consider rotating the partners and work teams of the auditing firm halfway through the period that has been previously defined by the company as the maximum.

    As a general premise, outside audit firms should be linked to the company by renewable contracts of one or two years, subject to an evaluation of the performance and professional independence demonstrated during the exercise of their duties and up to the established maximum limit.

    These proposed deadlines are intended to ensure that the external auditor's engagement is based on the principles of renewal without the outside audit teams losing knowledge of the company's activities.

iii. Regulations on the provision of additional services. As a general rule, services other than the audit itself should not be contracted with the outside auditing firm. The application of this rule should be extended to people or entities related to the auditor. This should include the companies in their group as well as companies in which there is a broad overlap between their partners and those of the auditing firm. However, there may be reasons that justify, at a given time, the contracting of additional services such as the limited presence of auditing or consulting firms in the country where the company carries out its business. In these cases, which must be exceptional in nature, other services may be contracted, provided there is a resolution of the Board of Directors and the Assembly of Shareholders is informed of the additional services provided by the outside auditing firm as well as of the percentage that the billing for these additional services represents compared to the billing for the audit, which should not exceed 40%.

iv. Regulation on advertising remuneration. It is good practice to report the total amount of the contract as well as the relative importance that the fees generated by the company represent for the audit firm, i.e., the percentage of the audit firm's billing that the contract with the company represents in relation to its total billing. Ideally, within the policy for the appointment of the external auditor, those firms for which the fees for all services rendered to the company are more than 2% of its total revenues should not be selected.

IV. TRANSPARENCY AND DISCLOSURE OF FINANCIAL AND NON-FINANCIAL INFORMATION

Companies are increasingly responsible for the impact of their activities on their environment and their different stakeholders. Recognizing that the transparency expected of organizations is no longer predicated solely on transparency in relation to shareholders or investors but also to their stakeholders,[37] it has become a fundamental principle and a factor that can have an impact on a company's ability to not only find effective growth opportunities but also affect its reputation and sustainability in the long term.

Transparency, understood as the act of disclosing information about the company, is the basis for building relationships of trust between the company and their stakeholders and, consequently, for strengthening the corporate reputation. All of this makes it easier for the company to find better and greater business opportunities, financing, and recognition.

To that end, the disclosure of information by the company serves a dual purpose:

i. Provide shareholders and investors with as much information as possible to enable them to reach a well-founded and rational judgment about a particular company or investment proposed by their own; and,

ii. Facilitate the conditions for the different stakeholders to exercise active control over how the company carries out its business and manages the impact it has on the environment, and over the way in which directors and members of the upper management team are accountable for their decision-making processes. All of the above is done to ensure sustainability and the best interest of the company.

Transparency is now a right of shareholders and investors, and constitutes an obligation of the company towards other stakeholders. To this end, several laws in the region have dealt with this issue. Thus, some of them have established certain mandatory minimums in terms of disclosure of information that are recognized in rules at different legal levels for financial

37. Employees, customers, suppliers, regulators, supervisors, etc.

institutions and listed companies. Thus, they leave unlisted organizations a wide margin for development under the scope of self-regulation.

Beyond the regulatory requirements that companies must comply with in terms of information disclosure, they must recognize that transparency is a basic principle that is part of the corporate culture and has internal and external effects:

- Internally, a culture based on the preservation of effective information flows strengthens the decision-making processes at the different levels of the company's corporate governance system and benefits the generation of value. In addition, it facilitates solid accountability processes and proper risk management under the logic of applying effective controls.
- Externally, transparency and disclosure of information are the basis on which confidence is generated and transmitted to the market, and better opportunities for growth and development are created.

Transparency must therefore be a principle on which business activities are based to ensure the soundness of control systems, proper risk management, informed decision-making processes, and enhancing corporate reputation.

Thus, the company must find the appropriate mechanisms for disclosing relevant and truthful information about the company in a timely manner as well as establishing channels to maintain effective contact with their different stakeholders, so that the information is transmitted symmetrically and equitably. All this takes into consideration the size, situation, industry, and the places where they do business. At this point, it is important to bear in mind that the recipients of the information disclosed by the companies are different. Therefore, the mechanisms and even the type of information provided are not uniform.

Guideline 47: Channels and Type of Information to be Disclosed

Depending on its nature, size, complexity, and situation, the company must define the channels, the type of information to be disclosed as well as the bodies responsible for disclosing corporate information to the main stakeholders.

In terms of transparency and disclosure of information, it must be recognized that companies have a variety of stakeholders and that, depending on their own particularities, not all the information disclosed by the organization is relevant to them. Therefore, in order to suitably manage their relationships and interactions with the various stakeholders, the company must, first of all, identify the different interest groups. Based on this identification exercise, a stakeholder map should be drawn up and periodically updated, and from this, the most appropriate channels for making corporate information available and what is most relevant for each of them should be defined.

All of the above is apart from the fact that, in the case of financial entities or listed companies, the various regulatory frameworks in the region establish the mandatory requirements to which these companies must adhere in terms of the type of information and the manner in which it must be disclosed to investors and the markets. To that end, these companies shall adopt the necessary measures to ensure that all information -financial and non-financial- about the company, as required by current legislation, is transmitted to the financial and capital markets, in addition to any other information considered relevant for investors and clients.

For all companies, the channels, instruments, and tools they adopt to disclose their information must be structured to respond to principles of clarity, timeliness, sufficiency, and truthfulness. In any case, they must find an appropriate balance between the principle of transparency and the preservation of their confidential or reserved information.

In addition, the rules and mechanisms adopted by the organization for disclosing information should also define those responsible for providing said information and for responding to requests addressed to them as well as those in charge of representing the company before certain stakeholders.

Considering its size, ownership structure, and situation, the company may consider adopting the following disclosure mechanisms:

i. The corporate website which includes relevant information about the company, its main lines of business, its corporate structure, and contact channels depending on the size and needs of the company. Likewise, based on its capital structure, a link could be created with exclusive access for shareholders that would provide information on shareholder assemblies, periodic reports on results, and major changes.

   The web page should be organized as user-friendly so that it is easy to get access to information. Therefore, five headings that include the following minimum content are recommended:

   a. About the company: history, main data, vision and values, business model, etc.
   b. Shareholders (if applicable): share price, dividends, capital, analyst coverage, relevant events reported, financial information (annual report, management report, presentation of interim results, etc.), information on the General Assembly, shareholder contact, frequently asked questions, etc.
   c. If applicable, investor relations: results, presentations (of results, operations, conferences, events, etc.), financial reports (annual report, management report, quarterly reports, risk management report, information to supervisory bodies, significant news, periodic public information, etc.), issuances of debt securities, ratings, etc.
   d. Corporate Governance: In this section, it is advisable to disclose the different corporate documents that are part of the company's corporate governance system. These documents may include the Bylaws, the regulations of the General Assembly of Shareholders, the Board of Directors regulations, committee regulations, the corporate governance report, committee reports, shareholder agreements, the Corporate Governance Code, the Code of Conduct and the Code of Ethics, as well as policies on conflicts of interest, transactions with related parties, dividends, disclosure of information, and whistleblowing, etc.
      The company is also well advised to provide information about the organization chart of the institution with details on the structure of upper

management and its Board of Directors, the resumes of the main managers and directors as well as a matrix with the breakdown of the Board of Directors (indicating relevant characteristics such as the category of Director, age, gender, profession, years as Director, etc.), and the structure and makeup of the Board's committees.

e. Corporate Sustainability: Refers to the approach, sustainability strategies, and responsible business conduct adopted by the company. These may include institutional policies and guidelines in areas such as corporate social responsibility programs, promotion of diversity, equity, and inclusion at the level of its corporate governance bodies and its workforce, management of environmental risks arising from the company's business operations, commitments regarding natural resources, and analysis of environmental impact, etc.
The supports for communicating the different information to stakeholders may take different formats depending on the tradition of each country and the regulations in force, but, in general, they must be documents that are useful for their recipients, easy to access, and consult.

ii. If the company has a corporate page on any social networks, these require special attention. Therefore, the guidelines for their responsible management must be clearly defined so that they do not compromise the company's position. These guidelines should define the use of social networks by the company (as a mere channel for disseminating content published on the web, or as a channel for publishing content and interaction with shareholders and stakeholders), those responsible for managing them, the tone used, the type of information to be communicated as well as the internal coordination mechanisms to ensure the issuance of correct and informed messages to third parties through the networks.

iii. Periodic investor briefings, which may include virtual formats for remote access, in which both financial and non-financial topics relevant to the company are presented as well as short- and long-term projections, etc.; or

iv. A shareholder and investor relations office.

Guideline 48: Information Disclosure Policy

The company must have an information disclosure policy duly approved by the Board of Directors that includes the guidelines and rules for the disclosure of information to shareholders and other stakeholders and must meet criteria above the legally established minimums.

With regard to corporate information, it is important for companies to first differentiate between information that is public and information that is not. That way, with respect to the former, they can establish the rules and definitions on how it will be made available to their shareholders, investors, and other stakeholders as applicable. These measures should be focused on reinforcing the company's bonds of trust with its different stakeholders, and thereby manage any reputational risks that may arise.

In this respect, the company must formalize, through an information disclosure policy approved by the Board of Directors, the rules and guidelines adopted by the organization for the disclosure of its information. This policy should consider, as a minimum, the following items:

i. The type of information disclosed. This may be a function of the nature of the information (financial and non-financial information), or a function of the time at which it is disclosed (permanent, periodic or special, or short-term information).
ii. The express commitment that the information disclosed as well as the procedures and persons responsible for assuring the quality of the information must be clear, timely, complete, truthful, and easily accessible.
iii. Which bodies or people are responsible for speaking on behalf of the company for the official disclosure of information associated with the company.
iv. Which bodies or people are responsible for responding to requests for information from the different stakeholder groups.
v. How the information should be disclosed and the channels used to do so.
vi. Who are the recipients of the information and what type of information is made available to each of them.
vii. The frequency with which the corporate information will be made public and updated so that it is always transmitted in a timely manner to its recipients.
viii. The rules and guidelines for managing social networks from both the institutional perspective and the personal work of the company's internal collaborators. In any case, measures must be taken to preserve the company's position so that reputational risks are not generated as a result of an inappropriate management of these channels.
ix. The company's due diligence strategies and commitment to protect information classified as confidential or reserved.
x. Ensure that proper processes and internal (internal audit and internal control systems) and external (outside auditor) controls exist to reinforce the quality of the information disclosed. In the cases of companies that belong to a business group, the policy must allow a third party to come to an opinion founded on the reality, complexity, and operations of the group as a whole. Thus, the Board of Directors of the parent company will be the one that must approve of and establish the main criteria for the disclosure of information as well as who will be responsible for it based on the scope of the group.

Guideline 49: On the Company's Financial Information - the Financial Statements

The company must ensure that its financial statements are prepared under criteria of security and reliability and in accordance with the guidelines set forth in international standards on the subject. Thus, they accurately reflect the economic and financial situation of the company.

A company's financial statements must accurately reflect its net worth and economic-financial situation in its most relevant aspects. This should allow, on one hand, the company's current shareholders to make informed decisions and, on the other, market players such as potential investors, rating agencies, creditors, the media, etc., to be reasonably informed about the company's performance.

The Financial Statements, which should be understood as the basic, but not exclusive, document for understanding a given company should contain at least the following information:

i. Profit and loss statement.
ii. Balance sheets.
iii. Comprehensive statements of changes in net equity.

iv. Cash flow statements.
v. External auditor's report on the financial statements and their notes. This report must include the qualifications of the outside auditor as well as the explanations of the Board of Directors with respect thereto in the event of discrepancies between the criteria of the Board of Directors and the external auditor. The remuneration of the outside auditor (in absolute terms and in the percentage that the fees paid represent in their total local revenue) must also be made explicit. This must also be done for any service, other than auditing, that the auditor provides to the company or conglomerate to which the company belongs as well as for the proportion that these services represent with respect to the auditing services.

