

SUS TAIN A BILI TY

[B]³
BRASIL
BOLSA
BALCÃO

**Business
Opportunity
in the
Intermediation
Industry**

SUSTAINABILITY

Business Opportunity in the Intermediation Industry

Organized



Support



Acknowledgements

B3 would like to thank the following institutions for the dialogue and exchange of information that contributed to the preparation of this material:

- Brazilian Association of Financial and Capital Markets Entities (Anbima);
- National Association of Securities, Foreign Exchange & Commodity Brokerage Houses (Ancord);
- Brazilian Association of Capital Markets (Apimec);
- Central Bank of Brazil (Bacen);
- Brazilian Development Bank (BNDES);
- Brazilian Securities & Exchange Commission (CVM); and
- Brazilian Federation of Banks (Febraban).

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Disclaimer

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The regulations and procedures that are mentioned are subject to change and we recommend that you always consult the most recent version of these documents. It may not be used for commercial purposes without B3's prior written consent.

Why promote the sustainability agenda in the Intermediation Industry?

One of the key challenges facing companies today is to exceed the boundaries of what is known to expand the supply of products and services and ensure business continuity. Currently, within the corporate realm, the sustainability agenda and the integration of socio-environmental and governance issues into business activities pose a significant challenge to be understood and assimilated so that risks inherent in one's own business can be mitigated, while improving the supply of products and services in line with the real needs of clients. Above all, it is important to review the single-minded and exclusively economic rationale that exerts negative impacts on the whole financial and capital markets structure, and consequently on society, the country and the global economy.

The theme of Sustainability in the financial Intermediation Industry is relatively new and charts different paths from those already established in the business mainstream, bringing to the fore the importance of concepts and information that transcend strictly financial issues to add more value to the business and to the institutional image. Therefore, people are now being called on, be it directly or indirectly, to review their positions and undertake initiatives aimed at responsible investments.

What are we to do in this scenario? How to develop products and services that address these issues head on? What is the legal framework that underpins this new reality? Which working groups can we interact and exchange information with?

In order to share knowledge, reflections and best practices on this challenging issue, B3 consulted with several market institutions to produce this material. B3 thanks the institutions for such fruitful and enriching dialogue. This publication targets brokerage houses, securities dealers and banks to support them in discovering initiatives related to the sustainability agenda and similar issues to add even more value to their business.

For some time now B3 has followed a path towards sustainability-related practices by taking on a series of commitments – it was the first stock exchange to become signatory of the UN Global Compact, it is a signatory founder of the UN-led initiative Sustainable Stock Exchanges (SSE), and a member of the UN PRI – Principles for Responsible Investment (UN) –, encouraging the dissemination of information related to the socio-environmental and corporate governance dimension, and developing criteria, indices and products, such as the special listing segment Novo Mercado, the Carbon Efficient Index (ICO2), and the Corporate Sustainability Index (ISE). This publication also brings a breakdown of some of B3's initiatives, including its Operational Qualification Program (PQO), which emerged long before the sustainability agenda but incorporated key issues on this theme thereafter.

In this context, it is increasingly evident that these issues have a direct influence on the company's value and image, insofar as they become a priority for investors and shareholders when making their investment decisions.

In this sense, the content herein should not be taken as a mandatory roadmap, but rather as an incentive to the innovation process. As an example of the work carried out in this field, such as the Novo Valor Corporate Sustainability guide, B3 intends to help its participants to tread this path by providing them with examples and inviting them to reflect on the development of initiatives focused on the reality of each business model.

With every step, an exciting discovery. With every discovery, countless possibilities. With every possibility, business opportunities that contribute to greater transparency and efficiency of Brazil's financial and capital markets.



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An aerial photograph showing a multi-lane road with several cars, a green rectangular pond, a parking lot with many cars, and various trees and green spaces. The scene is captured from a high angle, looking down on the landscape.

ESG

Environmental Social Governance

Information that plays an important role in the investment decision-making process and in the adequacy of products, services and transactions to each investor's profile.

