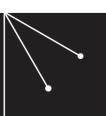


Cooperative Governance

Guidelines for Good Practices of Financial Cooperative Governance





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Introduction

The use of good practices of governance has proved to be fundamental in the success and perenniality of organizations, mainly in what regards security and returns to members. For this reason, and considering the Central Bank of Brazil mission of securing a strong and efficient financial system, a strategic project named "Cooperative Governance: guidelines and mechanisms for strengthening governance in financial cooperatives in Brazil" was developed. The main objective of the project is to disseminate guidelines for good practices of governance in such cooperatives.

This document, based on studies and research developed in the context of the project, aimed specifically at the characteristics and needs of financial cooperatives operating in Brazil, introduces general recommendations on governance – the so called "guidelines".

The guidelines, developed by a Central Bank team and ratified by representatives in the area of financial cooperatives, partners in the project, point to ways for cooperatives to succeed in their governance practices. To this end, directives were prepared in a level of detail that respects the variety of Brazilian financial cooperatives.

Adherence to the guidelines is voluntary, in the sense that there is no obligation by cooperatives in adopting such guidelines, since they are not normative in their nature. Therefore, adopting them shall be preceded by an internal discussion, examination their adequacy in view of the size and type of each cooperative. Hence, this is not a checklist, since in some cases a certain directive may not be adequate to an actual cooperative.

The guidelines are in line with legal and regulatory references, which are mentioned only when strengthening the idea of a good practice of governance. They are, in addition, under the cooperative principles and values of good governance, the foundations over which this document was built. In this sense, the need for segregating functions in administration and values such as Transparency, Equity, Ethics, Cooperative Education, Cooperative Responsibility and Accountability are the basis for such directives.

It is worth stressing that the guidelines are dynamic, and new scenarios or demands may result in changes in the document, mainly after they are discussed and implemented in cooperatives.

Cooperative Governance Project

"Cooperative Governance: guidelines and mechanisms for strengthening governance in financial cooperatives in Brazil" is a strategic project prepared by the Central Bank as a contribution to the sustained growth of financial cooperatives in Brazil.

Construed by the Office of the Deputy Governor for Financial System Regulation and Organization (Dinor) and the Department of Supervision of Credit Unions and Non-banking Institutions (Desuc) in its definitions and implementation, the project received support and collaboration from institutions linked to the cooperative segment in Brazil, as well as of financial cooperatives themselves and their associates.

One of the motivating reasons for the project was the fact that the Brazilian financial cooperative segment has been marked in recent years by its growth and changing profile. Therefore, the project aims at contributing in the building of a strong and adequate governance environment that takes into account the specificities of financial cooperatives in the Brazilian financial system and socioeconomic context.

The premise is that the strength and efficiency of the financial system, in general, and that of the financial cooperative segment, in particular, are currently under good governance. In this sense, good practices may warrant the sustained growth of the segment in Brazil, mainly in a context of increased competition in the financial system.

Project team

Executive Committee: Luiz Edson Feltrim

Marden Marques Soares

Gilson Marcos Balliana

Cleofas Salviano Junior

Helio Fernando Siqueira Celidônio

Project manager: Elvira Cruvinel Ferreira Ventura

Project team: Alexandre Martins Bastos

Daniel Maia

Fabiano Costa Coelho

José Carlos Marucci

Márcia Maria Rezende de Oliveira

Maria de Fátima Cavalcante Tosini

Mauro José de Oliveira

Rodrigo Pereira Porto

Technical collaboration: Abelardo Duarte Melo Sobrinho

External consultant: Joaquim Rubens Fontes Filho

Project phases

The project aimed at identifying governance issues of cooperatives and examining how the use of good practices could solve such issues, as opposed to simply transpose practices of other organizational contexts and other countries. In preparing the guidelines – the main product of the project – studies were conducted and researches were developed to reach a diagnosis on governance in the segment of financial cooperatives in Brazil. Governance issues are understood as themes such as participation, representativeness, monitoring and control of managerial actions, relationships between board members and executives, audits and risk exposure and, in the special case of cooperatives, relationship with the system (central cooperatives and confederations).

Then, in order to obtain a solid reference, a bibliographic and documental research was conducted from August to November 2006 to systematize information on:

- (1) main models and governance codes worldwide and in Brazil;
- (2) governance models used by financial cooperatives in Brazil; and
- (3) governance models in other countries.

In October 2006 a workshop was conducted with representatives of the financial cooperative systems to introduce and debate about their governance models, which was important to build an analysis framework. The event was attended by representatives of the Brazilian Ministry of Agrarian Development (MDA), Brazilian to Micro and Small Enterprises Support Service (SEBRAE), and the Spanish cooperative Mondrágon.

The main models and codes for governance best practices, of different types of organizations, in existence both in Brazil and abroad – such as the Organization for Economic Cooperation and Development (OECD), Bank for International Settlements (BIS), Brazilian Institute for Corporative Governance (IBGC) and the Brazilian Securities and Exchange Commission (CVM) – were examined to identify trends in different contexts, providing an initial basis for analysing cooperatives. These codes converge to some basic points that, coupled with an understanding of the relevant issues of cooperative governance and the study of relevant books and articles, provided the necessary reference to the research and the task of adapting the concept and practices to the singularities of Brazilian financial cooperatives.

In a second phase of the research, between November 2006 and March 2007, some comprehensive interviews were conducted with representatives of 34 single cooperatives and eleven central cooperatives from different places over the country, with a view to ken, in addition to documents, their governance practices. The selection of institutions contemplated different types of cooperatives and systems, respecting their relative proportions in each region of the country. The selection also considered cooperatives of different sizes, since their governance environments may vary. On average, interviews were conducted with four cooperative officials comprising, in their majority, one member of the Board of Administration, one executive official, one member of the Statutory Audit Committee and one auditor or person in charge of internal controls – which made possible to capture different views of governance issues and cooperative positioning.

After the interviews, a second workshop was conducted, in June 2007, attended by about thirty officials of single cooperatives from different parts of the country. The workshop intended to promote a debate among officials of different types of financial cooperatives on the main issues identified, with a view to refine the research instrument prepared for the next phase.

Therefore, based on this first diagnosis – studies, interviews and workshops –, aimed at recognizing the main issues and problems related to financial cooperative governance – strengths and weaknesses –, a questionnaire was prepared with about one hundred questions divided in the following sections:

- (1) Representativeness and participation;
- (2) Guidance: and
- (3) Management and Supervision.

The questionnaire, completed through the Internet between September and October 2007, was directed to all single financial cooperatives. Around 1,200 such cooperatives answered the questionnaire, representing 86% of single financial cooperatives in the country.

The questionnaire had two main objectives: first, to promote a debate within cooperatives, so that their officials could assess and rethink the governance mechanisms; second, obtain a diagnosis on the perception by such officials (board members and executives) and the current practice of governance in cooperatives.

As a member is the main interested party in a cooperative – and also a source of pressure and management monitoring –, a sample survey was conducted in November and December 2007 with members of thirty cooperatives, over the telephone, when fourteen members of each cooperative were interviewed, answering to thirty-five questions with the purpose of capturing their perception on the cooperative and the cooperative officials.

This effort provided the necessary basis for defining the guidelines for good practices of governance in financial cooperatives in Brazil.

Cooperative Governance

A set of internal and external mechanisms and controls enabling the members to define and ensure attainment of cooperative objectives, securing their continuity and cooperative principles.

Cooperative governance: concept and applications

With the severance between businesses ownership and management, issues of governance start arising, involving alignment of interests of the parties, motivation, asymmetry of information and risk propensity. The main function of corporative governance practices is to ensure that executives pursue the goals determined either by owners or by those responsible for strategic decisions, and not their own goals. In order to avoid these problems – described in the literature as agency problems –, individuals in charge of preparing and conducting strategic issues shall monitor the behaviour of those who carry out, exemplified by a Board of Administration, monitoring the management and requiring transparency in information and accountability.

In a private businesses environment, the so-called "good practices" of corporative governance came to be pursued, demanded and seen as a form in which the investor may secure adequate treatment of his interests, mainly the return on investments made. Studies showing that good practices generate value for stockholders were crucial forwarders in multiplying the preparation of codes and guidelines and in adopting good practices in corporative governance.

As there are different organizational models related to distribution of capital control, surveys on governance have been used to propose solutions to spanning questions, resulting from interactions between groups influencing the organization – and the form by which power is shared and decisions are taken, including those related to accountability, transparency, representativeness, rights and equity.

Every type of organization, not limited to private companies, may benefit from advancements in the field of governance. Indeed, international organizations have taken the lead in disseminating governance practices in organizations such as pension funds, state-owned companies, and cooperatives. As in the majority of contemporary organizations, these also exhibit a set of owners or financers and a set of managers – either owners or otherwise. Accommodating the interests involved, streamlining differences between expectations of groups of owners and guiding and monitoring the managers are the main concerns of governance in organizations. A well-developed system of governance yields more transparent relations, reducing several risks and improving security in all organizations of the system.

However, it is necessary to build a governance model that respects the singularities of each type of organization, which was the purpose of the Cooperative Governance project.

Singularities of cooperative governance

The main problems addressed in corporative governance are similar to those faced by the majority of organizations – where there is no one single owner who is also in charge of executive management. In large organizations, there are managers that are not owners, or there is a plurality of owners with ability to influence and different interests. Cooperatives also feature specific issues associated to their governance, which shall be properly treated. Definition of good practices of governance in financial cooperatives shall involve mechanisms conducting to their structure and process strengthening, in a systematically articulated fashion, in order to widen general conditions of security, efficiency and risk reduction.