The company's financial statements must be prepared in accordance with international accounting principles contained in the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) and, in any case, those generally applicable in the country where the company's registered office is located. The audited financial statements must be approved by the Board of Directors and submitted to the General Assembly of Shareholders. In the case of corporate groups required to consolidate, both the consolidated financial statements and those of the company acting as parent company of the group shall be identified.

Significant related-party transactions, including transactions between companies in the group (intra-group transactions), should be included in detail in the company's financial information as well as the mention of off-shore transactions and, where appropriate, the former reported as a relevant fact. In any case, related party relationships should be disclosed where there is control, regardless of whether or not related party transactions have occurred.

In order to maintain the necessary consistency and transparency, the financial information for interim periods and significant events should be prepared in accordance with the same principles, criteria, and professional practices used to prepare the annual financial statements.

Guideline 50: Mechanisms for Disclosure of Non-financial Information

The company should define the type of non-financial information it will make available to its stakeholders as well as the mechanisms for its disclosure.

In order to respond appropriately to the principle of transparency, the company must establish the non-financial information it will disclose as well as the most appropriate channels for such disclosure. Non-financial information is understood to be all information related to carrying out the company's operations, its structure, strategy, functioning, etc. To that end, the company may consider the following mechanisms for disclosure of non-financial information:

a. Corporate Governance Report

The Board of Directors must approve and publish a corporate governance report annually after a favorable review by the audit committee. This report should include the degree of compliance with the corporate governance recommendations applicable in the respective jurisdiction and established by the supervisory or regulatory body as well as detailed corporate information. Depending on the size and complexity of the company, this report may be structured as a chapter of the annual report or as a separate document to be submitted simultaneously with the annual report.

The report, which must be disclosed on the corporate website, fulfills the goal of providing the company's stakeholders with relevant and sufficient information to evaluate the evolution of the organization's corporate governance system. Therefore, it should not be a mere transcription of the corporate governance rules included in the Bylaws, internal regulations, code of good governance or other documents. Rather, it should describe how the company's governance model works and its main changes during the respective fiscal year.

In this respect, the report is an explanatory document through which the company provides, on one hand, objective information (such as, for instance, the capital structure or the duties of the Board of Directors) and, on the other, accurate information and data that make it possible to understand whether or not the different corporate governance rules or practices affecting the company have been complied with and how this has been done.

Among the items in the corporate governance report, those related to compliance with the measures set forth in the Guidelines must be included, in particular:

- Ownership Structure
- Management structure of the company
- Related transactions
- Risk management system
- General Assembly of Shareholders
- Degree of compliance with corporate governance recommendations

(See Annex 5 for a guideline model for this report).

b. Regarding the Annual Report

The company would be well-advised to prepare an annual report in which its main activities and results throughout the year are detailed in order to provide timely and quality information to its stakeholders in relation to its performance during a given period.

The annual report is an important mechanism for the disclosure of information and accountability of the company since it gathers data on the results, performance, and changes in the company's business during the fiscal year, in an orderly manner, to make it available and easily accessible to stakeholders.

In some jurisdictions, corporate regulations make the preparation of the annual report mandatory. In such cases, companies should strive to supplement their reports with details that go beyond the legal minimum so that the accountability processes as well as the quality of the company's interactions with its stakeholders are strengthened.

In those cases in which the preparation of the annual report is not mandatory, it is important for the companies to prepare them on an annual basis and incorporating the following elements:

i. Chief Executive's Management Report.
ii. Most relevant events that occurred during the period including the main operations and risks that occurred during the fiscal period as well as the way in which they were managed by the organization.

iii. Organization, methods, and procedures of the company's control architecture.
iv. The Board of Directors' corporate governance report (if included in the body of the annual report).
v. The companies' financial information and main developments or changes during the period.
vi. Audit report on the accounts issued by the external auditor along with the corresponding notes.

As indicated for the corporate governance report, the annual report is also a document that must be disclosed through the corporate website.

c. Corporate Sustainability Report

As detailed in Guideline 30 of the Corporate Sustainability pillar, the company should include reports related to its strategy and compliance with environmental and social goals as well as those related to climate change risk mitigation in its non-financial information disclosure mechanisms. These may be a chapter in the annual report or a separate document. If the latter, it must be disclosed on the corporate website along with the annual report.

d. Disclosure of Relevant Items Regarding the Exercise of Ownership - Shareholders' Agreements

For the company's stakeholders, it is relevant to have complete and timely information regarding existing shareholder agreements. These may contain definitions that affect the conditions for the exercise of ownership in the company, or aspects related to the organization's corporate governance system. Therefore, in those cases in which local regulations do not require disclosure of the agreements, particularly for listed companies, it is advisable to disclose the signing, extension, or modification of a shareholders' agreement to the market and to third parties.

SECTION III

FINAL REFLECTIONS ON THE IMPLEMENTATION OF THE GUIDELINES

As in previous revisions, these Guidelines provide a pragmatic and well-founded vision of a set of corporate governance practices that, if implemented, would enable the companies to reinforce the efficiency of their operations, strengthen their sustainability, and protect shareholders' rights while always taking into account their various stakeholders' viewpoints.

That is why the Guidelines provide an overview of six key pillars of corporate governance describing the three main groups that interact in any company: ownership, management, and administration.

In each of these pillars, a set of corporate governance guidelines have been included as parameters. These, in turn, provide in detail a series of specific practices that make it possible for companies, regardless of their ownership structure, size, and geographic location, to have access to precise recommendations that can be fully implemented in their own organizations.

The way these Guidelines have been developed could lead to seeing each of the different pillars as independent of each other and even to considering the 50 guidelines detailed as a dispersed set with no relation among them.

However, this approach would be mistaken if it ignores the fact that the corporate governance model implemented by any organization must be understood from a comprehensive, but especially, coherent perspective in the sense that corporate governance practices must form an integrated and effective body in which a series of reciprocal controls (checks and balances) are established between the three levels – ownership, management, and administration – that permeate all divisions of the company and become part of its culture.

As a result, the corporate governance practices finally implemented in a given company should, in terms of the six pillars, constitute the company's governance model. This model is understood as a set of corporate governance principles and practices that govern the organization and operation of the company in order to provide stability, efficiency and, above all, clarity in the assignment of roles and responsibilities.

The definition of a governance model implies that the specific corporate governance practices detailed in the Guidelines should be adapted and implemented in the company so that:

- They are compatible with each other.
- They point in the same direction.
- They form a solid and integrated body, i.e., a logical, effective, and coherent model that fits the needs of the company.

Otherwise, they run the risk of having inefficient corporate governance practices that could have a negative impact on the necessary interaction between the different levels of the company, or even worse, of not establishing a set of reciprocal counterweights that would indeed minimize the company's governance risk to the detriment of its long-term sustainability.

In addition to the above, any company considering the adoption and implementation of these Guidelines should carefully assess what their starting point with respect to corporate governance would be.

In this document, we encourage the companies in the region to implement the contents of these Guidelines.

However, an implementation process that is gradual without abrupt changes is especially recommended. Ultimately, it cannot be forgotten that the reinforcing of corporate governance is not just a set of governance practices incorporated into the internal regulatory documents of a given company. It is also a cultural change, a different way of doing things within the company.

Therefore, from the point of view of practical experience, the suggestion is that a company should adhere to the following principles of action in order to properly achieve the implementation of corporate governance:

- Ensure comprehensiveness and coherence within the set of corporate governance practices that make up an efficient governance model adapted to the needs of the company.
- Implement those corporate governance practices that have been fully proven to contribute value.
- Approach the implementation process as a time-consuming cultural adjustment in which abrupt changes can have negative effects on the company.
- Consider the company's governance model as dynamic and adjust and improve it periodically and continuously as the company's circumstances keep changing.

In view of the above, these Guidelines will hopefully be effectively disseminated among the companies in the region. The idea is to contribute to successful strengthening of their corporate governance and, therefore, to that of the region's business community as a whole.

In practical terms, we must encourage companies to implement these Guidelines to help them attract investment under better conditions, improve their internal operations, manage their risks, strengthen their sustainability, properly protect the rights of shareholders and other stakeholders and, in short, develop a proper governance model.

SECTION IV

REFERENCE GUIDE TO THE GUIDELINES

Prior Considerations

The guidelines contained in this section are based on the considerations included in Section II where each of the fifty guidelines is delved into. As a result of this, the interpretation of each must necessarily be made in accordance with what is contained in the aforementioned Section and should be implemented through amendments to the Bylaws and/or internal regulations and codes.

The Guidelines address the following pillars: (i) company property; (ii) the Board of Directors; (iii) upper management; (iv) corporate sustainability; (v) control architecture; and (vi) transparency and disclosure of financial and non-financial information.

I. COMPANY PROPERTY

Guideline No. 1: Agreements between Partners
In the initial phases of the company, it is essential for the partners to define the governance agreements associated with how their interactions, their contributions, and participations are valued as well as the management of changes in the ownership structure, etc.

Guideline No. 2: Parity of Treatment
The company should recognize the principle of equal treatment in its relations with shareholders while taking into account the differences between types of shareholders. This must not involve obtaining privileged information for one or several shareholders to the detriment of the rest of the shareholders making up the capital stock.

Guideline No. 3: Mechanisms for Communicating with Shareholders and Investors
Depending on its size, needs, and capital structure, the company must implement permanent communication mechanisms with shareholders and investors that allow them to have access to information on the organization's performance.

Guideline No. 4: Arbitration
The company's Bylaws should include an arbitration clause that establishes the rules for settling differences between different governance stakeholders (shareholders and Board of Directors), to challenge the resolutions of the Assembly, or to hold the Directors accountable.

Guideline No. 5: Responsibilities and Powers of the General Assembly of Shareholders
The company's Bylaws must recognize the General Assembly of Shareholders as the company's supreme governing body and expressly define its functions, responsibilities, and powers while specifying those that cannot be delegated.

Guideline No. 6: Rules of Procedure for the General Assembly of Shareholders
The General Assembly of Shareholders must have a body of binding rules (through the regulations of the General Assembly of Shareholders or at least at the level of the Bylaws) where the guidelines and provisions relating to its operations are expressly defined.

Guideline No. 7: Quorum and Special Majorities
The Bylaws must establish a quorum and general and special majorities for making certain decisions associated with sensitive or material matters that have an impact on the company.

Guideline No. 8: Recognition of Shareholders' Special Rights
The Articles of Incorporation and other corporate documents (such as shareholder agreements) must expressly state the rights of the shareholders, in particular, in relation to making certain decisions that are material to the company.

II. BOARD OF DIRECTORS

Guideline No. 9: Structure and Makeup of the Board of Directors
The company's Board of Directors must have a structure that is adjusted to the size of the organization, its actual business situation, its main strategic challenges while, at the same time, allowing them to properly fulfill their responsibilities.

Guideline No. 10: Minimum Number of Independent Directors and Definition of Independence
The Board of Directors should have a number of independent members corresponding to the size and needs of the board so as to ensure decision-making processes with sufficient objectivity to ensure the best interests of the company.

Guideline No. 11: Director Appointment Process
The company must have a procedure approved by the General Assembly of Shareholders that defines the rules and requirements for the appointment and removal of directors. This process must consider guidelines for the nomination, verification of qualifications, and election of those who aspire to be part of the collegial body.

Guideline No. 12: Board of Director Committees
The Board of Directors, depending on its size and needs, may set up specialized committees to enable it to carry out its duties better.