Introduction

This material aims to foster debate on sustainability in the financial Intermediation Industry and encourage brokerage houses, securities dealers and banks (participants) trading in the markets managed by B3 to integrate ESG related issues into their processes and products, as well as in their customer relations. To do so, B3 explores the issues addressed in the Basic Roadmap for its Operational Qualification Program (PQO) through which such integration is enabled. The Roadmap describes good practices and examples of products and suggests steps to make the integration viable.

Accordingly, this publication should not be taken as a set of rules which, if followed, will ensure compliance with regulatory requirements, especially the implementation of the Socio-Environmental Responsibility Policy (PRSA), pursuant to Bacen Resolution 4,327/2014, but rather it should serve as a basis for each participant to become thoroughly familiar with these issues and improve the development of initiatives according to the reality of their own business.

“Failing to consider long-term investment value drivers, which include ESG issues, in investment practice is a failure of fiduciary duty.”

(PRI and UNEP FI, 2015)

PRI signatory categories

- Asset holders: pension funds and insurance companies.
- Investment managers: asset managers.
- Service providers: stock exchanges, brokerage houses, consulting firms and credit rating agencies.

Previously viewed in a predominantly institutional way with a philanthropic bias, ESG issues are now increasingly being considered in the investment decision-making process, as they may provide a better understanding of risks and other factors that may influence assets under management, such as scarcity of natural resources, labor practices, civil society pressures, or regulatory changes, as well as providing new business opportunities. Disregard of such aspects may even constitute, in the eyes of shareholders, beneficiaries and investors, failure to fulfill the fiduciary duty by asset managers.

A good example of the dissemination of ESG issues in the financial industry is the creation of the [Principles for Responsible Investment](#) (PRI) in 2006, covering more than 1,600 signatories, among which B3, who are holders or managers of approximately \$62 trillion in assets (about 50% of all assets under management in the world).

Participants can become signatories of the PRI in the service providers category. In this category, they should support investors in integrating ESG best practices through their activities, processes and trades.

Benefits of integrating ESG issues into the business



**Risk
management**



**Opportunities
for new business
development**



**Perennity of
institutions'
activities**

ESG issues in the global scenario

United States

Volume of assets
US\$8.1 trillion

Amount managed considering some ESG aspect as responsible investment strategy.

increase
33%*

USSIF (2016)

* Over 2014

Brazil

70%
of managers adopt at least one ESG dimension as criteria

40%
of managers adopt criteria in all three ESG dimensions

Managers who apply ESG issues

21%

44%

Volume of assets managed

> 80%

< 20%

Asset classes that adopt most ESG issues

Equity
40% of managers

Fixed income
26% of managers

ANBIMA (2016)

Europe

Volume of assets

€23 trillion

Amount managed
considering some ESG
aspect as responsible
investment strategy.