Characterized as a partnership of individuals, as opposed to partnership of capital, cooperatives rely on voluntary and free association of individuals, democratic management, economic participation of members, and autonomy and independence as the basic principles for their management. Therefore, contrary to what occurs in large private companies, cooperatives are managed by their members, who are the "business owners", in a one-individual-one-vote basis, independently from the amount of the cooperative capital. Moreover, there is not the pursuit of profits and cooperative targets are long-term ones, since the main focus is serving the needs of the cooperative owners.

Management by members eliminates the agency problem related to owner-manager relationships. However, partners may not share the same goals and interests and segregation may be established between those who conduct the cooperative affairs and the remaining cooperative members. When decisions are assigned by a set of members to an elected group of officials classical issues of governance stemming from a different nature are maintained.

Severance between strategic decision and execution is one example. Internationally, the most common practice, both among companies and cooperatives, is that of severing the member's political and strategic representative body – the Board of Administration – from the execution body the Board of Directors or other similar body (executive superintendence, executive management, etc.). The interpretation of the Brazilian legislation causes cooperatives not to have this separation in a mandatory basis – the most used model is the one in which the Executive Board of Directors comprises a group of members of the Board of Administration. In this case, members of the Board of Administration who do not hold executive offices may find it difficult to follow the proposals and decisions of executives, since such executives have in general easier access to information and better knowledge of the practices and operations of the cooperative. Reducing these imbalances in ability to decide is a fundamental issue of governance.

A principle for cohesion of a cooperative model is participation of members, monitoring the management and voicing their interests. However, as noticed by surveys and experiences of officials, participation is, in several cases, too shy. This thin participation reflects a well-known governance problem, namely the "hitchhiking effect", which emerges whenever individuals feel that their individual contribution represents very little to the whole or fails to enable him to capture individual benefits. Strengthening the importance of participation, of a feeling of belonging and property, of representativeness is, therefore, crucial to good governance in cooperatives.

It is also natural and desirable that in cooperatives the associative culture is a strong element of cohesion and participation, reflecting in the establishment of a feeling of trust between members and managers. However, to exemplify the importance of consolidating good governance practices, this same trust may carry a perception of lesser need for monitoring and supervision by members, thus weakening one of the main mechanisms for organizational control. It may even lead to a concentration of power and influence in some officials, reducing the ability to act of the remaining members of the Board of Administration and the Executive Board of Directors.

Following this line of thought, it is certain that participating requires information, knowledge and ability to decide. The principle of transparency defines, in governance practices, the interest of managers in assuring that owners, members in this case, have full knowledge of information and results, in a way to further their opinions. This leads to the need of including recommendations to establish efficient channels, able to transmit information and receive criticisms and suggestions.

Furthermore, financial cooperatives have an important characteristic in analysing their governance, namely that they are, in addition to associations, financial institutions, characterized by exposures to risks that may lead to the contamination of the whole system. However, differently from other institutions in the financial system, financial cooperatives are not listed in exchanges and therefore are not subject to the scrutiny of investors, which increases even more the need for good governance practices.

In financial cooperatives, owners are also customers (takers of credit, products and services) and suppliers (depositors) of funds to the organization. Cooperative management decisions may cause conflicts of interests as, for instance, between groups of savers and net borrowers of funds. Moreover, the practice of distributing fiscal year net surpluses, in proportion to the operations carried out by a member, causes an internal pressure for efficiency and a drive towards economic result maximization, since a positive result is captured in an individual form by the cooperative member.

From a member's viewpoint, governance issues aim at promoting conditions that facilitate collective decision making, reducing costs and potential conflicts. With the growing number of financial cooperatives and mainly with the introduction of free admission of new members, the emergence of a varied set of interests among members of a same cooperative will be increasingly frequent. In this sense, decision making by the majority may be the origin of a host of future problems, such as demotivation of a specific group of members, lack of interest in participate and conflicts among groups.

It is worth stressing that the definition of a set of Cooperative Governance guidelines has, among its more important roles, the role of sharing practices already used by similar organizations, with a view to disseminate and strengthen their use, and also the indication of ways to improve strategic aspects for good governance.

Summarizing, it shall be recognized that an improvement in governance practices of a cooperative brings not only individual benefits but favours the whole financial cooperative segment by improving security, reducing supervision and control costs, furthering the image and strengthening the cooperative spirit of participation, collective action and belonging.

Structure of guidelines

Guidelines are divided in four sections, in an attempt to evidence groups of essential governance issues for cooperatives. Though the issues reach beyond the segmentation proposed, it was followed to guide the reader to the point deserving greater interest. Sections deal with the following aspects:

- (1) Representativeness and participation;
- (2) Strategic guidance;
- (3) Executive management; and
- (4) Supervision and control.

The first section focuses on the issue of assemblies, voting procedures, communication channels and cooperative formation and information. Being a society of individuals, cooperatives shall avail themselves of internal mechanisms of participation, mutual trust and voluntarism in actions. An adequate, low budget and high representativeness model of participation is essential for the success of financial cooperatives and the strengthening of cooperative ideals themselves.

Sections 2 and 3 emphasize the need to segregate strategic from executive functions, evidencing in each of them the main duties and responsibilities of managers.

Section 4 focuses the different actors that also operate, in addition to the Board of Administration, as instruments of supervision and control (members, audit, statutory audit committee and systemic organization), evidencing their importance and the mechanisms used by each of them.

Following each guideline, a breakdown or fundamentals used in analysing the building and insertion of the guideline in the set of recommendations is discussed, with a view to supply elements for a necessary debate previous to its implementation by the cooperative.

Section 1. Representativeness and participation

General Assembly

1. The administration shall develop efforts to secure effective representativeness and participation of members in deliberations of the General Assembly, since this is the supreme body of a cooperative.

The General Assembly of members is the supreme body of a cooperative, within statutory and legal limits, with powers to decide on businesses related to the goal of the cooperative and care for its development and defence; recalling that under the legislation in effect deliberations taken in a general assembly bind all, including absent and dissenting, cooperative members. Therefore, assuming that the Assembly of members is the highest instance of governance, every effort shall be developed towards effective participation and representativeness.

Participation shall be understood not only in its quantitative aspect, meaning a significant number of members, but mainly from the viewpoint of contribution to the discussion, deliberation and decision making. Naturally, effective participation involves and requires several other requisites and preparations, such as member formation and instrumentation, information dissemination, motivation to participation, among others issues that are dealt with in other topics of the guidelines.

Representativeness relate to attendance and manifestation of different sets or legitimate groups of interests regarding goals and policies of the cooperative. A General Assembly may have a reasonable quorum, with good participation, yet low representativeness, in case some groups of members are absent from the meeting. In these directives, it is understood that Assemblies and pre-assemblies are convenient forums to discuss and align positions and expectations, reinforcing the importance of representativeness. Representativeness is implicit in the fundamental principle of equity, the fair and equal treatment of all groups of members legitimately interested in the destiny of the cooperative.

- 2. The place, date and time of a General Assembly shall be selected and disseminated in a way to facilitate attendance by members.
 - 2.1 In case the agenda of a General Assembly contains complex issues such as changes in area of cooperative action, change of cooperative bylaws for admission of members, variation in cooperative goals, mergers, incorporations, splits, liquidation and other issues deemed relevant –, its dissemination shall be made earlier than in normal cases.

The selection of day, time and place shall be carefully considered to enable attendance of members, keeping in mind that the assembly shall be held in the same municipality where the cooperative headquarters are located. Depending on the profile of the members, day of the week and time are fundamental issues in their decision to attend the General Assembly. Moreover, holding a General Assembly in the premises of the organization with the largest number of members may be a positive aspect; however one shall consider contingent problems, such as difficulty of access by some members of other bounds or regions and the commitment to independence expected in debates, before a working environment subject to echelon structures that differ from those of the cooperative.

It would not be adequate, in these guidelines, to establish a single term of antecedence for convening a General Assembly, given that communication channels and geographic range of cooperatives may be widely different; however, it shall be notices that this is a crucial point for participation and representativeness in Assemblies.

3. The holding of local meetings of members (pre-assemblies) prior to a General Assembly is desirable as a mechanism for strengthening participation and activism of members, in order to discuss issues of the Assembly agenda.

Participation is mainly associated to the ability to offer contributions to debate, deliberation and decision making. Passive participation shuns the cooperative spirit itself and may represent a risk to the organization.

A fundamental right and obligation of members is defining the goals of their cooperative. However, it is common that, for the size of the members' base and reduced individual ability to influence the destiny of the cooperative, members keep away from decision making – which is known as "hitchhiking effect". This procedure may lead to a vicious circle of members stepping out from the cooperative and often to the seizing of power by a small group that comes to take isolate decisions. Most of the time, this is an effect of the good intentions of this group to strengthen the cooperative itself yet, with time, it may contribute to seclude even more the member from decisions related to the cooperative strategies and path.

The cooperative system has been using pre-assemblies with good results. In such meetings the topics of the General Assembly agenda and cooperative issues are explained and

discussed. These moments facilitate the manifestation of members who, for different reasons – displacement difficulties, little ability to analyze the cooperative condition, shyness, etc –, would hardly be heard in a General Assembly. Moreover, these meeting may be helpful in solving the lack of time problem in a General Assembly.

- 4. A regime of representation by delegates is desirable in cooperatives with a large number of members, or where there is low representativeness or little effective participation by members in General Assemblies.
 - 4.1 In a cooperative with regime of representation by delegates, previous meetings shall be held for discussing cooperative issues with the represented members in order to establish such delegates' positions in deliberations.