Guideline No. 13: Responsibilities of the Board of Directors
The Bylaws and/or the rules of the Board of Directors should expressly state the duties and responsibilities of the Board.

Guideline No. 14: Rules of the Board of Directors
The Board of Directors must have a regulation that sets out the rules for their operations and the performance expectations of the Directors that must be binding on the members of the Board.

Guideline No. 15: On the Dynamics and Effectiveness of the Board of Directors
The Board of Directors must identify their different moments and the components that contribute to their effectiveness so that they can manage them properly for quality management decision-making processes.

Guideline No. 16: Causes for Removal of Directors
The Bylaws should establish the grounds for the dismissal of directors as well as their obligation to resign if they no longer meet the conditions for their appointment or may cause damage to the organization's prestige and good name.

Guideline No. 17: Remuneration of the Board of Directors
The company should formalize a public model of Board remuneration that is approved by the General Assembly of Shareholders (via a Board remuneration policy) and considers market conditions, the time needs required to fulfill the duties of the position, and the level of the directors' responsibilities.

Guideline No. 18: Work Plan and Agendas
The Board of Directors should plan properly and adopt an annual work plan under the leadership of the Chairman of the Board of Directors. Likewise, the Chairman of the Board of Directors should work in coordination with the Chief Executive Officer to prepare the order of business for each meeting.

Guideline No. 19: Evaluation of the Board of Directors and their Committees
The Board of Directors should do an annual evaluation of its performance, incorporating different methodologies (self-evaluation or evaluation with an external facilitator) and providing for a system of periodically monitoring its results.

III. UPPER MANAGEMENT

Guideline No. 20: Appointment and Dismissal of the Chief Executive Officer
The appointment and removal of the Chief Executive Officer is a function of the Board of Directors.

Guideline No. 21: Appointment and Dismissal of Members of Upper Management
The appointment and removal of the members of upper management are duties that correspond to the Chief Executive Officer.

Guideline No. 22: Succession Risk Management at Upper Management Level
The organization must identify its main succession or transition risks at the upper management level, and adopt mechanisms for their effective management.

Guideline No. 23: Commitments to Diversity
The company's key decision-makers and, in particular, the Board of Directors must commit to adopting effective measures to ensure conditions for the formation of the upper management team under principles of suitability and diversity through a diversity policy.

Guideline No. 24: Incentive Model at the Upper Management Team Level
The company should have an incentive model for the upper management team that is approved by the Board of Directors and that facilitates an alignment of the executive team with the performance objectives, the long-term vision, and the purpose of the organization.

Guideline No. 25: Evaluation of the Chief Executive and Members of Upper Management
The company should implement annual evaluation mechanisms for the Chief Executive Officer and upper management to ensure effective monitoring of their work and the encouragement of a culture of continuous improvement and accountability.

IV. CORPORATE SUSTAINABILITY.

Guideline No. 26: The Definition of the Corporate Purpose and Sustainability Strategy is the Responsibility of the Board of Directors.
The Board of Directors must ensure that the company is publicly committed to a business purpose that guides its actions, and is oriented to the creation of long-term value for its stakeholders. They must also take responsibility for defining the approach and strategy on social, environmental, and climate change issues by considering the impact of the company's activities on these matters. Therefore, the organization should develop tools and mechanisms that make it possible to effectively manage the risks involved.

Guideline No. 27. The Board Should Consider Environmental, Social, Governance (ESG) and Climate Change Issues in Setting up Committees to Support them in Addressing these Issues in more Detail.
The Board's responsibilities associated with ESG and climate change issues may be assigned to one or several committees specifically created for this purpose, such as a sustainability committee, but they may also be assigned to another already existing committee, or be assumed by the Board itself.

Guideline No. 28: Monitoring ESG System Performance - Environmental, Social, Governance, and Climate Change
The company should adopt mechanisms to periodically monitor the organization's ESG and climate change strategies and policies in order to guarantee a timely decision-making process.

Guideline No. 29: Risk Management Regarding Exposure to ESG (Environmental, Social and Governance) and Climate Change Factors
In its strategy, the company should consider a comprehensive risk management system, and in its risk management policy consider identifying, assessing, managing, and monitoring risks associated with exposure to environmental, social and governance (ESG), and climate change factors.

Guideline No. 30: Disclosure of Information on ESG (Environmental, Social and Governance) and Climate Change Factors
The company must secure mechanisms for timely and sufficient disclosure of the information associated with its strategies and compliance with environmental and social goals as well as those related to its adaptation to, and mitigation of risks associated with climate change.

Guideline No. 31: Makeup of the Board of Directors under Corporate Sustainability Principles
In order for the Board of Directors to be able to assume their responsibilities under sustainability principles and generate value in an environment that demands greater responsibilities in ESG matters, aspects of makeup, remuneration, and monitoring must be considered.

Guideline No. 32: Overview of Stakeholders' Rights, Roles, and Interests.
The company's corporate governance model should consider the rights, roles, and interests of stakeholders. It should also encourage active cooperation between the company, its shareholders, and other stakeholders in order to generate shareholder value, sustainable jobs, and resilient companies.

Guideline No. 33: Fostering Dialogue between Directors, Key Executives, Shareholders, and Stakeholders
The company’s corporate governance model should promote dialogue between Directors, key executives, shareholders, and stakeholders to exchange views on sustainability issues that have been identified as relevant to the company's strategy and the assessment of which issues should be considered materially significant.

Guideline No. 34: The Company's Corporate Governance as a Facilitator of Exercising Bondholder Rights
The company's corporate governance model should facilitate the exercise of bondholders' rights, in particular the interests of minority bondholders.

Guideline No. 35: Dissemination of a Culture of Corporate Governance and Business Ethics to Stakeholders
Disclosure of the company's corporate governance culture, its ethical principles, and business integrity to the various stakeholders, both internal and external, fosters effectiveness in the fulfillment of the commitments and objectives assumed by the company and facilitates the accountability processes of its main decision makers.
V. Control Architecture

Guideline No. 36: Principle of Self-monitoring as a Pillar of the Company's Control Architecture
The company must create a control culture at all levels. The Board of Directors and upper management are responsible for ensuring that all company employees carry out their activities under the principle of self-control and commitment to an effective control plan.

Guideline No. 37: Comprehensive Risk Management System
The company's corporate governance system should incorporate structures and mechanisms that make up a comprehensive risk management system. Thus, the company would have the means to identify, evaluate, and manage the possible contingencies that may impact their business model.

Guideline No. 38: Risk Management Culture
The structure of the company's integrated risk management system must enable the implementation of a risk culture at all levels of the organization.

Guideline No. 39: Internal Communication
The Board of Directors is responsible for ensuring that the company implements a system of internal communication flow between the different levels of the organization of the information generated by the risk management process and the internal control system.

Guideline No. 40: Information Governance and Data Strategy
The Board of Directors must ensure the existence of a proper information governance and data strategy aligned with the company's strategy and its control architecture model.

Guideline No. 41: On Managing Conflicts of Interest and Transactions with Related Parties
The Board of Directors, as the body primarily responsible for the company's culture of ethics and transparency, must adopt policies and strategies for managing conflicts of interest at all levels of the organization and for entering into transactions with related parties.

Guideline No. 42: Board of Directors' Responsibility in the Control Architecture
The Board of Directors should be the one ultimately responsible for defining the company's control architecture (based on a principle of self-control and compliance) and ensuring its effectiveness.

Guideline No. 43: Board of Directors' Auditing Committee
Depending on the size of the Board of Directors and the company's situation, the Board should set up an audit committee to assist it in monitoring the company's financial management and performance, evaluating accounting policies, and supervising the effectiveness of the control model components.

Guideline No. 44: Board of Directors Risk Committee
The Board of Directors is responsible for evaluating, based on the size and reality of the company, the advisability of setting up a risk committee to support them in fulfilling their responsibilities in this area.

Guideline No. 45: Responsibility for the Internal Auditing of the Company
The company must have an area or person responsible for internal auditing who is appointed by the Board of Directors and reports directly to this board.

Guideline No. 46: Regarding the External Audit
The company should adopt formal guidelines for hiring an outside auditing firm in order to guarantee their independence and autonomy in their role.

VI. TRANSPARENCY AND DISCLOSURE OF FINANCIAL AND NON-FINANCIAL INFORMATION

Guideline No. 47: Channels and Type of Information to be Disclosed
Depending on its nature, size, complexity, and situation, the company must define the channels, the type of information to be disclosed as well as the bodies responsible for disclosing corporate information to the main stakeholders.

Guideline No. 48: Information Disclosure Policy
The company must have an information disclosure policy duly approved by the Board of Directors that includes the guidelines and rules for the disclosure of information to shareholders and other stakeholders and must meet criteria above the legally established minimums.

Guideline No. 49: On the Company's Financial Information - the Financial Statements
The company must ensure that its financial statements are prepared under criteria of security and reliability and in accordance with the guidelines set forth in international standards on the subject. Thus, they accurately reflect the economic and financial situation of the company.

Guideline No. 50: Mechanisms for Disclosure of Non-financial Information
The company should define the type of non-financial information it will make available to its stakeholders as well as the mechanisms for its disclosure.

SECTION V

APPENDICES

APPENDIX 1
Corporate governance for groups

The content of the GLACCG is directly applicable to individual companies. However, it would be impossible to understand the current business fabric of the region without considering the existence of business groups, both national and regional, which have significant importance, economic impact, and influence on regional development.

Furthermore, financial markets in general have undergone a substantial concentration process that has led to the creation of financial conglomerates (financial services business groups, usually linked to banking, insurance, and securities). Many of these conglomerates have operations abroad, which means they are essential players in regional financial markets.

Likewise, business groups or financial conglomerates face their own challenges in terms of corporate governance as a result of the apparent contrast between their economic unity, derived from the pursuit of a common objective as a group, and their legal plurality since they are made up of different independent companies.

In academic terms, the conglomerates are an approach to the organization and management of businesses in different lines, whether financial or entrepreneurial. This makes them a mechanism for legally and economically organizing the entrepreneurial activity of diverse businesses.

The main characteristic common to both business groups and financial conglomerates, and which defines them, is that they are linked to each other by the existence of a parent or holding company in spite of the legal independence of the subsidiaries that they are made up of. The holding company owns shares directly or indirectly, as a total or partial percentage of the capital in each of the subordinate companies and exercises a common control or effective influence over them.

As a consequence, two requirements define the existence of a business group or financial conglomerate:

a. Stock ownership; and
b. Effective influence or common control exercised by the parent or holding company over its subsidiaries. This must be understood as the oversight exercised by a parent or holding company over the companies that make up the group in order to achieve a common objective.

The parent or holding company has the possibility of pursuing efficiency in the development of the business and the fulfillment of the corporate goals through the exercise of oversight and the consolidation of synergies. These actions make it possible to guarantee the group's own existence as well as the achievement of its goals.

From a corporate governance perspective, the groups must address the challenges implicit in finding a proper balance in the level of interaction between two variables that influence the governance of the different components within a holding group. These items are associated with:

a. The generation of synergies through a continuous search for efficiency based on the definition of a common objective. Thus, the dynamics between the different companies and entities that make up a business group are mediated by:

i. the development of a group strategy,
ii. the structuring of guidelines and policies with a group-wide scope,
iii. the design of mechanisms for channeling the policies in the different companies in the group to achieve the common objective, and
iv. the implementation of communication channels and information flows.

All these elements must make it possible to coordinate the group's work and operations.

b. The respect that must be maintained in relation to the reasonable autonomy of the companies that the group is made up of since they are independent entities that are recognized and protected by the legal system.