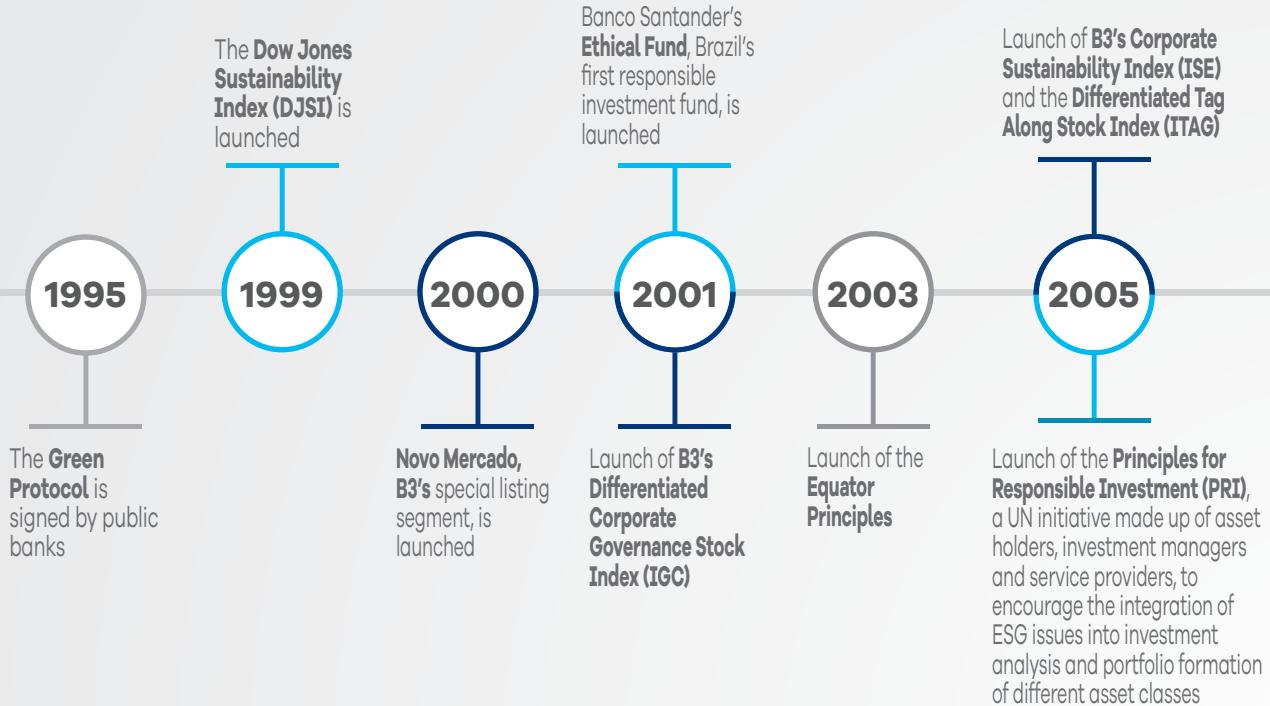
increase

42%*

EUROSIF (2016)

* Over 2014

Timeline



1,500+ signatories responsible for managing **\$62 trillion in assets**

2009

Signing of **Letter of Intent for Socio-Environmental Responsibility** between Febraban and the Brazilian Ministry of the Environment

2010

Launch of **B3's Carbon Efficient Index (ICO2)**

2011

Launch of **B3's Corporate Governance Trade Index (IGCT)**

2012

B3's Corporate Governance Index - Novo Mercado (IGC-NM) is launched

Principles for Sustainability in Insurance (PSI) is launched

2014



Bacen Resolution 4,327/2014 is issued

Guidelines for the implementation of a **Socio-Environmental Responsibility Policy** by financial institutions under Bacen's supervision.

Febraban's **SARB 14 Self-Regulation** is published

2016

Febraban's **Guide for Issuing Green Bonds in Brazil** is published

○ Insurance market initiatives

○ Credit market Initiatives

○ Investment market initiatives

○ Regulation and self-regulation

○ B3 Initiatives

This publication was prepared based on the documents and initiatives listed below and is structured as shown in the [table](#) in the next page.

- **Bacen Resolution 4,327/2014:** establishes rules to be observed in the implementation of the Socio-Environmental Responsibility Policy by financial institutions and other institutions authorized to operate by the Central Bank of Brazil.
- **ESG indicators and guidelines:**
 - **Corporate Sustainability Index (ISE):** developed by B3 in partnership with the Center for Sustainability Studies at the Getulio Vargas Foundation, the ISE measures the share portfolio return of companies committed to sustainability; and
 - **Global Reporting Initiative (GRI) G4 Guidelines:** this is the main international methodology for reporting sustainability.
- **B3 Operational Qualification Program (PQO):** evaluates and recognizes the quality of services provided by brokerage houses, securities dealers and banks that trade in the markets managed by B3, promoting the integration of ESG issues into their trading activities.
- **B3 Novo Valor Corporate Sustainability Guide:** aims to support companies taking their first steps in adopting ESG best practices.
- **Practical Guide for the Establishment and Implementation of Socio-Environmental Responsibility published** by Febraban: aims to describe in detail the requirements of Bacen Resolution 4,327/2014, thus contributing to the adequacy of institutions to this regulation.