Paragraphs 2 and 4 of Article 42 of Law no. 5,764/1971 enable single cooperatives with membership in excess of three thousand and single cooperatives possessing members who live over fifty kilometres from the institution's headquarters to include in their bylaws a clause by which the process of representation in Assemblies will be effected through delegates.

Considered the difficulty in representativeness and participation in Assemblies, it is recommendable that cooperatives covered by the above Law use the model of representation by delegates. In addition to reduce costs of the process and facilitate coordination, representation by delegates has proved to be, in cooperatives where it is used, a significant practice to improve interlocution between managers and members. Moreover, representation by delegates provides balance to the cooperative administration, since it checks manipulation of a low participating membership, in case of an expressive number of members. It is natural that, as in any indirect representation process, quality of representation is associated to the level of interlocution between the representatives and the members they represent. Therefore, an effective and permanent interaction between members and delegates is crucial, especially when defining the cooperative goals and policies.

Assembly agenda and documentation

- 5. The agenda of a General Assembly shall be detailed and preferably shall not include the topic "other issues" so that all matters to be discussed are previously known by members.
 - 5.1 In case the agenda does include "other issues", the topic shall refer only to informative and momentary matters, which are not of deliberative nature.

5.2 The language used in the agenda of a General Assembly shall be in line with the characteristics of the cooperative members, facilitating the understanding of the matters to be discussed.

Including in the notice convening the meeting all matter to be discussed in the Assembly is a good governance practice, since it enables important issues to be revealed with the due antecedence, favouring the debate and better positioning of members; therefore, it is recommended not to include the topic "other issues" in order to avoid surprises or even manipulation of the agenda. An argument against this non-inclusion is that by removing the topic "other issues" the agenda may become rigid or the process may be too bureaucratized, requiring cautious detailing and significant ability to forecast topics. However, the discipline in organizing the agenda is part of the process of institutional development and cooperative education itself. A clear, objective and unsurprising agenda evidences transparency of the process, a requirement for good governance.

- 6. It is recommendable that mechanisms are implemented, enabling cooperative to receive, before publishing the notice convening the meeting, prospective matters that members would like to include in the agenda of the General Assembly.
 - 6.1 Internal regulations shall secure that topics submitted by a significant set of members are necessarily included in the agenda of a General Assembly.

Organizing the General Assembly agenda is the chief task of the strategic administration body. However, the establishment of channels enabling representative groups of members to submit topics to be discussed in Assemblies is recommended. Clearly, this shall take place in an organized fashion and express the interest of a reasonable number of members, to avoid the risk of excessive fragmentation of the debate. Individual submissions of members shall be previously assessed and legitimated by local and/or sectoral groups of members. Moreover, existing channels shall enable submission of proposals with adequate time and, preferably, duly founded so that they may be properly assessed before being discussed.

7. In a General Assembly, deliberations on accounts shall be preceded by reading opinions of the external audit and statutory audit committee.

The reading of such opinions sends a signal that there is a good policy in placed for accountability, since this reading facilitates the understanding of the cooperative condition by members and enables focussing debates and deliberations to any critical or weak points.

8. The minutes of a General Assembly shall be transparent – reporting all facts occurred and deliberations of members, including dissenting ones – and fully disclosed.

General Assembly minutes are instruments for the formal recording of deliberations and may be useful to document the history of decision processes, pointing to individual positions and reasons that based certain choices. The General Assembly is sovereign regarding its decisions and they shall be assumed collectively, even by those who disagree. The objective of reporting past facts, deliberations and dissents is not the one of deepen antagonisms or stirring actions against collective decisions. It is a way to better documenting and understanding the analysis, interests involved and arguments favourable and dissenting – used, with a view to enable these analysis to facilitate a future implementation of decisions. Great care shall be exercised with records in the minutes, keeping them objective and relevant.

Voting rules

9. Topics in the General Assembly agenda shall be individually examined and voted, in the same order they appear in the notice convening the meeting.

Writing a meeting convening notice is, by its own, a system for organizing interests involved. For this reason, the choice of topics in the agenda, their order and deliberation process shall be as transparent and objective as practicable.

Keeping deliberations in a General Assembly in the same order of the topics in the agenda is recommendable. A change in such order may affect the result of deliberations and participation of members – though it is expected that members participate of the whole Assembly, they may privilege topics in which they have strong personal interests. Moreover, the change may affect the integration of topics to be deliberated, since one decision frequently depends on another. The hypothesis of an Assembly deliberating on a change in the order of topics shall be avoided, since it does not eliminates the problems already mentioned and creates a new one, due to the difficulty of the Assembly to understand, under the prevailing circumstances, all the impact brought by such changes, since there is not sufficient time for adequate analysis and reflection.

10. Cooperatives shall use the procedure of counting and disclosing votes, instead of voting by acclamation.

Avoiding voting by acclamation – when there is a simple visual assessment of favourable and unfavourable manifestations to a topic in deliberation (as by showing hands) – makes the

voting process more transparent. Doubts may rise as to counting, depending on the form members manifest themselves (hands not sufficiently high, for instance) or as to abstentions. As a consequence of the counting, implementation of assembly decisions by administrators become more effective by the increased knowledge on doubts and indecision, signalling the complexity of the topic and diversity of interests, and evidencing the need for clarification and communication on the results. The record of the number of dissident votes may facilitate a mature debate and conduct to a reassessment of the topic.

Voting procedures

- 11. Voting procedures shall be established in the cooperative regulations.
- 11.1 Voting rules shall be clearly known and understood by all members.
- 11.2 Conduction of the voting procedures shall be a responsibility of a commission specifically established for this purpose.
- 11.3 The voting commission shall be established with sufficient antecedence to meet all terms necessary in the organization of the voting procedures.
- 11.4 The voting commission shall comprise an odd number of at least three members, who were not elected, are not relatives up to second degree of those elected, nor candidates of election, to statutory offices in effect.
- 11.5 The voting commission shall check compliance with the criteria established for candidacy to elective offices.
- 11.6 The voting commission shall be in charge of security, transparency, and equal opportunity of participation in the voting procedures.
- 11.7 In the event of problems in conducting the voting procedures, the voting commission shall prepare an opinion to be read at the General Assembly.
- 11.8 The voting commission shall act independently and report operationally to the strategic administration body in charge of appointing the commission's members.
- 11.9 The voting commission shall be in charge of planning and carrying out the activities inherent to the voting procedures, such as organization of facilities; appointing employees and/or members voting board members and vote counters; counting of votes; and dissemination/publication of results.

The voting procedure is important since it reflects the interest and cohesion of members in the cooperative spirit, imparts transparency to proposed future developments of the organization and evidences any existing conflict of interest.

Definition and formalization of voting rules gives signs of maturity and institutionalization to internal decision mechanisms. Permanence of deliberation process rules, especially voting rules, and its full knowledge by all those involved are fundamental qualities of democratic models

A known effective mechanism to secure the quality of voting procedures is the existence of a commission established specifically to organize these procedures: the voting commission. This commission shall be fully independent and self-governed in conducting its activities, its members shall be uninfluenced by the process the commission shall count with sufficient funds for its activities. The commission shall be established with adequate antecedence to perform its duties, and its existence and composition shall be known by all members. Checking whether the necessary requisites for candidacies and guaranties for security, transparency and opportunity to participate in the election are present are duties of the commission, which shall report to the General Assembly, previously to the voting, any activities conducted and any existing problems, taking steps such as recommendation to invalidate the procedure, as the case may be.

12. A cooperative shall have in place mechanisms favouring participation in the strategic administration body of different groups of interests regional, sectoral, professional, borrowing, saving composed by members of the cooperative.

This guideline aims at strengthening the importance of the ability of cooperative leadership to effectively represent different groups of interests of cooperative members, for instance, by demographic composition or geographic area. Mechanisms able to deal with plural interests, fostering representativeness and democratic debate shall be strengthened. The existence of different interests shall not be denied, yet conciliated in a way to facilitate the participation of groups, including their representatives.

- 13. Election of members of the Statutory Audit Committee shall be individual, as opposed to joint, and the most voted candidates shall be inaugurated in office in order to favour independence of the Committee.
 - 13.1 Election of members of the Statutory Audit Committee shall be dissociated and independent from the election to the strategic administration body.

Law no. 5,764 provides in its Article 56 on the mandatory existence of a Statutory Audit Committee in Brazilian cooperatives, while in corporations such Committee is not mandatory, though increasingly established in the majority of corporations as a demand of investors, showing its importance as an independent controlling body.

The quality of supervising power and control of the Statutory Audit Committee is directly associated to the qualification of its members vis-à-vis the tasks they carry out and, mainly, to their independence. It is therefore crucial that members of the Statutory Audit Committee are independent from each other and from administration bodies. A joint election limits this independence when it induces the establishment of bonds, even in cases when such bonds materialize around proposals for cooperative programmes and actions.

Using the Statutory Audit Committee as an "entrance door" to the cooperative, a step in the formation of cooperative officials, and invitation or support to candidates by the administration, shall be opposed. These conditions may establish a submission of the Committee and weaken the position of members before consolidated political forces in the cooperative.

- 14. It is desirable that candidates meet some minimal conditions for their candidacy, such as: adequate technical ability; knowledge of the financial system, cooperative matters and associated risks; participation in training or preparation programmes for financial cooperative officials; good repute in the cooperative industry and local community.
 - 14.1 The cooperative administration shall secure elected candidates access to training for the performance of their duties.