Note that those measures focused on establishing, preserving, and implementing the group's common objective (corporate strategy, group guidelines and policies, and communication and information channels) could clash with both the autonomy legally granted to any company and its individual interests, regardless of whether or not it belongs to the group.

On this point, it must be noted that subordinate companies belonging to a corporate group benefit from access to common services, financial and non-financial resources of the group, and other advantages. To that end, the subsidiaries must accept that there is, in fact, an interest specific to the group to which they belong, and this should be considered the primary interest that all the companies of the group must pursue and defend.

Nevertheless, it is important to bear in mind the fact that some companies operate under legal frameworks in which is not always easy to give precedence to the interest of the group as a whole. This is the case, in particular, of subordinated companies that may have minority shareholders. Thus, the directors of these companies may find themselves involved in potential conflicts of interest that the group's corporate governance system must consider and resolve.

In spite of the above, the subordinate companies must orient their decision-making processes towards the interest of the group given that they are controlled by the parent company through the percentage of capital stock it owns in them. As a result, they are subject to the will of the parent company and do not have total autonomy to establish key elements such as strategic foresight or the identification and prioritization of business opportunities, etc.

This circumstance limits the traditional understanding of the concept of the individual social interest of companies that belong to a group which results in the group's own interest being the main one to be defended and pursued. This should be a determining factor in managing possible conflicts of position between companies within the group.

In this respect, corporate governance becomes the key tool in making it possible to define and defend the group’s common interest. It also helps create synergies that sustain and maximize the value of the group while, at the same time, respecting the necessary autonomy that the companies within it should have.

With regard to financial conglomerates, the role of corporate governance is even more relevant, given the following variables:

a. The complexity of the financial and non-financial risks to which they are exposed.
b. The dynamism of the sector.
c. The high leverage ratios with which it operates.
d. The need for depositor protection.
e. Systemic risk, including cross-border risk.

In this regard, there has been great advancement in this area in recent years, both in the reinforcement of local regulations in most countries and from the perspective of the supervisor. Proof of this is the publication by the Joint Forum of the Bank for International Settlements in Basel of the "Principles for the Improvement of Corporate Governance" in October 2010 as well as the "Principles for the Supervision of Financial Conglomerates" in September 2012.

Taking the above into account, from the perspective of corporate governance, the key is in the existence of a governance model for the group, whether entrepreneurial or financial, that is understood to be the set of corporate governance principles and practices that govern the organization and operation of the group as a whole in order to provide it with stability, efficiency and, above all, clarity in the assignment of roles and responsibilities.

The definition of a governance model means that the specific corporate governance practices detailed in the Guidelines have to be adapted and implemented at the different levels of the group, in particular at the levels of the parent company and the subordinate ones, so that:

a. They are compatible with each other.
b. They point in the same direction.
c. They form a solid and integrated whole, i.e., a model, that is logical, effective, and coherent.

It must be emphasized that various governance model arrangements may coexist within the corporate governance system of a group based on the degree of maturity and level of interaction required between the subsidiaries and the parent company. The basic point is to ensure that each subsidiary adjusts its governance model to its situation while making sure that a proper level of homogeneity is maintained in terms of criteria.

Thus, the ultimate goal of the application of corporate governance principles is to have precise boundaries of action and clear rules for the delimitation and distribution of responsibilities and interactions between the subsidiaries and the parent company. As a result, the common objectives as defined by the conglomerate may be achieved, the risks can be comprehensively managed, and value is created for the group while simultaneously the authority and responsibilities of each of the governing bodies of the different subsidiaries are respected.

This Appendix I on corporate governance of groups addresses the following key areas:

1. Organizational structure of the group.
2. Treatment of the Board of Directors.
3. Consolidated treatment of the control architecture.
4. Transparency and information disclosure.

At the parent company level	At the subordinate company level

1. Organizational structure of the group, transparent and enabling the assignment of clear lines of responsibility

Business groups and financial conglomerates present a significant heterogeneity in their structures as a result of their characteristics, operations, coordination needs, or even ownership structures in subordinate companies.

From a corporate governance perspective, the organizational structure must allow for effective supervision of the group of subordinate companies by the parent company and take into account the nature, scale, complexity of the group, risks (consolidated as well as individual risks of each of the companies), and the jurisdictions in which each of them operates. To this end, it is necessary to define clear lines of responsibility within the groups.

With respect to financial conglomerates, it is particularly advisable for each subordinated company to have an exclusive corporate purpose, i.e., that each company that makes up the conglomerate has a single financial service (banking, insurance, stock brokerage, fund management, remittances, or others). This will facilitate effective control and supervision by both the parent company and the supervisory bodies.

Given the special nature of financial conglomerates and the risks to which they are exposed, it is not appropriate to integrate within them other companies that engage in lines of business other than the provision of financial services.

Finally, all the companies that make up a financial conglomerate should be subject to supervision by the corresponding supervisory body, including the parent company, regardless of whether it is operational (in the case of a bank that, in turn, acts as the parent company of a conglomerate) or not (in the case of a holding company).

Guideline 1

The group must have a public, clear, and transparent organizational structure that allows the assignment of lines of responsibility and facilitates the strategic orientation, supervision, control, and effective management of the group.

Recommendations

The organizational structure of the group should identify the following aspects:

a. Main subsidiaries and subordinates of the group, their place of operation, and registered office.
b. The way in which the group is managed and controlled at the highest level.
c. The main lines of responsibility within the group.
d. Significant interactions between the different lines of upper management in the group.
e. Group coordination mechanisms as well as communication channels within the group and information flows.
f. Corporate, financial, commercial, and any other relevant relationships between the different companies in the group.
g. In the case of financial conglomerates, the incorporation of subordinated companies with an exclusive corporate purpose.

2. Treatment of the Board of Directors

As stated in Pillar II of these Guidelines, the Board of Directors is the key governance body responsible for the direction and supervision of the company, its strategic orientation, and the identification of growth opportunities and strategic risks.

The case of business groups or financial conglomerates is no exception to the above with the specific feature that a distinction must be made between the Board of Directors of the parent company and those of the subordinate companies in what is known as differentiated treatment of Boards of Directors (see Guideline 2 of this Appendix).

In this regard, the Board of Directors of the parent company will be responsible for the exercise of a whole set of group-wide functions while the Boards of Directors of the subordinate companies will be responsible for a dual level:

- to its own subordinate; and
- to the parent company regarding the subordinate's performance within the group.

Therefore, there may be differences between the Board of Directors of the parent company and the Boards of Directors of the subordinate companies due to the different scope of their responsibilities, and consequently, a different composition, organization, assignment of tasks, and dynamics may be established.

In any case, the guidelines corresponding to the Board of Directors' pillar of these Guidelines are fully applicable to both the Board of Directors of the parent company and the Board of Directors of the subordinated companies, but are adapted to the relevant aspects:

i. The reality and complexity of the group and the companies that it is made up of;
ii. The actual influence that the parent company exerts on its subordinates; and,
iii. The levels of importance of the subordinates to each other.

The following are some recommendations on the treatment of the Board of Directors that differentiate between the parent company and its subsidiaries, in relation to the:

a. Assignment of duties
b. Makeup of the Board of Directors
c. Organizational and operational practices of the Board of Directors
d. Board of Director Committees

a. Assignment of duties

Guideline 2

Within the group, there should be a differentiated treatment between the Board of Directors of the parent company and the Boards of Directors of the subordinate companies with respect to the responsibilities formally assigned to them and carried out in practice.

Recommendations

The Board of Directors of the parent company must have assigned duties with group-wide scope which must be formalized in the Bylaws or in the Board of Directors' regulations.

These duties, as recognized in the Board pillar of these Guidelines, are linked in aspects such as the strategic orientation and supervision of the group, or the definition of policies and guidelines for the governance of the conglomerate.

For this, the Board of Directors of the parent company shall:

a. Ensure the existence of an appropriate governance model for the group and review and approve its structure.
b. Approve group policies and guidelines, usually related to Board appointment procedures, Board and upper management compensation policies, or transparency and disclosure of information.
c. Likewise, the Parent Company's Board of Directors must ensure that the set of corporate governance practices in the group's companies is consistent with each other.

The Boards of Directors of the subordinated companies must have responsibilities assigned to them in the Bylaws or in the regulations of the Board of Directors that they must carry out in practice in the context of their belonging to the group.

a. Provide strategic information and be accountable to the parent company.
b. Monitor subordinate's performance against strategy and objectives.
c. Implement group policies and guidelines as long as they do not compromise the viability of the subordinate in coordination with upper management.
d. Oversee specific matters in accordance with existing group policies and guidelines, such as control architecture, compensation policies, or disclosure of information.
e. Control the subordinate's upper management, and ensure their high qualifications and competence for the position held.

d. Define and understand the strategic direction of the group and monitor its performance.
e. Ensure the existence of a suitable control architecture at the group level.
f. Monitor the risks to which the group is exposed at the consolidated level.
g. Directly control the line management of the parent company - if any - or, indirectly, the line management of the subordinate companies through the Boards of Directors of the subordinate companies.

b. Makeup of the Board of Directors

Guideline 3

The Boards of Directors of the companies of a group should be comprised of a number of members with a combination of profiles that allow for the proper exercise in practice of the responsibilities assigned to them.

Recommendations

In order to properly fulfill its responsibilities, the parent company's Board of Directors must have a size and an effective mix of profiles. The general criteria set out in Guideline 9 of the Board pillar of these Guidelines can be applied for this purpose.

The determination of the ideal size for the Board of Directors as well as the profiles required will depend primarily on the size and complexity of the group and the strategy defined in each case.

Thus, they may take into account complementary criteria for the makeup of the Board of Directors, such as:

a. Have a set of diverse profiles that make it possible to face and develop the strategy defined by the group.
b. Provide mechanisms for the rotation of the members in order to reinforce the suitability of the profiles to the group's strategy.
c. Propose training and induction programs on matters of interest for the exercise of the Board's duties and on the group's corporate governance situation.

The Boards of Directors of the subordinated companies will be influenced by the relative importance of the subordinated company in the context of the group, the presence or lack thereof of shareholders outside the group as well as by the influence exercised by the Board of Directors of the parent company.

The Boards of Directors of the subordinated companies shall:

a. Be composed of a set of profiles with the appropriate experience, competencies, personal and professional qualifications, and sufficient time to dedicate to the performance of their duties as members of the Board of Directors of a subordinate company.
b. These criteria must be evaluated by the parent company's Board of Directors in its proposal of candidates for membership on the subordinate company's Board of Directors.
c. It is acceptable for the subordinate's Board of Directors to include individuals from the subordinate's or the group's management line as members.

c. Organizational and operational practices

Guideline 4

The organizational and operational practices of the Boards of Directors of the parent company and subordinate companies must be adapted to the culture, situation, and needs of both the group and the subordinate companies.

Recommendations

As mentioned in the Guidelines, the Board of Directors must have definitions regarding their organization and operations in order to effectively fulfill their responsibilities (see Guideline 14 of the Board of Directors' pillar).

In the context of business groups or financial conglomerates, these recommendations are fully applicable given the importance that the Board of Directors of the parent company itself has for the good governance of the group as well as the influence it exerts on the Boards of Directors of the subordinate companies.

Under these considerations, the parent company's Board of Directors must:

a. Define and periodically review their organizational and operating practices, and those of the Boards of Directors of subordinate companies.
b. Have a suitable structure in terms of size, frequency, and duration of sessions as well as the organization of committees, which contributes to their efficient performance and is consistent with the complexity of the group.
c. Have its operations evaluated on an annual basis, as a body, and its members individually considered by an external firm in order to achieve greater efficiency in its performance.