Suggested steps for integrating ESG issues into business

1

Opportunities for new business development

1.1

Training and engagement

1.1.1

Suitability

1.1.2

Financial education

1.1.3

Employee management and training

1.1.4

Institutional participation

1.2

Distribution of products and services

1.2.1

ESG Indices and their ETFs

1.2.2

Green bonds

1.2.3

Integrating ESG issues into research activities

2

Business structuring pursuant to Resolution 4,327

2.1

Governance

2.2

Relevance and proportionality principles

2.3

Socio-Environmental Responsibility Policy (PRSA)

2.4

Socio-environmental risk processes and operations

2.5

Action plan

2.6

Dissemination

EROSALCAO

2007

INEL1

1.17.99

INEL2

12.99

ADIVOMERCADO

1.57.00

19073

5.00

2.44

1

Opportunities for new business development

Integrating ESG issues into business practices as well as professional training creates opportunities for process and product innovation, access to new markets and improvement of the relationship with clients from different segments, and can also be a great differential for the institutional image of participants. In this section, examples of initiatives and products comprising these issues are described.

1.1 Training and engagement

Adapting the supply of products and services to clients' profile, investing in professional training, playing an active role in working groups that discuss sustainability, and meeting the PQO requirements demand not only compliance with internal control processes or compliance with high quality standards, but also a competitive edge, client loyalty and a way to reduce risks and complaints, also with regulatory agencies. Furthermore, it should be part of the participants' strategic positioning.

1.1.1 Suitability

Suitability processes aim to verify the adequacy of products and services to the investor's profile and can strengthen the relationship be-

tween participants and clients by providing, for example, greater clarity about the transactions performed and the risks involved, while also helping to increase the level of trust between them.

Article 1 of CVM Instruction 539/2013 clearly refers to the role of intermediaries in assessing the profile of their clients and the need for such adequacy:

“Persons authorized to act as members of the securities distribution system and as securities advisers may not recommend products, conduct transactions or provide services without verifying their suitability to the client’s profile.”

Even before this regulatory requirement, the PQO incorporated suitability concepts and principles into its basic relationship requirements between intermediaries and their clients. The Program also reinforces that intermediaries should monitor their clients’ investments by assessing whether they are in compliance with the updated investment profile, advising them of the risks inherent in the trades they wish to carry out. The identification of the investment profile adds value to the KYC - know your client – concept, which is also indispensable to the procedures for prevention of money laundering and terrorist financing (PML/TF), in line with CVM Instruction 301/1999. Furthermore, intermediaries must ensure the integrity and regular functioning of the market, as set forth in CVM Instruction 505/2011. Like B3, the Brazilian Association of Financial and Capital Markets Entities (Anbima) has been discussing suitability in recent years. According to the Anbima¹, the Brazilian regulation for investment funds is aligned with the Securities Market Princi-

ples and Objectives by the International Organization of Securities Commissions (Iosco), especially to Principle 26, which states that “the disclosure of information necessary for the assessment of a collective investment to a private investor is mandatory.”

In this sense, participants should value and encourage clarity when communicating trading conditions, terms and fees in order to enhance transparency and mitigate future complaints from clients. They should also make sure that the language used in their communication is appropriate, especially when geared to individuals or nonresident investors. It should be noted that these investors come from markets whose rules and conditions may differ from those of the Brazilian market.

Thus, suitability processes strengthen the relationship between participants and clients and can, consequently, generate more business and boost Brazil’s financial and capital markets.

1.1.2 Financial education

Particularly in the segment of individuals, financial education is fundamental for the dissemination of knowledge about the dynamics of the financial and capital markets and the proper explanation of financial intermediation transactions, products and services. Furthermore, financial education can mitigate the risk of future complaints related to ignorance of rules and risks, for example, and arouse interest in new investments, which may generate more business for participants.

Videos, on-line courses, specific training materials, events, and other tools containing ESG information

¹ ANBIMA (2013).

can be used by participants in all segments, regardless of the asset class,

showing inherent risks and opportunities to help their clients feel more secure and conscious in their decision making.

1.1.3 Employee management and training

People management geared towards attracting and retaining talents is of utmost importance and relevance. Valuing people's professional experience during their career and investing in their growth keeps them engaged and well prepared. This is a key differential.