It is important that all administrators, strategic and executive, and members of the Statutory Audit Committee are prepared to deal with complex issues involved in financial organization. Recognizing the diversity of cooperatives, the variety in nature and formation of their members and the fundamental pillar assuring to all members the right to participate in decisions. Principle of Democratic Management previous technical qualification of elected members is recommended, and though such qualification may be attained after election, it shall be completed before the inauguration in office. This guideline additionally reinforces the cooperative principle of Education, Training and Information of members.

15. The name and profile of candidates shall be previously disclosed to the General Assembly.

As a rule in all voting procedure, it is fundamental that members have full knowledge on candidates – their background, curriculum vitae and proposals – before the Assembly

so that members may make an assessment and reach a decision on candidates. These guidelines do not propose a fixed term for the previous disclosure, recognizing that the size of cooperatives, its geographical distribution and natural interaction of members require different terms. The recommendation is that each cooperative, recognizing these variables, establishes its terms accordingly.

16. The rules of the cooperative shall envisage criteria securing that there are not economic and functional bonds between members of the administration body (or bodies) and the Statutory Audit Committee.

Article 56 of Law no. 5,764/1971 provides on segregation between members of the Statutory Audit Committee and administrators regarding kinship and joint performance of duties. The aim of the recommendation is that of reinforcing independence of the Statutory Audit Committee members from the cooperative administration bodies, not only in a formal perspective. It is incompatible with the requirements for an unimpeded performance of their duties that Statutory Audit Committee members have any dependence or economic bond with administrators involving loans, guarantees or participation in society or functional association – hierarchical subordination in a company –, which may limit the member's independent assessment and action.

- 17. The rules of the cooperative shall include provisions on:
- (a) the minimum term from the end of a previous elective or executive office in the cooperative required for candidacy to a public elective office;
- (b) the term to run for elective office in the cooperative after having served in an elective public office;
- (c) prohibition of simultaneous service in a political or party office by an elected officer of the cooperative.

A "quarantine", defined as the "period following the holding of a strategic public office during which the former holder is prohibited from holding a private sector employment where he/she could use privileged information in his/her own benefit or in benefit of others", according to the Houaiss dictionary, is currently being used in many different contexts. Regarding cooperatives, Article 4(IX) of Law no. 5,764/1971 provides on the political neutrality of cooperatives. This provision aims at preventing the cooperative from being used with electoral purposes, jeopardizing both the cooperative and its members.

Member participation

- 18. Participation of members in cooperative affairs shall be encouraged with the establishment of an environment and instruments enabling members to express themselves and be heard, mainly with the purpose of developing a sense of belonging, property and ability to affect the course of cooperative affairs. Examples are:
 - (a) channels for imparting information to members, alternative and complementary to the General Assembly;
 - (b) periodic meetings and/or pre-assemblies to clarify members on activities and results of the cooperative and establish a favourable environment to capture members' criticisms and proposals;
 - (c) channels for receiving suggestions and complaints, where a member may information on the developments of his/her contributions.

A cooperative, as an association of individuals, demands commitment and participation from its members in its organization. This participation is fundamental for the cooperative full existence and fulfilment of its mission, and every effort shall be developed to encourage it. Participation contributes towards democratic management of the organization, better supervision and consequent strength and alignment of its internal interests and points to the fulfilment of member's expectations. This guideline reinforces the full recognition of the cooperative system on the importance of participation.

Cooperative formation, development of leaders and social responsibility

- 19. Cooperatives shall permanently promote cooperative and financial education of its members.
 - 19.1 Mechanisms shall be developed and implemented for:
 - (a) strengthening the associative bonds that were at the basis of the cooperative establishment;
 - (b) establishing a policy of involvement with the community;
 - (c) encouraging the emergence of sectoral or regional leaders who shall operate as a link between cooperative and member.
 - (d) pursuing a renewal of cooperative administration and supervision officials.

Cooperative education is fundamental in developing a financial cooperative, by evidencing to a member the differential issue of such member's relationship with the cooperative, that is to say, the relationship is more than the traditional one of a customer with a financial institution. In cooperative education, it shall be emphasised that the member is an owner of the institution, and as such having rights and obligations. Reinforcement of the owner condition of a member's entails, at the same time, a greater duty to the member and more security to the cooperative since, under this perspective, a member may have better conditions to care for his/her interests, qualifying him/herself to duties of control, supervision and administration of the cooperative. A more intense participation and adequate follow-up of activities relates to lower cost requirements of control and supervision. Financial education, on the other hand, may contribute to improved monitoring quality and ability by cooperative members, assisting in perceiving advantages offered by the cooperative, in addition to representing an interesting instrument to encouragement of participation.

Cooperative education fosters the development of future qualified cooperative administrators and members of the statutory audit committee. A well administered cooperative plans its development and long term continuity. In this sense, adequately preparing the renovation of administration and supervision officials is fundamental.

Financial cooperative contributes to foster small and local economies when providing access to financial services by a population unassisted by traditional means. Involvement with the community is essential for the cooperative success and continuity since the community tends to participate more actively when benefited. This involvement may be started with cooperative education in schools and social and educational events for the whole community, not restricted to cooperative members only. The effects shall be beneficial, since they increase individual self-esteem, spread cooperative spirits and encourage the union towards common well-being.

Section 2. Strategic guidelines

Definition of roles and actions

- 1. Clear segregation shall exist between the roles of strategic function administrators (Board of Administration, Board of Directors) and executive function administrators (Executive Board of Directors, Superintendence, Management).
 - 1.1 Strategic deliberations, definition of cooperative policies and rendering of accounts to members shall be functions performed by members of the board of administration or by directors who do not hold executive offices.
 - 1.2 The bylaws or internal regulations shall discipline the rights and responsibilities of administrators with strategic function and of those with executive functions.

One of the most important governance policies refers to segregation between the administration with executive functions and that with non-executive functions. In a typical publicly held company – and in most other organizations, such as pension funds, state-owned companies, and third-sector organizations –, the highest administration body is made by a group of individuals who represent the owners or financers (Board of Administration, Deliberative Board), and this body has the responsibility of defining strategies and targets, select the executives who will develop and monitor the performance of such strategies and targets, bringing therefore the expectations and interests of owners. Executives shall endeavour to attain the results expected by owners, articulated by the Board. This segregation is basic to avoid excessive concentration of power in the hands of the chief executive officer, since he or she has a deep knowledge of the business and significant control of decisive operational processes.

In cooperatives, as a result of restrictions imposed by law and other factors, these two bodies frequently are superimposed, with executive members being also members of the Board of Administration. In practice, this may produce imbalances – of power, access to information, ability to control, among others – among executive and non-executive members. It is natural for every chief executive officer to have much more information on the businesses of the cooperative than the remaining members of the Board, which contributes significantly to

reduce the power of influence and ability of action of those non-executive members. To this, mandatory renewal shall be added, applied mainly on non-executive members, generating a context of excessive concentration of power in the hands of the CEO. As a result, distribution of power within the cooperative turns to be strongly directed to the discretionary power of the chief executive officer and not to an institutional mechanism.

It shall be noticed that the main objective of this guideline is to strengthen the ability of acting by elected administrators who are not involved in executive functions and therefore have the main mission of translating the expectations of members in directives and strategies that will be developed by executive personnel, in addition to supervise their performance. This model is in line with the governance practices internationally recognized as effective in different sectors, including financial cooperatives.

It is therefore recommended that non-executive administrators members of the Board of Administration or Board of Directors, according to the selection of the cooperative – appoint the executives who will answer for the day-by-day activities of the cooperative and will be in charge of developing established targets and strategies. The executives selected shall be assigned exclusively to cooperative activities turned to improving operational management of businesses and render accounts to the appropriate cooperative officials.

- 2. The strategic administration body of the cooperative shall have internal organization practices and adequate composition to facilitate the decision process, preferably an odd number of elected members.
 - 2.1 Meetings of administrators with strategic functions defined as those with non-executive duties shall ordinarily take place without the participation of administrators with executive duties, except when required to clarify any issue.
 - 2.2 Administrators with strategic duties shall elect, among their peers, the chairman of the collegiate body, who shall not have executive duties and shall answer for the activities of the body, mainly before the members of the cooperative.

Since the strategic administration body (Board of Administration or Board of Directors) is a collegiate body, it is suggested that it be composed by an odd number of members, in order to obtain a definite majority in deliberations. The strategic administration body shall select the executives of the cooperative, provide directives and supervise their activity and dismiss them, as the case may be.

It is important to hold meetings attended only by elected administrators with non-executive duties. This will enable analysing any doubts or issues related to actions of executives without prejudice, avoiding unnecessary conflicts. It shall also enable to increase the powers of such representative body, levelling the knowledge of its members and strengthening

the segregation between strategic and executive levels. Since administrators with strategic functions – who ordinarily have lesser understanding of the nuances of the business, since they do not follow, and are not supposed to, the cooperative operating activities are in charge of deliberating on proposals submitted by executives, it is necessary that they have conditions and disposition to build their independent knowledge and opinion, resorting to the CEO only to clarify doubts.

A chairman to the strategic body shall be appointed in order to organize the activities of the set of administrators with strategic duties, including activities of interlocution with executives and other officials of the cooperative.

3. It is desirable that the compensation of administrators with strategic duties, when this is not a voluntary occupation, keeps comparable with the compensation of the CEO, without accounting for bonuses and any variable remuneration of the latter, according to criteria passed by the General Assembly.

This guideline recognizes that the administrator with strategic and non-executive duties shall be adequately remunerated, to impart him/her the independence and commitment in line with the responsibilities assigned to him/her and the statutory body. It also aims at establishing a parameter for calculating the remuneration of these administrators in consonance with the compensation received by the CEO. However, in case there is a variable remuneration applicable to executives, with the purpose of encouraging the attainment of defined strategic goals, this mechanism shall not reach administrators with strategic duties to avoid an alignment of interests that may jeopardize executive independence in the permanent activity of assessing.