The organizational and operational practices of the Boards of Directors of subordinate companies will be strongly influenced by their relative importance within the group, and in particular by the responsibilities assigned to them.

As a result, the Boards of Directors of subordinate companies must adopt and periodically review their organizational and operating practices based on: the general guidelines and policies defined by the parent company's Board of Directors, the relative importance of the subordinate company within the group, and the influence of the parent company's Board of Directors.

d. Board of Director Committees

Guideline 5

Unless so required by the applicable legal or regulatory framework, the Boards of Directors of subordinate companies may decide not to set up specific committees to deal with certain matters, and these matters may be dealt with by specific committees with group-wide scope.

Recommendations

The parent company of a group usually sets up specific Board committees with group-wide scope for the exercise of certain specific matters. This promotes common treatment at the group level in certain matters and reinforces consolidated supervision of the group to ensure homogeneous treatment.

It is not necessary to duplicate committees at the subordinate company level unless required to by the applicable local or regulatory framework. This facilitates the generation of synergies by ensuring consolidated supervision at group level.

Therefore, the parent company's Board of Directors must:

a. Avoid the creation of an excessive number of Board committees with a group-wide scope while always assessing their sense and fit within the group's structure. In any case, the Board committees that should be formed with a group-wide scope are the audit, appointments and remuneration committees, and in the specific case of financial conglomerates, the risk committee.
b. Seek the suitability of its members based on their profile and the purpose of the committee itself for setting up these bodies.
c. In the creation of Board committees with a group-wide scope, clarify whether these committees have been delegated responsibilities from the Board itself, or only study and support tasks for the Board on the subject matter of the committee.
d. Ensure that each committee has its own rules of procedure (see Guideline 12 of the Board of Directors' pillar of the Guidelines).
e. Assess whether or not it is advisable to set up equivalent committees at the level of subordinate companies, since, unless specifically required by the legal or regulatory framework, Board committees with a group-wide scope may discharge the same duties.

Having established the advisability of having committees with a group-wide scope to deal with certain matters, it may happen that due to the requirements of the applicable legal or regulatory framework, the relative importance of the subordinated company, or other factors that are operational or strategic in nature, the creation of specific Board committees for each subordinated company may be advisable.

Thus, the Boards of Directors of subordinate companies must:

a. Establish specialized committees provided that it makes sense given the exercise of their duties in practice and assessing the existence of equivalent committees with a group-wide scope and whose members are suitable for the committee's tasks.
b. In the case of financial conglomerates, the legal and regulatory framework often requires the creation of an audit committee and a risk committee at the level of the individual entity.
c. Ensure that each Board committee at the subordinate company level has an internal regulation (see Guideline 12 of the Board pillar of the Guidelines).
d. With respect to an audit committee, verify that it is made up exclusively of members of the Board of Directors who do not also have management responsibilities, either in the subordinate company itself or at the group level.

3. Treatment of the Control Architecture

The components and guidelines developed in the Control Architecture pillar of the Guidelines are applicable to business groups and financial conglomerates. For the latter, all aspects associated with the control architecture are of utmost importance.

From the perspective of a group, the control architecture merits special attention since it allows consolidated supervision at the group level of the compliance with the strategic objectives while controlling and managing the risks that these entail for the group as a whole.

Similarly, from a corporate governance perspective, it is not a matter of designing a specific and detailed control architecture model since each group must develop its own based on its own complexity and needs, but rather of ensuring that it is designed on the basis of the best international practices in this area, particularly COSO I, COSO II, and COSO III.

Guideline 6

The groups must have a control architecture based on best practices with a consolidated, formal scope that brings together all levels of the group, establishes different responsibilities, and defines clear reporting lines that make a consolidated view of the risks to which the group is exposed possible and allow for timely control measures.

Recommendations

The group's control architecture must:

a. Establish the responsibility of the Board of Directors of the parent company to ensure that there is a suitable control architecture adapted to the reality and complexity of the group based on the best practices on the subject.
b. Approve a control policy and a risk management policy with group scope which allows a consolidated view on both matters to be implemented in the different subordinate companies. This includes having compliance, internal audit, and external corporate audit plans at the group level.
c. Assign top managers in the group over the control architecture with top positions of relevant importance in the line of management and with clear reporting lines.
d. Involve the whole organization with different levels of responsibility defined around the control architecture to further its effective operations.
e. Assign a set of duties to the Boards of Directors of the subordinate companies that are related to the control architecture so that they are responsible for the implementation of the control policy and risk management of the group in the subordinate company as well as the subordinate's adaptation of the control architecture to the guidelines issued by the parent company.

4. Transparency and information disclosure

Regardless of whether it is mandatory or voluntary, information is key for a third party to develop an informed opinion on the reality of a group, the performance of its managers as well as to analyze the level of risk. In this respect, information is an essential aspect that makes it possible to achieve a consolidated view of the group. This does not cover exclusively the individual information in aggregate form of the group of companies that it is made up of, but includes cross-sectional and comprehensive aspects of the group in order to provide a true and fair view of the group.

The Transparency and Disclosure of Financial and Non-Financial Information pillar of the Guidelines develops a set of guidelines and specific recommendations in a specific area regarding transparency and disclosure of information which, in the case of groups, are fully applicable and adapted to the situation and complexity of the group.

Guideline 7

Groups must have a system for disclosing comprehensive and cross-sectional information about the group as such to third parties that will enable them to form a well-founded opinion about the group's situation, organization, complexity, activity, size, and governance model.

Recommendations

Every group must publicly disclose to interested third parties or, failing that, exclusively to its shareholders and investors, sufficient information to enable them to make an informed judgment on the situation, complexity, and operations of the group.

In terms of transparency and disclosure of information, a group must:

a. Develop a policy of transparency and disclosure of information to be approved by the Board of Directors of the parent company based on the main criteria for disclosure of information and those responsible for it. It should have a group-wide scope and be channeled to the various subordinated companies of the group.
b. Develop and publish a corporate website as a group and include:

Within the context of their group membership, subordinate companies must communicate:

a. The corporate governance structure of the subordinate company and how it is integrated into the governance model of the group.
b. Financial and non-financial information that is clear, accurate, and presented in a way that is understandable and comprehensible to the target audience.
c. The main corporate governance implications of belonging to the group.

i. Brief summary of the group including its description and main business areas;
ii. Group organization chart.
iii. Audited financial statements and other relevant financial information of the group;
iv. Group governance report and annual report;
v. Updated description of the group's governance model;
vi. Significant intragroup related transactions that may significantly affect specific subordinated companies;
vii. Summary of the CV and profile of the members of the Board of Directors of the parent company and of the key positions in the line management as well as any changes that may occur.

Conclusions:

The corporate governance of business groups and financial conglomerates is complex in its own right since it implies finding a suitable balance between fostering and protecting common interests, objectives, and purposes, and the autonomy of each of the companies that make up the group.

Therefore, it is essential to define a group governance model to facilitate the generation of business synergies that will maximize the value and the coordinated and efficient performance of the different companies that make up the group. One should bear in mind the fact that there is no single model of corporate governance for financial groups or conglomerates since the levels of intervention of the parent company or the autonomy of the subordinate companies may vary based on the needs, nature, complexity, and strategic situation of each group.

This means that it is not necessary for all the Guidelines to be applied in all the companies in the group. On the contrary, it is important to define and implement a governance model for the group as a whole that, based on the Guidelines and their recommendations, is adapted to its reality and complexity.

To this end, an analysis of the main areas that a group governance model should contain has been done in this Appendix, and group-specific Guidelines have been provided along with their own recommendations.

The challenge for any group wishing to reinforce their corporate governance will be to design and structure their own governance model, in view of what is indicated in this Appendix, and supplemented by the detailed treatment of corporate governance practices in Section II that is fully adapted to their unique nature in order to obtain the greatest synergies and enable them to operate efficiently and harmoniously.

APPENDIX 2
Responsibility of financial institutions in the promotion of corporate governance

The purpose of the Guidelines is to provide companies –and business groups or financial conglomerates– with a document that can serve as a frame of reference against which to diagnose their corporate governance practices in order to identify the main existing weaknesses and consequently establish the necessary measures for improvement. Thus, they constitute a document that may be adopted on a fully voluntary basis, and reflects a free business decision to manage governance risk and contribute to greater sustainability of the company over time.

Governance risk management, understood as the risk associated with a poor governance model that affects the company's performance, is perhaps the greatest motivation a company can have when it comes to improving and strengthening its corporate governance. This governance risk can manifest itself in different situations such as:

a. Agency problems, or in short, the pursuit by the Board of Directors and/or upper management of objectives other than those of the shareholders.
b. The establishment of inefficient Boards of Directors (whether due to their size, composition, understanding of their duties, dynamics, or a combination of the above) that do not carry out their duties properly, or do not constitute an effective counterweight to management.
c. The development of poorly planned processes of succession for key positions.
d. Shareholder conflicts arising from the lack of suitable communication mechanisms or the application of pernicious practices that affect the equitable treatment of shareholders.
e. Deficiencies in terms of transparency and disclosure of information.

In this regard, it is worth asking oneself whether companies with a deficient corporate governance structure and practices pose a greater risk, and should therefore be penalized when it comes to getting access to financing or obtaining funds.

The answer to this question can be approached from the perspective of different stakeholders:

a. Capital Markets. With regard to the capital markets, and especially the stock exchanges, there are several cases in the region such as those of Chile, Mexico, and Peru where specific stock market indexes have been created that group together companies that meet sustainability criteria[38] and that incorporate corporate governance practices. Similarly, there is the case of Brazil, with the Novo Mercado index, a specific stock market index, which groups companies with good corporate governance practices.

   Historical analysis of these indices consistently shows that investors give a price premium and/or lower volatility to the shares of these types of companies. This is consistent with the risk-return trade-off, and would seem to affirm that, indeed, companies with good corporate governance are especially valued by the market since they are considered to be less exposed to governance risk.

38. The four currently operating indexes are: S&P/BMV Total Mexico ESG Index; S&P/BVL Peru General ESG Index, Dow Jones Sustainability Chile Index and Dow Jones Sustainability MILA Pacific Alliance Index, a regional index that tracks the performance of a select group of companies with the highest sustainability ratings in the four countries of the Pacific Alliance (Chile, Colombia, Mexico and Peru).

In addition, it is well known that when governance risk begins to manifest itself, listed companies suffer an almost immediate penalty from investors, which can sometimes be very significant depending on the level of risk that has materialized.

Therefore, it seems reasonable to state that indeed, capital market players do consider governance risk in their investment decisions and in the valuation of listed companies, both positively and, especially, negatively.

b. Multilateral organizations. From the perspective of multilateral organizations, it is increasingly common for them to carry out a corporate governance diagnostic, either by their own team or by outside professionals, to determine the governance risk of the company that is the target of a potential investment when considering long-term investment projects, whether in private or public companies. Sometimes it is even possible to recommend the reinforcement of certain governance weaknesses found in a given time frame as an additional factor to be evaluated when analyzing the operation.

c. Rating agencies. As far as rating agencies are concerned, except in very specific cases, it is not common to find components in the review of their rating methodologies that positively value good corporate governance practices.

   However, what is generally considered in the rating methodologies of these agencies is a penalty in the event of detecting corporate governance weaknesses that may entail a high or inadequately managed governance risk.

   Consequently, it can be stated that rating agencies also consider corporate governance in their rating methodologies, especially as a penalizing element.

d. Institutional investors. Institutional investors are usually key agents for reinforcing corporate governance practices in the companies in which they participate. This is due to their status as professional investors and since they want to protect their investment, they have a specific interest in the fostering and reinforcement of corporate governance in the company in which they participate.