Therefore, ongoing professional training improves the quality of the services rendered, while keeping the institution up-to-date with current industry trends and milestones. Integrating ESG issues into the growth path of employees is of fundamental importance for them to better understand the characteristics, risks and opportunities of the products and services offered and guide them according to the clients' profiles.

Since ESG issues permeate risks and opportunities inherent in the investment activity, [B3 Educação](#) is responsible for the certification of market professionals under the PQO and includes topics like "socio-environmental risks and corporate governance" and "responsible investment market and sustainability metrics for investment decision making" in the syllabus of the Risk Management and Derivatives Market Professional Training courses, respectively.

It should be noted that the professional certification

granted by B3 Educação is fully in line with the objectives and principles set forth in Bacen Resolution 3,158/2003.

1.1.4 Institutional participation

Collaborative work in the financial Intermediation Industry provides support to the development of new products and services, standardizes views on controversial issues, and enables shared interests before regulatory agencies, authorities and the society.

Furthermore, participation in committees and working groups of market associations, assuming public commitments, signing voluntary agreements, and setting up specific working groups allow participants to discuss sustainability in-depth and investors and financial service providers to speed up the integration of ESG issues into their activities, thus strengthening the relationship between various market players and affording more authoritativeness and representativeness to participants.

In addition to the PRI, the Brazilian Business Council for Sustainable Development (CEBDS), the Carbon Disclosure Project (CDP) and the United Nations Global Compact are initiatives that address the role of the financial sector in fostering ESG best practices.

b3.com.br/educacao

Suggestions

- Offer products and services that include ESG issues.
- Include sustainability index information in bulletins and newsletters.
- Analyze the suitability of products such as ETFs referenced in ISE, ICO2 or IGCT to client needs.

1.2 Distribution of products and services

As well as risk management, ESG issues can help diversify investment portfolios. Products that adopt ESG criteria as a filter for asset selection, in addition to financial return, may appeal to clients wishing to integrate these aspects into their investment decision-making process or seeking to diversify their portfolios.

1.2.1 ESG Indices and their ETFs

The growth of a responsible investment industry has led capital markets to create benchmarks for evaluating the performance of companies with best practices. In 1999, sustainability indices emerged with the Dow Jones Sustainability Index, which expanded into other segments in the following years.

The performance of those indices has been historically higher than traditional indices. This tends to draw the investors' attention and may translate into opportunities for portfolio diversification and for promoting better ESG practices in the market.

In Brazil, B3 has the following ESG indices:

1. Corporate Sustainability Index (ISE);
2. Efficient Carbon Index (ICO2); and
3. Corporate Governance Indices: Differentiated Corporate Governance Stock Index(IGC); Corporate Governance Trade Index (IGCT); Novo Mercado – Corporate Governance Index (IGC-NM); Differentiated Tag Along Stock Index (ITAG).

The B3 indices in which Exchange Traded Funds (ETFs) are also referenced are listed below.

Corporate Sustainability Index (ISE)

Launched in 2005, the ISE was the fourth sustainability index in the world. As a pioneering initiative in Latin America, the index measures the average return of the theoretical share portfolio of Brazilian publicly-held companies listed on B3 with the best practices in business management and with a greater strategic alignment with sustainability, representing an incentive for companies to seek economic development with social inclusion and respect for the environment. The ISE also serves as a driver for the

Responsible Investment market in Brazil and as a benchmark for the creation of investment funds. Its mission is to induce companies to adopt the best business sustainability practices and to support investors in making responsible investment decisions.

The participation of companies in the ISE is voluntary and limited to 40 companies. To compose the portfolio that is effective from January to December, the companies need to complete a questionnaire prepared in a technical

partnership with the Center for Sustainability Studies (GVces) at Getulio Vargas Foundation (FGV). In 2017, disclosure of the companies' responses to this questionnaire became a prerequisite and this further contributes to ascertaining the investor's transparency, as well as encouraging the use of this index by market players.

As well as the partnership with FGV, the ISE is ensured and monitored by the media to assess the companies' risk during the term of the portfolio.