Duties of strategic administration body (Board of Administration, Board of Directors)

- 4. Duties and responsibilities of administrators with strategic functions, in harmony with the policies of the associated system, shall be present at the bylaws of the cooperative, especially in what regard the following issues:
 - (a) general and strategic guidelines for cooperative action;
 - (b) definition of cooperative targets, including those targets related to business continuity;
 - (c) monitoring the performance of administrators with executive duties, including the recording, at least once each year, of such performance in an appropriate document.

- Assessment shall be conducted based on previously defined objectives, according to strategic planning;
- (d) definition of clear and transparent executive compensation criteria, in line with the financial ability of the cooperative and with the remuneration paid in the market for similar officials;
- (e) definition of formal and individual mechanisms for delivering, to all administrators, of the contents of the Statutory Audit Committee meeting minutes.
- 4.1 The bylaws of a financial cooperative shall include the following duties and responsibilities assigned to administrators with strategic functions:
- (a) definition of a relationship policy among single cooperatives affiliated, for instance, to its area or action:
- (b) definition of a dissemination policy for comparative data on the performance of its affiliated cooperatives.

The main duties of strategic administration bodies are establishing an organizational strategy, monitoring of its implementation and assessing results. Therefore, it is important that duties and responsibilities resulting from such essential duties are clearly established in the bylaws – the main internal regulations of a cooperative.

In addition to establishing the strategy and objectives, the strategic administration body shall be in charge of appointment and dismissal of executive administrators – by whom the established strategies shall be implemented. Thus, such executive administrators shall monitor and periodically assess the cooperative performance, with a view to assess attainment of established targets and management performance.

Since members of strategic administration bodies perform their duties within fixed and delimited office terms, and the organization shall subsist in the long run, such members shall, in addition, prepare leaderships and administrators to secure continuity of businesses and the cooperative itself.

Financial cooperatives therefore are not profit-seeking organizations, and therefore may be not analysed solely by the results earned by its net worth. The assessment context of a financial cooperative is far more complex that that of a profit-seeking organization. However, this shall not lead to a situation of accommodation before any existing inefficiency. This is why availability of comparative data on the performance of cooperatives is so important as a form of referencing the action of each single cooperative, evidencing any deficiencies and improvement opportunities and fostering adoption of appropriate measures.

- 5. Duties and responsibilities of strategic administration bodies (Board of Administration, Board of Directors), either contained in the cooperative bylaws or otherwise, shall additionally:
 - (a) ensure that administrators with executive duties preventively identify through adequate information systems the main risks to the cooperative and the likelihood of their occurrence;
 - (b) approve a contingency plan for cooperative risks submitted by administrators with executive duties;
 - (c) analyse, in harmony with cooperative principles, the appropriateness of binding part of the compensation paid to administrators with executive duties compensations to attainment of strategic targets;
 - (d) care for fulfilment of cooperative conduct code guidelines.

The strategic administration body shall ensure that the cooperative structure is prepared to identify, beforehand, the possibility of occurrence of facts that threaten the institution. Therefore, it is its duty to question executive administrators, from time to time, regarding facts or procedures that threaten the position of the cooperative. In addition, the strategic administration body shall assess and deliberate on the action plan in risk situations (contingency plan), to be submitted by the chief executive officer. It is important to check, in this sense, whether all aspects are involved, including those related to the behaviour of executive administrators.

Strategic administration body may, either periodically or structurally, encourage executive administrators to achieve the cooperative established targets by proposing that part of their remuneration be linked to attainment of specific goals. It shall be stressed that a pre-requisite for existence of a variable remuneration is a severance between strategic and executive functions, since there has to be a performance assessment of executive administrators by those who have defined the objectives and targets to be fulfilled.

The strategic administration body shall ensure that the conduct code and ethic standards of the cooperative are fulfilled by every member of the institution – including the administrators themselves and the cooperative employees.

- 6. Deputy members of strategic administration bodies shall be active and in reduced number.
 - 6.1 Deputies shall be familiar with cooperative problems in the performance of their duties.
 - 6.2 It is desirable that deputies, even when not replacing their principals, participate in meetings of the collegiate body, with the power to voice their opinions, with no voting rights.

In line with the target of consolidating continuity of businesses and of the organization, it is recommended that deputy administrators elected are sufficiently informed on the cooperative administration, both in case it becomes necessary to replace or substitute an official and for the formation of cooperative officials and leaders.

Operation of administration bodies

7. Rules for operation of the administration bodies shall be formally reflected in the cooperative regulations.

Rules for operation of strategic administration bodies, the highest instance in the cooperative administration, shall be permanent and may not be defined on a case-by-case basis. Formalizing such rules enables all members – new and old – and the whole cooperative to know its form of operation. In this sense, responsibilities, duties and working routines shall be explicitly described.

The executive administration body shall also have clearly defined operating rules.

8. The main duty of the strategic administration body chairperson is coordinating the activities of the collegiate body, including those related to monitoring the action of administrators with executive duties and to the rendering of accounts to members in assembly meetings.

All cooperative members shall partake the powers and responsibilities of strategic administration bodies. The chairperson shall coordinate it, without predominance of powers over remaining members. Election of the chairperson of the body by its members, as opposed to election by General Assembly, makes this "coordinator" to report to a set of bodies and enable him or her to be removed from office by his/her peers, when and if they reach a conclusion that he or her does not meet the necessary conditions to be the chairperson.

- 9. Decisions taken by administration bodies shall override the individual interests of their members.
 - 9.1 It is desirable that formal criteria are defined to avoid embarrassments in meetings where maters are discussed that involve personal interests of members.

It is crucial that administrators are also imbued by associative spirits when taking decisions I pursuing the best for the cooperative as a whole, and not only for themselves. In this sense, the cooperative regulations shall, for instance, include mechanisms to describe in detail to all members any individual benefit/prejudice that administrators may receive in case a decision is taken. Besides, in order to avoid embarrassments in discussions involving personal rights of a member, it is appropriate to use procedures such as temporary removal of the member from the meeting.

- 10. It is recommended that the strategic administration body, provided the size and financial conditions of the cooperative so permit, establishes non-operating committees in charge of analysing strategic issues and monitoring the cooperative management, such as risk, credit policy, compensation of executive administrators, cooperative reorganization, etc.
 - 10.1 Analysis and proposals of committees shall be systematically submitted to evaluation by the strategic administration body.
 - 10.2 Committee activities shall not compete with the duties of executive administrators, and shall avoid interfering with such executives authority and responsibilities.

The ability to take decisions by the strategic administration body, mainly in larger or more complex cooperatives, may be strengthened in case part of the cooperative members and/or advisors could be devoted to specific matters.

11. Newly inaugurated members of the strategic administration body shall receive information needed for their effective action – including knowledge of the cooperative history, structure, procedures, systems, markets and competitors, knowledge of regulating bodies policies, rules of the strategic administration body – and be furnished documents such as yearly reports, minutes of Assemblies and ordinary meetings, opinions of the Statutory Audit Committee and Auditors, strategic planning, detailed economic and financial conditions, among others.

This guideline focus on new members of the collegiate body, since preparing them is crucial for their ability to identify and submit issues, making effective contributions to the body. In addition, democratization of information among the set of administrators prevents that one or more of them become "non-substitutable" as a result of his or her greater access to internal information of the cooperative. Finally, disclosure of knowledge among administrators prevents some of them from reaching a position of higher power before others who command less information about the set of cooperative matters.

12. The strategic administration body shall use the work of both internal and external audits as a source of information about the cooperative, independently from information reported by administrators with executive duties.

Internal and external audits offer a perspective on the operation of the cooperative that is an alternative to the view held by the executive administration. Therefore, administrators with strategic duties shall not only be granted access to reports but also interview the auditors, if needed, to obtain clarifications and explanations.

13. The members of administration bodies shall have time at their disposal to perform their duties and meet their responsibilities.

In order to meet their responsibilities, it is important that each administrator, either with executive obligations or otherwise, has sufficient time to perform his or her duties. Therefore, this guideline shall be considered in the context of other provisions of this document, since for an administrator, mainly the non-executive one, to have adequate time for his or her duties and responsibilities before the cooperative, he or she shall have adequate conditions, including appropriate remuneration. In this sense, voluntary dedication to the activity of administering a cooperative shall be seen as desirable only in case the candidate meets the necessary conditions for a full performance of activities required by the office, even with no remuneration.

Section 3. Executive management

Action and responsibilities

- 1. Administrators with executive duties, as they are in charge of operational management, shall dedicate all their time and effort to the activities of the cooperative.
 - 1.1 Executive administrators are responsible for implementing the guidelines established by the strategic administration body and shall report to the chief executive officer and, whenever requested to do so, shall also report to such strategic administration body, to the Statutory Audit Committee and to internal and external audits.

Performance of operational management by full time administrators imparts dynamism to the administration. The cooperative gains with the permanent presence of those in charge of conducting the institution affairs, which avoids undesirable responsibility shifts to other levels of administration due to absence of, or lack of routine knowledge by, those in charge.

Performance of operational activities is a responsibility of administrators with executive duties, and non-executive members shall avoid interfering with such activities, to preserve segregation of functions, attainment of targets and assessment of the executives' performance. The Chief Executive Officer is in charge of coordinating the activities of the remaining executives and of the executive body itself, and is responsible for the performance of the cooperative and accountability before non-executive administrators and the Statutory Audit Committee, upon individual request of any or all of its members.