   There are several publications in which the important role played by these types of stakeholders in the promotion of corporate governance of the companies in which they participate is detailed. In fact, the OECD together with the IFC published a document on this matter in 2011 that is still relevant. Entitled "Strengthening Latin American Corporate Governance: the role of Institutional Investors", it is a product of the extensive debate of the Latin American Roundtable on Corporate Governance over the years in which the critical role that these stakeholders should play in the promotion and improvement of corporate governance in their investee companies is developed.

e. Banking institutions.

This leads to the conclusion that, although in different ways and with different levels of intensity, the capital markets, multilateral organizations, rating agencies, and institutional investors do indeed consider corporate governance in determining the risk level of companies.

The determination of governance risk may affect the valuation of the company itself or, in the case of financing and investment transactions, the terms and conditions thereof, whether the period, volume, or required profitability.

As a result, all of the above agents play an important role, to a greater or lesser extent, in the effective fostering of corporate governance in companies. The decision, therefore, of a given company to reinforce its corporate governance can go from being completely voluntary and autonomous to, on occasions, being conditioned or motivated by these stakeholders.

However, the scope of action of the above players is limited to listed companies or large companies, and excludes the bulk of companies in the region that are either not present in the capital markets or do not have institutional investors.

It is these types of companies, together with listed companies, for which banking entities could play a key role in promoting corporate governance from their own individual perspective and promote the improvement of the corporate governance of their asset clients.

A. Corporate governance for banks

The role of corporate governance for the banking industry is key considering:

a. The complexity of banking risks.
b. The dynamism of the sector.
c. New and more diversified competitors (such as Fintech or Bigtech) that are not necessarily regulated even if they provide the same services as financial institutions.
d. The high leverage ratios with which they operate.
e. Having the trust factor as the basis for the banking business.
f. Systemic risk, which may affect not only the banking system as a whole but may even spread to the real economy with serious macroeconomic and social consequences.

Due to the above, a series of specific corporate governance best practices are applied in the banking industry since there is a category of creditors/depositors, and measures must be implemented to provide them with enhanced protection.

Therefore, the Guidelines contain a set of corporate governance practices and recommendations specifically applicable to financial institutions that provide a frame of reference upon which to make a diagnosis and define the primary measures to be adopted in order to strengthen their own corporate governance.

B. Banking entities as agents in fostering the corporate governance for their asset clients.

Financial institutions should assess the governance risk of their corporate asset clients, i.e., companies to which they lend financing, as part of their credit analysis methodologies, since, as commercial companies, they are exposed, like any other type of company, to the risk of governance failures.

What is relevant from the point of view of the banking entity is that the individual governance risk of the corporate asset client also affects the banking entity itself. As a financing provider, the bank can see how the materialization of the client's governance risk affects its business performance and, consequently, has an impact on meeting the conditions for repayment of the financing provided.

To the extent that financial institutions evaluate and assess the corporate governance risk of their asset clients, they can reduce their own exposure to it. Thus, they optimize the management of the credit risk they assume in their business by mitigating the possibilities of loss as a result of non-compliance with the contractual obligations of their corporate clients (borrowers or financing takers).

In line with the above, it is reasonable to estimate that if companies that have implemented good corporate governance practices present a lower risk than others with weaker governance structures, their risk premium should be lower.

Thus, important advantages are derived both for the bank itself and for the borrowing company based on the following diagram:

For the financial institution	For the company being financed (asset customer of the financial institution)
Better credit risk management	Lower internal risk
Tighter estimate of risk premiums	Better market valuation
Superior technical management of provisions and eventually lower capital consumption	Be a better candidate for more diverse financing alternatives
Improved market perception and increased confidence in the management of the bank	Ideally, lower financing costs
Improved overall risk management	Creation of intangible assets

Consequently, banks are key agents in fostering corporate governance among the companies to which they provide financing by including corporate governance analysis in their credit analysis methodologies since the governance risk of their corporate asset clients is transferred to the bank itself.

Thus, banking entities play a very important role in promoting corporate governance in the region in line with the important role already played by capital markets, multilateral organizations, rating agencies, and institutional investors.

C. Methodology of Simplified Diagnosis of Corporate Governance of Asset Clients - DISIG.

CAF, together with other multilateral development financial institutions, has been a pioneer in the development of guidelines and tools for the assessment of companies' corporate governance.[39]

CAF's DISIG (for its initials in Spanish) is intended to provide a diagnostic tool for corporate governance practices in order to assess the suitability of governance bodies along with the institution's policies and practices against internationally accepted standards. Note that the DISIG is not an audit of compliance with corporate governance practices, nor does it contain the depth of a full corporate governance due diligence which would require the expertise of a corporate governance expert. However, it does provide a set of tools and criteria based on the principle of expert judgment - a paradigm contained in the Basel guidelines as a basis for modern risk-based supervision - to determine the level of implementation of governance practices of a given company. Therefore, it can be used by analysts who, without being experts in the field, have at least a basic knowledge of corporate governance.

39. The "Corporate Governance Development Framework" (www.cgdevelopmentframework.com) was signed in 2011 as one of the most important and impactful initiatives at the level of financial institutions for development in the field of corporate governance, and to date, it includes 34 institutions worldwide, among which the main multilaterals operating in the region participate. At its core is a common approach on how to address corporate governance risks and opportunities in investment and lending operations.

This is why the DISIG provides for a series of assumptions that should indicate to the analyst at what point an in-depth due diligence by an expert third party should be carried out given the level at which the implementation of governance practices has been detected or the opacity of a given company.

Although it could be thought that the optimum would be to have a closed numerical system to award a score, the truth is that corporate governance must be assessed based on the particularities of each company and requires human input and expert judgment to evaluate the company's existing governance practices.

The DISIG, composed of a series of stages to be developed sequentially, constitutes a guide for assessing the corporate governance risk of a company, which CAF, through its Corporate Governance Program, makes available to any interested banking institution.

Thus, DISIG is a practical tool that could be adopted by banking institutions for their credit analysis in order to identify the level at which their asset clients are applying governance practices and, consequently, become a major player in the effective promotion of corporate governance in the region's companies.

APPENDIX 3
Corporate governance of family-owned companies

As indicated at the beginning of this document, given the flexibility of the Guidelines, they can be adapted to any type of ownership structure and size of company. In this respect, provided that the items presented in this appendix are taken into consideration, the contents of these Guidelines are applicable to the improvement of corporate governance of family-owned companies.

To begin with, note that reinforcing the internal governance of family businesses has two dimensions that must be born in mind for the implementation of corporate governance practices. On one hand, the business dimension, strictly speaking, and on the other, the purely family dimension. The latter involves establishing a series of rules for the organization of the business family such that clear definitions are adopted in those areas in which the family aspects come into contact with the company (traditionally these rules are adopted via a family protocol).

In view of the above, it should be noted that these types of companies face the double challenge of strengthening their corporate governance structure and practices to reinforce the company, on one hand, and their family organization to organize the family, on the other. Corporate governance and family organization (through the protocol) could be considered two subjects that regulate different areas but are strongly linked and complement each other.

Thus, the corporate governance of family businesses provides the conditions for better protection of the company since it sets up mechanisms and tools to insulate the business orbit from potential family-related situations that could have an impact on the decision-making processes or the continuity of the company's operations. These situations are associated, for example, with succession, the incorporation of family members into the company, whether at management level or on the Board of Directors, the dividend policy, the transfer of shares, etc.

Meanwhile, from the family's point of view, the definition and approval of a family protocol is intended to regulate and strengthen the family as a business family in order to have clear rules in the future to manage aspects such as generational transition or the role of the in-laws, etc.

According to research, family businesses that have been successful in their continuity have the following characteristics:

a. They have ensured the permanent strategic renewal of the business and the continuous improvement and professionalization of management often due to the incorporation of the next generation and/or external professionals.
b. They have consolidated an operational and effective management and governance structure (Board of Directors, Family Council, General Assembly of Shareholders) that has ensured the smooth running of the company and respect for shareholders' rights to information and remuneration.

c. They have promoted harmonious family relationships, fluid and constructive communication as well as shared rules of behavior with respect to the company (i.e., a family protocol) that have helped them to prevent, manage, and constructively resolve the conflicts they have encountered.
d. They have had the ability to successfully prepare the next generation of decision-makers in the company whether they are family members or professionals from outside. Thus, successful family businesses have been able to both assume the progressive renewal of the company's management leadership and encourage the updating of the company's and the family's strategic vision.
e. The continuity of the family business has been assumed directly by family leaders who have considered the issue of corporate governance to be strategic. To this end, some leaders have created a specific body (generally the Board of Directors or meetings with an advisory council) to reflect periodically and systematically on the subject and to plan ahead for the generational handover process.

As a complement to the above, the most successful family businesses have a series of practices at the corporate governance level and at the family organization level:

At the level of corporate governance	At the family level
Having an effective Board of Directors that includes non-family members with clear roles and responsible for the control and supervision of upper management.	Hold systematic quarterly meetings of the Family Council.
Plan the succession of both the Chief Executive Officer and the Board of Directors properly.	Periodically update the family protocol
	Clarify the roles, responsibilities, and compensation of family members in the company and ownership.

As previously mentioned, family businesses face the dual challenge of reinforcing their corporate governance structure and practices and that of their family organization. In this respect, the sequence in which the development of these two dimensions is approached may have a relevant impact when determining the effectiveness of the two processes.

To the extent that family organization is a long and complex process in which the search for unanimous agreements or at least very broad majorities, is key, this may lead to temporary deadlocks in certain specific matters. Consequently, addressing the organization of the business family first could lead to deadlocks that could undermine the development of corporate governance measures for the protection of the family business.

It is more effective and more pragmatic to address the aspects of corporate governance that are intended to strengthen the company separately from the organizational aspects of the business family, which are intended to strengthen the family and are more prone to cause conflicts.

Ideally, fully strengthening the corporate governance of the family business would require the definition and approval of a family protocol.

However, it is important to note at the outset that approximately 85% of family protocols fail. This is basically because families are neither governed nor ruled by papers, clauses, or contracts but by people.

Thus, the family protocol should not be understood as a simple document that is signed by all the members of the family. What is truly relevant is the process of communication, deliberation, and agreements on which it is based.

This is a permanent process that requires the existence of well-structured family governance bodies and appropriate communication forums which will allow the gradual consolidation of the business family and, above all, their preparation for the future.

Therefore, the family protocol is the basis of a true strategic family plan, which addresses key issues such as meritocracy versus family harmony, family values, property management, and other issues that allow the design of clear rules and solid criteria for the proper management of family issues.

The six variables listed below are very relevant when it comes to developing a family protocol in order to maximize the chances of success:

a. The preparation of the family protocol must be the result of the family's own conviction and express will, and not of external pressures or the conviction of a single family member.
b. The ideal moment for drafting the family protocol is in the absence of conflicts, that is, when the business is well established and family relations are harmonious. This will facilitate real and open discussion of the key issues to be addressed in the protocol. If this is not the case, it would be better to postpone the drafting of the protocol for more favorable times whether for business or family reasons.
c. Participation in drafting the protocol should be as broad as possible to facilitate reaching a broad consensus on issues of interest to the family. Ideally, unanimity should be sought in the signing of the family protocol as a measure to prevent future family friction.
d. The drafting of the family protocol should not be considered a checklist of subjects, but rather a process in which the important thing is to define which subjects are to be regulated and which are not at least initially.
e. The family protocol is a dynamic, living instrument that must be adapted to the changes that the family and the

company undergo. Therefore, it is important that it be subject to periodic reviews to adapt it to new circumstances that may arise and that were either not foreseen at the time, because they were not applicable, or there was no clear criterion and the decision was made to leave it for a later date. In any case, the protocol must establish the mechanisms and conditions foreseen to address the implementation of these modifications.