ISE Performance x Ibovespa



148.3%* ISE
97.1%* IBOVESPA

* Cumulative performance (06/30/17). For updated information: [bmfbovespa.com.br/en_us > products > index > sustainability indices > ISE > Bulletin](http://bmfbovespa.com.br/en_us/products/index/sustainability/indices/ISE)

ETF: IT NOW ISE INDEX FUND

ISUS11

On 06/30/2017, the ISE had a net worth of **R\$24.7 million**

Manager	Itaú Unibanco S.A.
Administrator	Banco Itaúcard S.A.
Authorized Agents	<ul style="list-style-type: none"> Itaú Corretora Fator S.A. BTG Pactual S.A. XP Investimentos CCTVM S.A. Gradual CCTVM LTDA.
Listing date	October 31st, 2011

Sectoral distribution**

Financial and other/financial intermediaries	16.36%
Public utilities/electricity	15.22%
Non-cyclical consumption/processed foods	11.97%
Cyclical consumption/trade	9.90%
Other	46.55%

** For updated information: [bmfbovespa.com.br/en_us > products > listed equities and derivatives > equities > etf > about etf > listed etfs > IT NOW ISE FUNDO DE INDICE](http://bmfbovespa.com.br/en_us/products/listed-equities-and-derivatives/equities/etf/about-etf/listed-etfs/IT-NOW-ISE-FUNDO-DE-INDICE)

Carbon Efficient Index (ICO2)

ICO2 is the result of a partnership agreement between B3 and the Brazilian Development Bank (BNDES) signed in 2010. Launched in 2011, the ICO2 measures the return of shares from the companies in the Brazil 50 Index (IBrX50), which are committed to preparing their greenhouse gas (GHG) inventory and sending it to B3.

Through voluntary adherence, the index aims to encourage companies to monitor their GHG emissions, since one of their inclusion criteria is inventorying.

ICO2 x Ibovespa x IBrX 50 performance



* Cumulative performance (06/30/17). For updated information: [bmfbovespa.com.br/en_us > products > index > sustainability indices > ICO2 > historic statistics > monthly evolution](http://bmfbovespa.com.br/en_us/products/index/sustainability/indices/ICO2/historic-statistics/monthly-evolution)

ETF: ISHARES CARBON EFFICIENT INDEX (ICO2)

ECO011

On 06/30/2017, the ICO2 had a net worth of **R\$71.9 million**.

Manager	BlackRock Gestora de Investimento LTDA.
Adminstrator	Citibank DTVM S.A.
Authorized agents	<ul style="list-style-type: none"> Ágora CCTVM S.A. Citigroup Global Markets BR Fator S.A. CV Link S.A. CCTVM BTG Pactual CTVM S.A. Credit Suisse ICAP Itaú Securities JP Morgan XP Investimentos CCTVM S.A. Socopa SC Paulista S.A.
Listing date	June 8, 2012

Sectoral distribution**

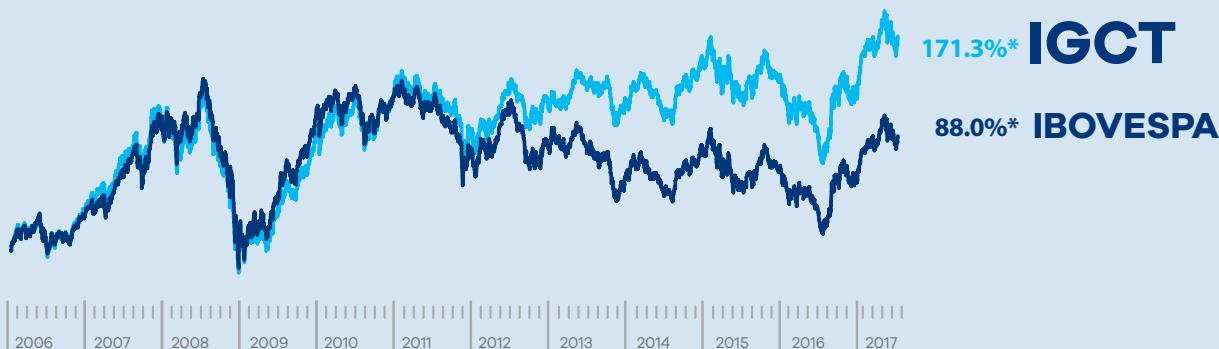
Financial and other/financial intermediaries	43,11%
Non-cyclical consumption/beverages	11,48%
Financial and other/various financial services	8,25%
Non-cyclical consumption/processed food	7,53%
Other	29,63%

