



Services

Where can *we take you?*

Brazil



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Sweeping market reforms are transforming Brazil, as local regulators and financial market infrastructures (FMIs) make significant changes to the country's proxy voting, corporate actions and securities lending frameworks.

In this fifth edition of our “Where Can We Take You” series, **Marcello Topa**, Global Head of Advocacy for Investor Services at Citi, sits down with **Gabriela Kruter**, Interim Brazil Custody Head, to discuss the latest market reforms, and how Citi is supporting its clients.

Q Topa: Citi has been in Brazil for over 100 years now. Can you share a bit of our history in this market?

A Kruter: Right, in fact we are celebrating 110 years this month! We were also the first bank in the market to provide securities services to international investors in the early 1990s. We are the leading provider of international custody in Brazil, a position we've held for close to two decades now. As of April, we are the custodian for ~61% of all foreign portfolio investment (FPI) assets¹ in Brazil. We are actively advocating on behalf of our clients and play an important role in shaping market policy discussions with regulators and FMIs alike.

Q Topa: Brazil introduced changes to its proxy voting regime recently. What exactly changed and what role did Citi play here?

A Kruter: Citi has spent time making the case for proxy voting reform in Brazil, a practice which historically was laden with inefficiencies and costs. Until fairly recently, investors were required to instruct a lawyer with power of attorney (POA) privileges to physically attend and vote at shareholder meetings on their behalf. In addition, foreign investors also had to demonstrate their proof of shareholder status, a document-heavy undertaking involving a lot of translation work and registrations.²

We lobbied for the proxy voting process to be streamlined. After a series of positive discussions with the Brazilian Securities and Exchange Commission (CVM), the regulation on Remote Voting was issued and the Remote Voting Card (RVC) was introduced for proxy voting purposes in 2017.

The RVC can be submitted by investors to their custodians, effectively mirroring the same intermediary chain already used by investors to process other corporate events like dividend distribution, etc. Not only does this allow investors to exercise their voting rights remotely, it also significantly reduces their costs, and lowers the participation barriers in shareholder meetings.³

From inception, in order to adapt to the requirements of remote voting and to process the increased volume of remote votes being sent to us by clients, we had to make major improvements to our own systems and technology stacks.

By eliminating the need for costly and bureaucratic annual renewals of POAs, these changes have enhanced the proxy voting experience for FPIs, moving participation rates at meetings from 71% in 2016 to 76% in 2017.⁴ In 2016, over 30% of all vote rejections were due to a lack of POA, whereas, in 2025, there have been almost zero vote rejections for that same reason.

¹ ANBIMA, April 2025

² ISS – Brazil Remove Voting Card FAQ

³ ISS – Brazil Remove Voting Card FAQ

⁴ Citi Brazil

Q Topa: While the remote voting reforms in Brazil were a welcome development, Citi felt improvements were still needed. Could you elaborate on this?

A Kruter: Despite making remote voting mandatory for all listed companies, it was clear improvements were still required. The first problem we encountered was that remote voting was not initially available for all meetings, so investors – in certain circumstances – still needed to have a POA framework in place if they wanted to vote. Another snag was that investors were obliged to submit their votes to the custodian seven days before the meeting, which presented a more challenging deadline than the physical attendance process, which usually takes place two days before a meeting.

We provided constructive feedback to local regulators on these issues and others reinforcing the relevance of remote voting for international investors and its impact on the governance of local companies. In 2024, the CVM issued a new regulation, making remote voting mandatory for all meetings. The new regulation also allowed investors to submit their votes four days ahead of a shareholder meeting, reducing the cut-off by three days.

Q Topa: Corporate action reforms are underway. Specifically ISIN issuance practices have been changed and there is a general push towards standardisation. What is the latest here and could you tell me about Citi's role?

A Kruter: Citi has been advocating for corporate action reform in Brazil as the current process is complex. Existing regulations also give market participants a lot of wiggle room in terms of how they can interpret the rules. One way we found to enhance the process and accelerate the issuance of ISINs was to work with B3. B3 is Brazil's primary stock exchange and CSD and the only institution authorised to issue ISINs in the country. If an ISIN is not yet issued at the point when a corporate action is announced, then this can lead to delays in the creation of the event by the custodian and that impacts the timing in which clients receive the event notification. Following conversations with B3, they agreed to issue ISINs earlier to enable asset registration to happen before corporate actions take place. This has made the corporate action process in Brazil much smoother for market participants.

We are also currently in discussions with B3 about the need to harmonise corporate actions through the adoption of global standards. In addition to facilitating harmonisation, this will also lead to better data accuracy and straight-through-processing (STP), all of which will make corporate actions more seamless for end investors and intermediaries.

Q Topa: Citi has also been working with local FMs to improve securities lending practices. Please provide some insights here.

A Kruter: Securities lending in Brazil is fairly unique relative to other markets. This is because the Central Bank of Brazil (BCB) and CVM demand that all securities loans be cleared at a CCP. In other words, when lending

securities in Brazil, a borrower's collateral must be held at the CCP. This is not at all popular with lenders like global fund managers and asset owners as it does not give them quick access to collateral in the event of a borrower default. As a result, some investors choose not to lend out securities in Brazil while others face regulatory restrictions to do so.

Together with B3, we have discussed possible alternative models with lending agents and investors. As a result, B3 is sending a proposal to the BCB asking for the rules around securities lending to be adjusted, by moving to a more bilateral securities lending model, whereby collateral is held between the trading counterparties themselves and not only at the CCP. Once the regulator reviews and replies on the request, the market will want to move quickly to adapt and offer new securities lending models to investors.

Meanwhile, we have been actively involved in driving reforms aimed at making the local securities lending market more efficient. This comes following analysis performed by B3, which revealed that 70% - 80% of securities out on loan in Brazil were renewed at the market rate on the renewal date. This meant that investors had to instruct their brokers and custodians every single time they wanted to renew their loans even if they wanted to maintain the exact same market rates.

In response, B3 enacted changes allowing securities loan contracts to be renewed automatically. As a result, market participants no longer need access to B3's systems when renewing loan contracts, making the whole process more streamlined. At a time when revenues and margins are under pressure, incremental operational improvements like these provide a much welcome respite.

Q Topa: Looking ahead, what should clients be thinking about in Brazil?

A Kruter: As more major markets are moving to T+1, discussions are also underway in Brazil. The target date announced by B3 is February 2028.

Although T+1 will help Brazil synchronise itself with other global markets and remove some of the friction faced by dual listed securities and Brazilian Depository Receipts linked to Europe and North America, the transition will also create challenges. Brazil is a pre-funded, beneficial ownership market. This means that market participants will need to rethink the logic behind the allocation and settlement processes as a whole, as it will not be possible to simply compress the current windows like we did when moving from T+3 to T+2 some time ago. Having gone through similar migrations in India and North America, Citi is well-placed strategically to help clients with any upcoming transitions.