There is no single protocol content since what is really relevant is the process developed to reach agreement on its content. However, the following major topics are usually part of a protocol:

1. Scope and Objective of the Protocol: This section introduces the underlying reasons for signing the protocol as well as its scope.

   This section will be very detailed and ambitious in some cases, and more generic in others thus indicating topics to be addressed in the future. In the latter case, these are relatively young families in which many issues that could be dealt with in a protocol have not been experienced, and the discussion of which has been postponed until such time as it is necessary.

2. Corporate Family Principles: This section is intended to highlight key aspects that are already part of the history of the company and the family and to incorporate others that are necessary to provide criteria for action in the face of future challenges. Aspects such as history, culture, mission, values, principles, leadership style, behavior, and role of the family, and especially the treatment of non-family employees, are discussed. In this respect, it is important to reflect on the treatment and policies of managers and employees outside the family, a key factor for the successful growth of the company in the future.

3. Governing bodies: This section delimits and establishes the principles of separation between the family and the company. Therefore, the creation or modification of the governing bodies of both the company and the family, in particular, is addressed:

   i. Board of Directors, as the highest governing body in the company, defines membership criteria, requirements to be a director, incorporation of family members, duties, particularities of the Boards of Directors of family-owned companies, etc.
   ii. Family Council, as the highest governing body of the family, defines the requirements for membership, issues of responsibility, rules of organization and operation, etc.
   iii. Other derivative bodies, such as the Family Assembly, Family Day, etc.

4. Family-business relationship: This section addresses the main criteria that regulate this relationship, in particular those referring to:

   i. Incorporation of family members into the company based on the definition of conditions of entry, training, promotion, remuneration, or scope of their duties, etc.
   ii. Succession and generational transition, especially with regard to the mechanisms that must operate in succession processes in both management and ownership, a truly essential aspect in family businesses.

5. Company-family relationship: This section sets policies relating to:

   i. Purchase and sale of shares held by the family, defining criteria that can facilitate solutions to situations of conflict and even deadlock (especially with regard to price setting mechanisms and the procedure for the transfer of shares).
   ii. Dividend decisions that are key and, in many cases, critical aspects for certain family members.
   iii. Ownership of the shares and, in particular, whether or not to open the capital to people outside the family.
   iv. Transfer of shares, establishing mechanisms for different scenarios including mortis causa transfers, which may lead to the implementation of the protocol to modify the testamentary provisions of the partners.
   v. Other topics to be included for conflict resolution.

6. Implementation, compliance, and modification of the Protocol: This section, which usually closes the protocol, sets out the decisions to implement the decisions made and defines the parameters for dealing with future modifications. As mentioned above, the protocol is a living document which must be gradually adapted to the needs of the family due to which it is essential to define how it can be modified in order to provide sufficient flexibility to adapt it to the future development of the company and the family, their new circumstances, and the challenges they face.

There is also a strong pragmatic approach for cases in which the ownership of family companies is divided into different family branches, and thus, there are different blocks of shareholders. The idea is to regulate the system used to transfer shares, the actions of the different blocks of shareholders that make up the Boards of Directors, and the clear definition of the rights and duties of the shareholders. To this end, a widely used instrument is the drafting of Shareholders' Agreements that regulate all of the above issues as well as others that may be considered relevant based on the specific case of each family since this document will help to define the actions of the shareholders in the exercise of their ownership in the company, and consequently, protect the value created in it from possible variables of a family nature that may affect the performance of the company's business.

APPENDIX 4
Corporate governance of non-profit entities

The particularities in the corporate governance of non-profit entities lie in the fact that they are organizations that have been created for the fulfillment of a specific objective for the benefit of a specific group by offering activities that generate welfare or social benefits such as education, sports, health, environment, and access to financial services, etc. All this is based on the contributions made by the founders, associates, or affiliates. These institutions have come to manage a significant quantity of resources and may have a major impact on the environments in which they operate.

Non-profit organizations take many different forms and serve many different purposes. These are organizations that may take the form of educational institutions, unions, health entities, or cooperatives, to mention a few.

The specific challenges regarding corporate governance of non-profit entities are associated with having the appropriate decision-making bodies within their governing bodies to ensure compliance with the purpose for which they were created through the most efficient management of available resources. Furthermore, these organizations must be capable of attracting new resources. This requires internal control and accountability mechanisms within their corporate governance system that will allow them to consolidate and strengthen the trust of both beneficiary groups and stakeholders, and ultimately of society as a whole.

For non-profit organizations, it is essential that their corporate governance system promotes principles of transparency and efficiency in the use of the entity's resources under strict ethical parameters. Thus, these institutions must have appropriate and effective mechanisms for information and accountability regarding the fulfillment of their goals, how resources are managed, and the impacts generated in the carrying out of their work.

Taking these contextual elements as a premise, and these Guidelines as a reference with the adjustments that these organizations require, a proper corporate governance system for non-profit organizations involves:

a. Having mechanisms that facilitate the participation of associates in the organization's different governing bodies. Thus, they can exercise their rights and follow up on the organization's operations through a robust accountability system.

   Therefore, nonprofit organizations must have rules and guidelines that ensure effective participation of the associates in the different decision-making bodies while respecting the proper representation of the different interests that converge in the organization.

   The latter is especially important since, in certain contexts, a body of great importance for the entity to fulfill its mission efficiently and transparently, such as the Board of Directors, may be captured by a small group of people representing limited interests. This would be to the detriment of protecting the legitimate interest of other members of the group benefiting from the entity's activities.

Thus, the institution must ensure that the mechanisms for electing and setting up the different decision-making bodies (Assemblies, Boards of Directors, committees, etc.) ensure an appropriate representation of the beneficiary stakeholders while, at the same time, preserving and developing the vision and purpose for which the organization was created.

b. Having a suitable Board of Directors with the skills and knowledge necessary for the entity to fulfill its mission, purpose, and objectives through the most efficient management of its resources.

c. The members of the Board of Directors of a nonprofit organization must be completely clear about the organization's mission objectives, so that the strategic decision-making processes are guided by them. Furthermore, the work of the Board of Directors must ensure that the actions of the members of upper management and, in general, of the employees and associates are driven by the fulfillment of the entity's purpose in favor of the beneficiary groups.

   To this end, the Board of Directors of a not-for-profit entity must meet, in particular, the following responsibilities:

   i. Exercise constant monitoring of compliance with the programs and services offered by the non-profit entity;
   ii. Evaluate the CEOS's management;
   iii. Assist the Chief Executive Officer in facilitating the interaction of the organization's internal bodies with its external stakeholders in order to align the entity's purposes with the expectations of the beneficiaries;
   iv. Define and ensure the effectiveness of the entity's communication model including community relations strategies;
   v. Monitor the organization's financial performance and resource management, and encourage proper accountability.

The suitability of the Board of Directors also means that the entity must adopt mechanisms to ensure that the breakdown of the Board of Directors meets the criteria of independence, inclusion, renewal, knowledge, and experience. In any case, the processes for the nomination, review of candidates, and appointment of Board members must be transparent, clear, and publicly known to all interested parties.

The nonprofit entity's corporate governance instruments, such as Bylaws or Board of Directors' operating regulations, should reflect the minimum requirements of knowledge, experience, and personal and ethical qualities that contribute to the organization's strategic decision-making processes (see Guideline 9 of the Board of Directors' pillar). Candidates for directors must demonstrate that they share interests, visions, and objectives that are compatible with the purpose of the organization.

In institutions whose legal structure limits the participation of Directors to only their associates, mechanisms should be sought through which to enhance the capabilities of the members of the Board of Directors by means of strategies such as proper induction, training, and evaluation processes for the Board in order to find opportunities to improve their operations and effectiveness in the fulfillment of their duties.

c. Adopt internal control systems and mechanisms to ensure the best possible quality of information on the purpose, objectives, and goals of the nonprofit entity, its performance, the way in which resources are managed, how its corporate governance system works, and who makes up its decision-making bodies.

   The capacity of the non-profit organization to raise new resources, protect the will and information rights of donors, and develop the mission of the organization with a long-term focus depends on the confidence of the different stakeholders with respect to the management of resources, handling of information, and the way in which goals and objectives are met.

   Therefore, the entity must have strategies and tools for information disclosure that are defined and reviewed by the Board of Directors, as the highest authority responsible for the direction and strategy of the non-profit entity. These strategies, through appropriate transparency and accountability (see Guideline 50 of the Financial and Non-Financial Transparency and Disclosure pillar) should be focused on providing timely, complete, and reliable information on the objectives for which the entity was created, at least about:

   i. What the mission, purpose, and mission objectives of the non-profit organization are, and what the programs and services are through which it fulfills the objectives for which the organization was created.
   ii. How their corporate governance system is structured with details of documents such as Bylaws, regulations and codes.
   iii. Names and resumes of the members of the Board of Directors and the upper management team.
   iv. Financial performance of the nonprofit entity, including financial statements.
   v. Compliance with impact indicators in carrying out the organization's activities.
   vi. Conflicts of interest that may have arisen and the mechanisms implemented to manage them.
   vii. Compensation models for the Chief Executive Officer, upper management and the Board of Directors.
   viii. Annual management reports, approved by the Board of Directors, that include measurements of the organization's social and economic impact.
   ix. Structure of the control architecture and ethical and compliance model.

d. Implement effective measures for the management of conflicts of interest through publicly disclosed policies and guidelines that bind the members of the Board of Directors, the upper management team, and other associates and employees of the non-profit entity.

The Board of Directors should be responsible for defining these policies and guidelines and ensuring effective compliance with them.

e. Foster a culture of ethics and compliance at all levels of the organization.

To this end, it is necessary for the Board of Directors to be ultimately responsible for setting the ethical tone of the organization and ensuring that its strategies to guarantee that the guidelines it approves in this area are correctly adopted at all levels of the organization. This is done through awareness-raising activities and periodic training for all employees, volunteers, upper management, the Board of Directors, and suppliers.

The Board of Directors must also take cognizance of and resolve events related to ethical misconduct that fall within their competence.

The non-profit entity must have a Code of Ethics with specific provisions for the members of the Board of Directors and the upper management team, who must endorse the Code on an annual basis.