- 2. The requisites of technical knowledge, duties and responsibilities of administrators with executive functions shall be clearly stated in the bylaws or the cooperative.
 - 2.1 Administrators with executive duties shall be technically competent and managerially in line with the complexity of functions to be performed.

Assignment of duties and responsibilities to administrators with executive functions shall be described in the bylaws, including the requirements regarding technical training and experience, not only as a result of their legal responsibilities, but also for the sake of clarity of their duties to the cooperative members and personnel.

The set of requirements of regulatory and legal nature and those mentioned in the bylaws assumes that executives are technically trained. It is desirable for an executive administrator to have a commitment with the interests of the cooperative and cooperative members, experience with the typical duties of the office, ability to conduct, motivate and work in a team, and decision making skills.

3. Administrators with executive functions, according to their responsibilities, shall certify the adequacy of financial statements and reports submitted to the strategic administration body, Statutory Audit Committee, members and external control bodies, verifying that there are not omissions and false statements in such documents and that they express the true condition of the cooperative.

One of the main duties of the executive administration is assuming the responsibility for the statement of assets and liabilities and the income statement of the cooperative, since such documents are a synthesis of the results achieved. Another important duty of the executive administration is surveying and reporting to the strategic administration the vulnerabilities and risks faced by the cooperative. To this end, the executive administration shall assess the pertinence and reliability of the reports submitted, in addition to reviewing reports addressed to the remaining interested parties, in a way to enable matters to be properly assessed.

Code of conduct and ethic standards

- 4. The cooperative shall have in place a code of conduct providing guidance to actions of administrators with strategic and executive duties, Statutory Audit Committee and employees, expressing the ethic standing of the cooperative and its applications to daily activities.
 - 4.1 The code of conduct shall contemplate mechanisms to cover against punishment and retaliation those who, in good faith and intending to promote fulfilment of the code and actions of the cooperative, submit any denunciation.

It is a duty of the strategic administration body defining ethic standards that shall guide cooperative activities by means of a document targeted to be the formal and institutional reference for the personal and professional behaviour of each person in the cooperative, apart from the office he or she holds, reducing the subjectivity of individual interpretations on moral and ethic principles. This code has also the purpose of establishing a standard of relationship with the different publics of interest of the cooperative: members, employees, partners, suppliers, service providers, competitors, society, government and community where the cooperative operates.

Existence of an organizational culture determining and encouraging ethic behaviour is as important as, or more important than, any other written statement of values and ethic standards. This way, every official of the cooperative shall assume the responsibility of applying the ethic standards to his or her everyday tasks, helping to disseminate such standards, mostly through personal example. However, despite the responsibility of strategic administrators to care for compliance with the code guidelines, executive administrators are the ones who may better monitor and assess its application on the daily routine of the cooperative.

It is very important for the code of conduct to aggregate cooperative principles, in addition to dealing with conflicts of interests, environment, occupational safety, nepotism, loans to relevant parties, dissemination of information, illegal behaviour and political activities; it is equally important for the code to be, above all, a practical instrument to guide the cooperative internal and external relationships.

The cooperative shall disseminate the code of conduct in the different internal vehicles of communication and establish channels to clarify doubts or impart knowledge on conflicting issues. New members and employees are strongly recommended to distribute the code since the beginning of their cooperative membership.

- 5. Transactions with relevant parts shall be documented and reflected in financial statements and shall be performed in the same conditions applicable to those carried out with other cooperative members or any other organization.
 - 5.1 The cooperative shall regulate the performance of commercial transactions with administrators and their relatives, or companies with which such administrators hold any relevant association.

Transactions with related parties are those performed with entities in which one of them, or their administrators, hold any type of participation of influence that may secure primacy in the deliberations of the other. This guideline has the purpose of securing that the cooperative establishes mechanisms for dissemination of transactions among related parties in order to supply, to member or any reader, information that may enable them to understand the transaction effects on the financial situation of the cooperative and the regular nature of the operation, including its ethical aspects.

6. Administrators shall refrain from participating in decisions that involve financial transactions in which they are an interested party, in a way to secure an equalitarian treatment of members and a reduction of conflict of interest in decisions.

6.1 In case administrators with executive duties also participate in the strategic administration body, it is recommended that they waive the right to vote whenever the discussions involve matters related to the establishment of management guidelines.

It is recommended that administrators, including executive administrators, do not participate of decisions involving financial transactions in which they are interested parties. The same procedure shall take place in central cooperatives, regarding decisions involving interests of a certain single cooperative, where the representative of such single cooperative shall not participate in such deliberation.

The role to be played by executive administrators, when participating in meetings of the strategic administration body, shall be limited to give information and explanations, without performing any role in coordinating in the meeting and even less the conducting and/or participating in decisions.

Risk and credit policies

- 7. The cooperative shall have in place a risk management policy fully disseminated to the employees of the cooperative, documenting criteria and procedures.
 - 7.1 Areas with conflicting targets, such as credit risk and the granting of loans shall be segregated.
 - 7.2 The risk management policy shall contemplate all risks involved in the cooperative activity, weighing its relevance and adequacy to the cooperative size.

The risk management policy has the purpose of providing security to members, fostering the perception that their investments shall be managed under rules previously established by the cooperative, build according to the most adequate technique. Such rules determine patterns of conduct, responsibility and segregation of functions, and shall be widely disseminated to the employees of the cooperative, in the interest of the cooperative members.

The purpose is showing to members that their investments, as well as the internal procedures of the cooperative, are being performed in a safe way, under clear and rigid rules, either in the granting of loans and in other investments in the market. Such rules intend mitigating the risk against fraudulent practices and use of privileged information. Risk management policies and procedures shall be documented in detail, including any guarantees offered. A continuous commitment with transparency is desirable, so that risk information systems and policies targeted to different risks are permanently improved and may be disseminated providing therefore a valuable contribution to decisions to be taken by cooperative members and officials of the strategic administration body.

Dissemination of information

- 8. Administrators with executive duties shall secure to members of the strategic administration and supervision bodies full access to the cooperative premises, information and documents needed in the performance of their respective tasks.
 - 8.1 Information delivered by administrators with executive functions for analysis by other collegiate bodies shall emphasise the most important aspects and be made available in a timely, regular and reliable way, enabling comparisons and managerial assessment.
 - 8.2 The Statutory Audit Committee shall have access to the necessary documents with sufficient time to perform its tasks.

The transparency principle presupposes both ability to inform and security that information is the most effective, so that those interested may understand the real condition of the cooperative. Therefore the focus shall be not the amount of information, but the attention given to controversial points and issues deserving attention.

Administrators with executive functions shall cause the flow of information to cooperative bodies to be transparent and reliable, offering conditions to the deepening of necessary investigations, either by facilitating the physical access to premises or by other means, in a way to enable the satisfactory analysis of information.

- 9. Administrators with executive functions shall secure that cooperative members know the financial standing, performance, and management and businesses policies of the cooperative, by clearly publicizing, in adequate wording, all relevant facts.
 - 9.1 Best efforts shall be employed to publicize the cooperative's economic and financial data performance indicators.
 - 9.2 Dissemination of information shall meet the expectations of cooperative members, through the use of adequate channels, under the best possible cost-benefit relation.
 - 9.3 Opinions from external auditors and Statutory Audit Committee shall be publicized before a General Assembly takes place.

Cooperative members have a right and the duty to understand the real standing of the institution, verifying what is published by the administration in internal bulletins, including the information made available by electronic means, stressing that holders of confidential information shall follow the provisions of the law in what regards the treatment given to this

information. Executive administration shall inform any contingencies that are not reflected in balance sheets, as well as any relevant information, understood as such that information in which an omission or an error could affect economic decisions of cooperative users.

Dissemination of financial outcomes shall also consider information that may be used to clarify the future performance of the institution in a way to enable monitoring the cooperative by its members and the market, as well as provide grounds for decisions on prospective investments and, mainly, assist any interested party in general in grasping social consequences of cooperative actions.

- 10. Administrators with executive functions shall establish parameters for comparison with other cooperatives, especially in what relates to administrative costs vis-à-vis revenues, risk exposure and default levels.
 - 10.1 The above comparisons shall be made available to cooperative members.

The use of comparison parameters is a usual practice in all types of organizations – either cooperative or otherwise – and are an important tool in decision making.

Dissemination of such parameters to cooperative members is a good practice, enabling them to monitor the performance of their cooperative, comparing its performance with that of other cooperatives and demanding administrators to conduct the necessary changes for the permanent improvement of such performance indicators, as the case may be.

- 11. The administrators' compensation values and criteria shall be available to each cooperative member, including in cases where there is variable remuneration.
 - 11.1 Yearly reports shall describe such criteria and disseminate the percentages of such variable remuneration as against the total administrative expenses of the cooperative.

The remuneration of administration officials of the cooperative shall be preferably in line with the objectives, strategies and valuation of the organization in the long run. In case dissemination of remuneration in a case by case basis is not possible, it is desirable that this dissemination is made in a global fashion, for each body foreseen by the bylaws of the cooperative and for each administration office. It would be interesting that the publicity is made in a way to facilitate an assessment of the impact of such remuneration in the cooperative results.

Section 4. Supervision and control

Members

- 1. Administrators with executive duties shall secure that efficient institutional channels are in place so that cooperative members may actually exercise their right-duty of supervising and controlling the cooperative affairs.
 - 1.1 Every cooperative member shall be aware of his/her rights and duties envisaged by law and by cooperative bylaws, especially in case of loss and/or harm.