APPENDIX 5
Models of corporate governance instruments

The models of five corporate governance tools for companies are presented below as practical guides:

a. Rules for General Assembly of Shareholders
b. Rules of the Board of Directors
c. Structure of the Minutes of the Board of Directors
d. Code of Corporate Governance
e. Annual Corporate Governance Report

a. Rules for General Assembly of Shareholders

INTRODUCTION: REGARDING THE RULES FOR THE GENERAL ASSEMBLY OF SHAREHOLDERS

CHAPTER I: BREAKDOWN OF THE GENERAL ASSEMBLY OF SHAREHOLDERS

CHAPTER II: THE MEETINGS OF THE GENERAL ASSEMBLY OF SHAREHOLDERS

1. Representation
2. Regular meetings
3. Special meetings
4. Period of the notification
5. Means of disseminating the notification
6. Content of the notification
7. Deliberating quorum
8. Decision-making quorum
9. Minutes
10. Attendance at the meeting
11. Shareholder participation
12. Shareholder voting

CHAPTER III: RESPONSIBILITIES OF THE GENERAL ASSEMBLY OF SHAREHOLDERS

CHAPTER IV: RIGHTS AND DUTIES OF THE SHAREHOLDERS

1. Shareholder's rights
2. Shareholder's duties

CHAPTER V: CHAIRMAN AND SECRETARY OF THE GENERAL ASSEMBLY OF SHAREHOLDERS

1. President
2. Secretary

b. Rules of the Board of Directors

INTRODUCTION: BOARD OF DIRECTOR REGULATIONS AND SCOPE OF APPLICATION

CHAPTER I: STRUCTURE AND MAKEUP OF THE BOARD OF DIRECTORS

1. Structure of the Board of Directors
2. Requirements for selecting Directors
3. Regarding independent members
4. Process of selecting Directors
5. Ineligibility to be a Director
6. Dismissal

CHAPTER II: RESPONSIBILITIES OF THE BOARD OF DIRECTORS

CHAPTER III: DUTIES OF THE BOARD OF DIRECTORS

1. Type of meetings (in person or online)
2. Means and advance notice for calls
3. Prior information made available to directors for each meeting
4. Management of confidential information
5. Quorum
6. Remuneration
7. Guests and external advisors
8. Board of Director Committees
9. Annual Work Plan
10. Evaluation of the Board of Directors and committees

CHAPTER IV: Directors' principles of conduct

1. Duties of the members of the Board of Directors
2. Rights of the members of the Board of Directors

CHAPTER V: CHAIRMAN AND SECRETARY OF THE BOARD OF DIRECTORS

1. Appointment of the Chairman of the Board
2. Duties of the Chairman of the Board
3. Duties of the Secretary of the Board

CHAPTER VI: GUIDELINES FOR MANAGING CONFLICTS OF INTEREST AT THE BOARD LEVEL

1. Types of conflicts of interest
2. General rules for managing conflicts of interest

c. Structure of the Minutes of the Board of Directors

Even when there is no single format for the preparation of Board of Directors' minutes, a defined structure containing at least the following points is important:

Introductory part:

1. Date, time, and place held
2. Means and advance notice by means of which the notification of the assembly was made
3. Names of attendees, both directors and guests
4. Quorum. Pointing out that the statutory deadlines and quorum have been met is a good practice
5. Chairman and Secretary
6. Order of business. Draft the items for the order of business as outlined in the notice of assembly

Sequence of the order of business:

1. Reading and approval of the order of business
2. Follow-up on commitments
3. Approval of the minutes of the previous meeting
4. Informative topics.
5. Reports from committee chairmen
6. Declare conflicts of interest (if any) and how they have been managed
7. Decision issues: agreements and how they were voted on. Whether they were adopted unanimously, by majority and/or if there were abstentions or votes against, this must be indicated in order to be recorded in the minutes
8. Commitments made at the session

Closing the minutes:

1. Time the session ends
2. State who signs the minutes in accordance with the Bylaws.

d. Code of Corporate Governance

The Code of Corporate Governance is a dynamic tool that is technical in nature, and its structure and content should make it possible for third parties to understand the governance of the organization in terms of its legal and regulatory components as well as with respect to self-regulation.

INTRODUCTION: ON THE PURPOSE OF THE CODE AND THE COMPANY'S COMMITMENTS TO GOOD CORPORATE GOVERNANCE PRACTICES

CHAPTER I: GENERAL ASPECTS

1. Regarding the company: Objective and purpose
2. Scope of application

CHAPTER II: REGARDING THE PROPERTY

1. About the ownership structure
2. Rights of associates
3. Duties of the General Assembly of Shareholders
4. Operations of the General Assembly of Shareholders

CHAPTER III: BOARD OF DIRECTORS

1. Makeup of the Board of Directors
2. Criteria for selecting the members of the Board of Directors
3. Ineligibility to be a member of the Board of Directors
4. Regarding independent members
5. Duties of the Board of Directors
6. Principles of action and responsibilities of the members of the Board of Directors
7. Responsibilities of the Board of Directors
8. Outside advisors
9. Chairman and Secretary of the Board of Directors
10. Board of Director Committees
11. Remuneration of the Board of Directors
12. Induction and training of the Board
13. Evaluation of the Board of Directors

CHAPTER IV: CEO AND UPPER MANAGEMENT

1. Chief Executive Officer (appointment, removal, succession and duties)
2. Upper Management
3. Evaluation of Upper Management

CHAPTER V: CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS

1. Definition of conflicts of interest
2. General rules for managing conflicts of interest
3. Guidelines for transactions with related parties

CHAPTER VI: CONTROL ARCHITECTURE

1. Regarding the audit committee
2. Regarding the responsibilities of internal control
3. Regarding comprehensive risk management
4. Regarding the outside auditor

CHAPTER VII: INFORMATION AND TRANSPARENCY

1. Guidelines for the disclosure of information
2. Institutional website
3. Annual Corporate Governance Report

CHAPTER VIII: ON ETHICAL COMMITMENTS AND COMPLIANCE

1. Regarding the Code of Ethics
2. Compliance mechanisms

CHAPTER IX: ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) COMMITMENTS

CHAPTER X: APPROVAL AND MODIFICATION OF THE CODE

e. Annual Corporate Governance Report

The objective of the annual corporate governance report is to provide a clear explanation of the most relevant aspects of the company's corporate governance system as well as the main changes introduced during the year.

Therefore, it should include at least the following information:

i. Ownership structure of the company.

   a. Capital and ownership structure of the company.
   b. Identity of the shareholders with significant direct or indirect holdings.
   c. Information on the shares owned directly (as an individual) or indirectly (through companies or other vehicles) by the members of the Board of Directors and represent voting rights (if applicable).
   d. Relationships of a family, commercial, contractual, or corporate nature that exist between the holders of shares and the institution or between the holders of significant shares among shareholders. (if applicable).
   e. Trades that members of the Board of Directors, upper management and other managers have carried out with securities issued by the company (if applicable).
   f. Proprietary shares held by the institution.

ii. General Assembly of Shareholders (GAS).

   a. Differences in the functioning of the Assembly between the minimum regime of the current regulations and what is defined by the institution's Bylaws and the GAS rules of procedure.
   b. Measures adopted during the fiscal year to encourage shareholder participation.
   c. Information provided to shareholders and communication with them.
   d. Number of requests and matters on which shareholders have requested information from the institution.
   e. Information on attendance at GAS.
   f. Details of the main agreements reached.

iii. Board of Directors

   a. Breakdown of the Board of Directors, summary of their curriculum vitae, and identification of the origin of each member. (In the case of conglomerates, subordinated companies must indicate which members of the Board of Directors are executives of the parent company).
   b. Committees and their composition.
   c. Length of tenure of the members of the Board of Directors and date of their first appointment.
   d. Changes in the Board of Directors during the year.

e. Policies approved by the Board of Directors during the period being reported on.
f. Process for appointing members of the Board of Directors.
g. Remuneration policy for Board of Directors.
h. Remuneration of the Board of Directors and members of upper management.
i. Board of Directors Quorum.
j. Attendance information on the meetings of the Board of Directors and the committees.
k. Chairman of the Board (duties)
l. Secretary of the Board of Directors (duties)
m. Relationships between the Board of Directors and the external auditor, financial analysts, investment banks, and rating agencies during the year.
n. Outside advice received by the Board of Directors.
o. Activities of the Board of Director Committees
p. Information on the processes of evaluating the Board of Directors as well as a summary of the results.

iv. Upper Management

a. Breakdown of upper management and resumes of its members.
b. Guidelines for the appointment of members of upper management.
c. Information on the performance of upper management evaluation processes.
d. Management committees.

v. Conflicts of interest and transactions with related parties.

a. Powers of the Board of Directors over these types of operations and over conflict-of-interest situations.
b. Details of the most relevant transactions with related parties in the opinion of the company.
c. Conflicts of interest presented and actions taken by members of the Board of Directors.
d. Mechanisms to resolve conflicts of interest and transactions with related parties, and their application during the year.

vi. The institution's risk management systems.

a. Explanation of the company's internal control system (ICS) and its modifications during the fiscal year.
b. Description of the risk policy and its application during the fiscal year.

APPENDIX 6
Glossary of Terms

Term used in the guidelines	Definition
Majority Shareholder	In general, this is a Shareholder who owns the majority of the common shares issued by the company. Strictly speaking, majority means more than 50%.
Minority Shareholder	Shareholders owning a small or relatively small number of shares in companies controlled by Majority Shareholders. In some regulations, shareholders holding less than 5% of the capital are qualified as minority shareholders. However, in companies with highly atomized capital, 5% can be a very significant percentage.
Significant Shareholder	Shareholders of a company that hold a significant number of shares (+10%) in the capital, normally stable in nature, who may or may not aspire to be represented on the Board of Directors. In companies with a large free float, it can be set between 3% and 5%. Significance may also be determined by the ability to nominate and with their votes elect a member of the Board of Directors.
Shareholder Agreement	A written document that regulates the relationship between a group of shareholders whose goal is to act in concert, harmonizing their objectives in order to safeguard their common interests. Depending on the percentage of capital that the agreement binds, it may define the form of control and management of the company.

Agenda	List of topics to be discussed at a meeting of the General Assembly of Shareholders or the Board of Directors. Equivalent to the order of business.
Upper management	Set of people responsible for the ordinary management of the company of whom the vast majority reports hierarchically directly to the Chief Executive Officer. Maintain a working relationship with the company and wield the power to make management decisions for the organization. Upper management is made up of a series of executives led by the Chief Executive Officer. The internal auditor and the Secretary General are also part of the upper management team.
Arbitration	Extrajudicial procedure for the resolution of conflicts, except for those whose resolution is legally reserved to the regular justice system. It is equivalent to an arbitration proceeding.
General Assembly of Shareholders	Meeting of all of the company's shareholders. Equivalent to Annual General Meeting.
Tag-Along / Co-sale	The right of Minority Shareholders to sell simultaneously with the controlling or significant shareholders in transactions involving a change of control in the company.
Right of withdrawal or separation	The right of a company's shareholders to cease to be shareholders and to have their shares repurchased by the company at a certain price which is established by law for certain specified cases.

Director	Individual or legal person elected by the General Assembly of Shareholders to act as director of the company in the capacity of a member of the Board of Directors. Equivalent to Counselor or member of the Board of Directors.
Board of Directors	A company's collegial management body. Equivalent to a Board of Directors, Management Council, or Directors' Council.
Chief Executive Officer (CEO)	The Chief Executive Officer is ultimately responsible for the regular management of the company, and the majority of the members of upper management report directly to him. Their appointment, evaluation, and removal are the responsibility of the Board of Directors.
Financial Statements	A set of documents to be submitted by the Board of Directors to the General Assembly of Shareholders at the end of each fiscal year in order to establish the company's financial situation and economic results at the end of a given period. They include, among others and depending on each country, the balance sheet, the statement of profit and loss, the statements of changes in total equity, the statements of cash flows, the management report, and the proposal for the application of results.
Bylaws	Written document approved by the shareholders and which constitutes the maximum internal regulations of a company. Also known as social covenant, constitution, statutes, charter, articles of association.
Regular management of the company	Current business acts or decisions made by the company's upper management.

Relevant fact	Any information the knowledge of which may reasonably influence an investor to acquire or transfer securities or financial instruments and therefore may ostensibly influence their price in a secondary market. Equivalent to Material Fact
Privileged or Insider Information	Information of a specific nature relating directly or indirectly to one or more securities or negotiable instruments or to one or more of their issuers that has not been made public and which, if it were or had been made public, could have or would have had an appreciable influence on their price in a market or trading system.
Institutional investors/investors	Professional investors, subject to a special regulatory regime of rules of conduct and prudent supervision, who acquire stakes, usually on a stable basis, in the capital of companies and/or acquire debt securities of the issuing companies. Includes: Pension funds, investment funds, mutual funds, fund managers, insurance companies, banks, brokerage firms, trusts, etc.
Corporations, Partnerships or Companies	Entities with legal personality made up of a group of people, individuals, or legal entities, that pool money, goods, or industries with the intention of making a profit, constituted in accordance with the commercial law of their residence.