The purpose of this guideline is making evident that members are agents of good governance, through the awareness of their legal responsibilities as parties of a cooperative. Financial cooperatives, as providers of financial services and products have the fiduciary duty to manage the savers' funds, as well as fiduciary duty regarding the capital of cooperative members and this entitles the members to analyse in appropriate depth the economic and financial reports of cooperatives.

Since users of financial cooperative services are also the owners of the institution, they assume risks and responsibilities that exceed those of users of other types of financial institutions. As a consequence of the provisions of Article 1,095 of Law no. 10,406/2002 (the New Brazilian Civil Code) and Articles 89 and 80 of Law no. 5,764/1971, a member of a cooperative shall respond not only for his or her share in the stock capital but also for losses that may be realized, in the proportion of operations that he/she may have performed. Paragraph 2 of the abovementioned Article of the Brazilian Civil Code underlines this unlimited responsibility of partners when establishing that "Responsibility is unlimited in a cooperative where a partner responds jointly and unrestrictedly for the institution's obligations". Besides, Article 36 of Law no. 5,764/1971 establishes that "Responsibility of a partner before third parties, for obligations of the society, extends to those dismissed, eliminated or excluded individuals, until the moment when the financial reports on the fiscal year where such dismissal, elimination or exclusion took place are approved." Besides, members who are employees may be penalized with loss of their right to vote and be voted until the accounts of the fiscal years in which he or she left such employment are approved (Article 31 of Law no. 5,764/1971).

For the foregoing, full exercise of the right to supervise and control by cooperative members, materialized by their direct participation in General Assemblies, assessment of managerial and financial reports, among other mechanisms, contributes towards good cooperative governance.

Audits

- 2. The hiring of external and internal audits shall be approved by the strategic administration body, preferably in a deliberation taken solely by members with no executive duties.
 - 2.1 The internal audit shall be under the chairperson of the strategic administration body and the external audit shall report to him/her.
 - 2.2 The audit reports shall be forwarded to all bodies foreseen by the bylaws of the cooperative.
 - 2.3 Cooperative regulations shall contain provisions securing the independence of internal and external audits.

To conduct supervision and control in a satisfactory fashion, it is necessary that the audit has its independence secured and acts with quality. For this end, the audit work shall be based on adequate control systems.

The subordination of internal audit to the chairperson of the strategic administration body aims at avoiding conflicts of interests with the members of such body or directors with executive duties.

The internal audit scope of duties shall include, in addition, supporting actions to executive administrators and the Statutory Audit Committee. The role of internal audit is crucial for the proper operation of the internal control systems, mainly those systems addressed to assessing compliance with regulations, instructions and policies defined by the cooperative management bodies.

One risk that may be mitigated by internal audit is the operational risk, also known as process risk – risk of human failure, defective equipment or process, and risk of fraud and/or omission. Especially in cooperatives where there is no computerized controls, the management of such risk relies strongly on the audit that may, with appropriate independence, report any irregular and relevant facts to the strategic administration body and the Statutory Audit Committee.

As for the external audit, the focus of action is examining the cooperative financial statements. The result of this exam collaborates for the existence of adequate levels of transparency and credibility and, in addition, enables comparisons among different periods of time, in a way to assess individual performance and comparison with other cooperatives.

To this end, it is necessary maintaining the uniformity of audit processes, mainly in what regards the use of technical procedures, which imparts security and quality to the work and, in addition, securing independence of such processes in order to avoid as superimposition of political and individuals interests over collective interest. Considering the scope and potential actions stemming from the work of external and internal audits, it is crucial that these audits shall report to the strategic administration body of the cooperative in a way to protect audit activities in case conflicts of interests arise.

Statutory Audit Committee

- 3. The Statutory Audit Committee shall be a body independent from the cooperative administration, with the purpose of supervising such administration as a representative of cooperative members.
 - 3.1 The Statutory Audit Committee shall assess compliance with the administration's obligations, both legal and foreseen by bylaws and, in addition, examine the management and administration acts that have an impact on the cooperative achievements.

The purpose of this guideline is strengthening the role of the Statutory Audit Committee as the most important body of supervision and control by members, since it is not subordinated to the cooperative administration body. The Statutory Audit Committee reports solely to the General Assembly and therefore is less subject to conflicts of interest.

The Statutory Audit Committee is wrongly perceived as a body that shall deal just with accounting matters, analysing balance sheets and financial statements and issuing its audit report. However, the first and most important duty of a Statutory Audit Committee is supervising the acts of both strategic and executive administrators, and verify the performance of their duties, either legal or established in the cooperative bylaws, in which administrative duties any managerial act performed, either by the administrator or, through assignment of authority, by any employee of the organization.

4. The Statutory Audit Committee must be assigned the necessary resources for an effective supervision of the cooperative.

- 4.1 The Statutory Audit Committee may request from the cooperative administration the personnel, materials and funds needed in the performance of its duties.
- 4.2 The Statutory Audit Committee may, upon request of any of its members, request explanations and information from the administration, provided it relates to the Committee's supervision duties, as well as preparation of special reports and financial or accounting statements.
- 4.3 The Statutory Audit Committee may, upon request by one of its members, request explanations and information from internal auditors, as well as investigation of specific issues from external auditors.
- 4.4 The Statutory Audit Committee may convene or invite, jointly or separately, any party in which the cooperative may be interested, for the purpose of explanations.

The purpose of this guideline is making clear that the scope of the supervision conducted by the Statutory Audit Committee shall be as comprehensive as possible, given the legal responsibilities assigned to it in case of misconduct identified within the cooperative. Article 1,070 of Law no. 10,406/2002, provides that members of the Statutory Audit Committee have responsibilities paired with that of an Administrator, and may be liable for legal actions started by members or third parties.

In order to conduct properly its supervising duties, the Statutory Audit Committee shall be authorized to access information related to its functions, and may report to the General Assembly on any instance in which the administration bodies are either interfering or hindering such free access, as exemplified by Article 163(IV) of Law no. 6,404/1976 and Article 1,069(IV) of Law no. 10,406/2002, granting powers to the Statutory Audit Committee to report on such interference or hindrance to the administration bodies and, in case such bodies fail to take the necessary measures to protect the interests of the cooperative, to the General Assembly, referring to any errors, frauds or crimes that the Committee may find and suggest remedies that are useful to the cooperative.

Administrators may not omit information to the Statutory Audit Committee, shall be accountable of their actions to the General Assembly and the Statutory Audit Committee, forwarding them full copies of the minutes of administrator's meetings.

However, when establishing its control mechanisms, a cooperative shall consider that such mechanisms are the result of a process of arbitrage among costs/losses produced

by opportunistic behaviours of different agents involved in the cooperative and the costs related to controlling such behaviours. Thus, any proposal for establishing a control and supervision framework within a cooperative shall consider the cost/benefit rate of the procedure. Therefore, the Statutory Audit Committee may always weight the costs against the benefits of such control as well as the financial ability of the institution.

- 5. Members of the Statutory Audit Committee shall not have businesses with the cooperative beyond those business transacted as cooperative members.
 - 5.1 Members of the Statutory Audit Committee shall not be employees or hold relevant participation in any entity or company that may offer a service or a product to the cooperative, and may not be, in addition, spouses or relatives up to the second degree of the members of such entity or company.

Efficacy of actions by the Statutory Audit Committee depends on its independence and rectitude in performing its duties. Therefore, the cooperative bylaws and/or the Statutory Audit Committee regulations shall provide appropriate rules. Brazilian legislation established part of the above rules to ensure independence of the Committee (Article 1,066, Paragraph 1, of Law no. 10,406/2002). By enabling any cooperative member to be a member of the Statutory Audit Committee, without limitations, the legislation establishes the possibility of generating a conflict between interests of a member of the Committee and the interests of the cooperative, jeopardizing the supervision works. Within legal limits and aiming at securing the Statutory Audit Committee independence, the cooperative may establish other limitations, taking into consideration its own characteristics.

- 6. Newly inaugurated members of the Statutory Audit Committee shall receive from administrators and remaining Committee members the information necessary for an effective action as members. This information shall include, without limitation:
 - Internal environment: cooperative past history, structure and planning; operation rules of the Statutory Audit Committee and legislation pertaining to the performance of duties; proceedings and managerial and control systems, yearly reports, minutes of Assemblies and meetings of administration bodies and Statutory Audit Committee.
 - External environment: characteristics of the financial and credit markets; characteristics of the financial cooperative industry, such as system structure, main competitors and policies of regulatory agencies.

- 6.1 The internal regulations shall specify procedures for compliance with this quideline.
- 6.2 New members of the Statutory Audit Committee shall formally acknowledge their responsibilities.

This guideline is based on the responsibilities and duties of the Statutory Audit Committee as recommended by good governance practices and required by legal provisions. Article 53 of Law no. 5,764/1971 provides that members of the Administration and the Statutory Audit Committee are comparable to corporation administrators for the purpose of criminal liability. In this case, newly elected members, upon their inauguration, shall obtain all the information needed in their performance, under the penalty of, for lack of sufficient information, lacking to identify problems or irregular actions that may negatively affect the economic and financial condition of the cooperative and consequently run the risk of responding before a criminal court for their acts or omissions.

On the other hand, the scope of the Statutory Audit Committee work is not limited to analysing accounting and economic and financial data, but examining and issuing opinions on all facts belonging to the cooperative management. Brazilian legislation itself amplifies the scope of action of the Statutory Audit Committee – as it is the case of Law no. 6,404/1976 – by establishing the competence of the Committee to issue opinion on proposals made by the administration bodies, to be submitted to the General Assembly, related to changes in the stock capital, investment plans and capital budget, incorporation, split and merger. The action of the Statutory Audit Committee is important to the organization and, in order for all Committee members be able to exercise their duties, they shall have information, including those related to the environment external to the cooperative, such as: macroeconomic data, data on the sector where the cooperative operates and regional economic aspects.

- 7. The Statutory Audit Committee operating rules shall be formalized in the regulations of the cooperative including, with no limitation:
 - (a) definition of institutional channels of communication with the administration bodies;
 - (b) form or dissemination of the results achieved through Committee actions, either by means of opinions, advices, recommendations, forwarding of denouncements received, etc.

The purpose of this guideline is institutionalizing the operation rules of the Statutory Audit Committee to secure an independent action in producing its work, transparent before the cooperative and being accountable to members for actions taken.

Upon their inclusion in the regulations of the cooperative, Statutory Audit Committee procedure rules come to be common knowledge, inducing its perenniality and a reference for the action of Committee members, for the support of the cooperative and for accountability to cooperative members. The rules shall guide the works of the Committee without affecting the freedom or action of Committee members.

Since one task of the Statutory Audit Committee is supervising the performance of strategic administration bodies, it is advisable to prevent communication between these two bodies from being informal and circumstantial, as opposed to institutional. This formalization secures the independence of the Committee and segregation of duties with the strategic administration body, enabling the supply of information and explanations to the Committee, as well as the communication between these two bodies whenever the Committee has difficulties in obtaining information from the executive administration body, audit and/or any other cooperative employee.

- 8. The Statutory Audit Committee shall establish its yearly working plan.
- 8.1 The Committee shall be acquainted with and follow the working plan of internal and external audits and the discussion on any points of disagreement between auditors and administrators.

The purpose of this guideline is exhibiting the importance of disciplining the Statutory Audit Committee work, establishing a minimum working standard and therefore avoiding that the Committee leaves unfinished certain basic tasks that may enable identifying problems and most probable conditions that may occur in a financial cooperative. The plan shall be in line with the cooperative members' expectations, since they are the ones most interested in this work. It is desirable that the agenda shall contain the list of regular meetings, as well as the minimum information to be forwarded from time to time to the strategic administration body and other interested parties.

Though the Statutory Audit Committee and audits are bodies under the same supervising and controlling structure, their functions within the cooperative are distinct and complementary. The Statutory Audit Committee is a supervision instrument and reports directly to the General Assembly, while the works of the audit are subordinated to administration bodies. A superimposition of functions may take place between the Statutory Audit Committee and audits, without loosing the specific character of each one. Audits report to the strategic administration body and the Committee reports to the General Assembly. This is why the

Committee may and shall use reports, opinions and audit recommendations – internal and external – as a source of information in the performance and completion of its tasks, as well as meet with such audit teams in a way to achieve their mutual collaboration.

9. The report of the Statutory Audit Committee shall express the actions of the Committee, approaching the relevant aspects included in its analyses and making reference to the auditors' recommendations.

Accounts rendered by the Statutory Audit Committee shall be formal, under minimum standards to avoid that relevant aspects mentioned in the analyses are not disseminated. It is desirable that the report keeps coherence with, and meets the requirements of, the working plan. Besides, considering that audit and Committee works are complementary to each other, reports of the Statutory Audit Committee shall make reference on the audit recommendations, issue the Committee's opinion, clarify on the monitoring of steps taken or omitted by the administration, etc.

10. Compensation of members of the Statutory Audit Committee shall be equivalent to that of administrators with strategic duties.

One of the reasons for the existence of a Statutory Audit Committee is to secure the members independent supervision and control over the cooperative. To this end, Committee members shall have the necessary powers and means to perform their duties, including professional qualification in line with their functions. Sufficient remuneration is therefore necessary to attract qualified individuals. On the other hand, one shall consider that the Statutory Audit Committee, in the cooperative hierarchy, has powers similar to those of the strategic administration body and may be liable for its acts and omissions, before both civil and criminal courts. Article 56 of Law no. 5,764/1971 determines that cooperatives shall be supervised permanently and in meticulously. Supervision with such depth and frequency shall only be possible when performed by qualified individuals, who will only provide their services for a sufficient and attractive remuneration. Therefore, there is no explanation for different remunerations given to administrators with no executive duties and members of the Committee.

11. The Statutory Audit Committee shall deliver to cooperative members, whenever requested, information on matters of its competence.

11.1 At least one regular member of the Statutory Audit Committee shall attend the General Assembly and answer requests for information formulated by cooperative members

The cooperative shall use institutional channels so that its members may follow and make demands on the work of the Statutory Audit Committee, the members of which shall report to members and the General Assembly as the sovereign body of the cooperative.

Systemic organization

- 12. It is recommendable that the cooperative be linked to organized cooperative systems and central financial cooperatives.
 - 12.1 Confederations or central cooperatives, in the performance of their duties related to governance, have the duty to conciliate individual strategies of their affiliate cooperatives.
 - 12.2 Organized cooperative systems shall establish and disseminate the relationship policy among their affiliate cooperatives, with a view to mitigate conflicts of interests among central cooperatives and among such central cooperatives and their affiliate single cooperatives.
 - 12.3 One individual shall not be permitted to simultaneously hold more than one executive office in single cooperatives, central cooperatives and/or cooperative confederations.

The purpose of this guideline is to stress the importance and contribution of a strict supervision and regulation system to good governance and security of the whole industry. Systemic organization follows the logic that a risk incurred by one institution affects all other institutions of the system and yields benefits in what regards operating costs and collective representation.

Participation in an organized cooperative system enables strengthening the scope of external control, inserting cooperatives in a rigorous and acting supervision and regulation system that, for being established and conducted by peers, contributes for the identification and treatment of specific issues. Therefore, the link to an organized cooperative system, possessing its own regulation and supervision mechanisms completes the structure of control and supervision, contributing for good governance of cooperatives.

Since administrators with executive functions must dedicate themselves full-time to the cooperative, they may not act in more than one organization.

13. Organized cooperative systems and central financial cooperatives shall produce and disseminate ranks and indicators of their affiliate cooperatives.

It is very important that management performance results are assessed and compared to those attained by similar organizations, so that quality is duly appreciated. It is also interesting that those indicators are used not only internally by the confederation, central cooperative or respective cooperatives affiliate to the system, but that they constitute a source of comparison for the different interested parties – associates, employees, community, supervision and control bodies, financial institutions providers of funds, etc.

The challenge of good governance practices

The challenge of consolidating good governance practices in the financial cooperatives industry certainly is not exhausted with the dissemination of this document. New ideas and proposals will appear with the increasing adoption of such practices by cooperatives, producing more experience and successful practices that shall be incorporated in the successive versions of these guidelines. It is, therefore, a dynamic process, that shall be built by all and for all.

The construction of cooperative governance shall not be perceived as a process tailored exclusively for large cooperatives or their leaderships. Cooperative governance represents the legitimate process by which cooperative members select, in a democratic, participating, informed and conscious way, the targets they intend for their organization and the ways to implement such targets, indicating leaderships and following their work.

It is a democratic process, since it pursues the strengthening of mechanisms for the exercise of a plurality of interests, recognizing the importance of divergent proposals, yet encouraging the establishment of convergence processes and support to established objectives with a view to greater efficiency and effectiveness of managerial actions. It is participatory process because it assumes that democracy is built in just this way, being therefore crucial, according to good practices of governance, to facilitate and encourage participation of cooperative members in the decision making processes, mainly in assemblies, strengthening channels enabling their opinions and interests to be captured by the instruments of collective decision.

However, democracy and participation shall be hand-in-hand with information and consciousness. This means quality of information given by managers, considered not in terms of quantity of information, but in its ability to secure that participants grasp the real condition of the cooperative, so that they may make a comprehensive assessment of the best roads to take. Thus, in a conscious way, understanding their role in building the future of the cooperative and cognizant of existing opportunities and difficulties, cooperative members may have an increasingly positive role in building a strong organization, capable of fulfilling their aspirations.

From this movement of democracy, participation, information and consciousness, the basis for cooperative governance gain the strength that stem from these foundations. The exercise of monitoring executives and technicians, alignment of interests, reduction of information asymmetry problems and moral risk becomes, by consequence, effective instruments in putting these foundations into operation and securing its fulfilment.

This is not a fashionable managerial style, as good practices of governance bring contributions to reduce the challenges of taking collective decision and monitoring executive action and to ensure cooperative members the right, and the duty, of selecting the future path of the cooperative. Adoption of such good practices will represent a contribution to further improve security in the financial cooperative system, reducing its financial and operating costs and boosting its competitiveness in the context of the National Financial System.

It is useful to notice that the benefits earned by disseminating good practices of governance will be larger the more widely they are applied by financial cooperatives. Quality and security of a system are always observed by the collective, which makes important to emphasise that the most disseminated its use, the larger the benefits that will be yielded.

Summarizing this leaflet, we shall underline the commitment of the Central Bank of Brazil in disseminating and using such practices and their permanent updating, recognizing that good practices of governance in financial cooperatives are a dynamic process, requiring continuous action, that shall incorporate the experience of all agents involved. Guidelines shall be constantly adjusted to new scenarios and demands that may materialize, being important that in this first phase they are subject to debate and, after implemented, their result is known by all.

Therefore, everyone is invited to participate in the process of improving the guidelines mentioned in this leaflet, sending contributions to governance.cooperative@bcb.gov.br.

http://www.bcb.gov.br/?PUBLICATIONSALPHA
governanca.cooperativa@bcb.gov.br