** For updated information: [bmfbovespa.com.br/en_us > products > listed equities and derivatives > equities > ETF > about ETF > listed ETFs > ISHARES ÍNDICE CARBONO EFIC \(ICO2\) BRASIL – FDO ÍND.](http://bmfbovespa.com.br/en_us/products/listed-equities-and-derivatives/equities/ETF/about-ETF/listed-ETFs/ISHARES-INDICE-CARBONO-EFIC-ICO2-BRASIL-FDO-IND)

Corporate Governance Trade Index (IGCT)

Launched in 2011, the IGCT measures the average performance of the quotations of the securities issued by companies that are part of the IGC and are listed in the Novo Mercado or in Tier 1 or Tier 2 of B3 segments.

IGCT Performance x Ibovespa



* Cumulative performance (06/30/17). For updated information: [bmfbovespa.com.br/en_us > products > index > corporate governance indices > IGCT > historic statistics > monthly evolution](http://bmfbovespa.com.br/en_us/products/index/corporate-governance-indices/igct/historic-statistics/monthly-evolution)

ETF: IT NOW IGCT INDEX FUND

GOVE11

On 06/30/2017, the IGCT had a net worth of **R\$21.4 million**.

Manager	Itaú Unibanco S.A.
Administrator	Banco Itaucard S.A.
Authorized Agents	<ul style="list-style-type: none"> • Itaú Corretora • Fator S.A. • BTG Pactual S.A. • XP Investimentos CCTVM S.A. • Gradual CCTVM LTDA.
Listing date	October 31st, 2011

Sectoral distribution**

Financial and other/financial intermediaries	32.38%
Basic materials/mining	11.70%
Public utilities/electricity	7.51%
Financial and other/various financial services	7.15%
Other	41.26%

** For updated information: [bmfbovespa.com.br/en_us > products > listed equities and derivatives > equities > ETF > about ETF > listed ETFs > IT NOW IGCT FUNDO DE ÍNDICEBRASIL – FDO ÍND.](http://bmfbovespa.com.br/en_us/products/listed-equities-and-derivatives/equities/ETF/about-ETF/listed-ETFs/IT-NOW-IGCT-FUNDO-DE-INDICEBRASIL-FDO-IND)

Green bonds

Green bonds are “any debt instruments whose resources are invested exclusively in financing or refinancing of new or existing green projects.” (Green Bond Principles²)

1.2.2 Green bonds

In the equity market, green bonds were recently developed and were designed to finance projects with positive environmental or climatic additionalities.

These bonds possess the same traditional characteristics of equity securities, but financeable projects enable technologies or initiatives that boast positive environmental attributes, such as renewable energy, energy efficiency, pollution prevention and control, clean transport, sustainable management of natural resources and water resources, adaptation to climate change, clean technologies, etc.

In the Brazilian market, the securities that can be classified in this category, provided their resources are geared to these classes of projects, are indicated below.

² As mentioned in Febraban and CEBDS (2016).



The growing green bonds market has generated specific products and investors willing to allocate part of their resources to the purchase of bonds for financing environmental and climate issues, rising from US\$2.4 billion in 2012 to US\$140 billion by September 2016, according to the Climate Bonds Initiative³.

Furthermore, there are other securities in the market expected to be classified as green bonds, which total US\$576 billion, but were not classified as such when issued.

It should be noted that the eligibility criteria for the projects must be defined by the issuer and an independent third party is recommended to assess whether those projects address environmental issues.

Participants can act as agents to promote the primary and, mainly, secondary market of these

securities, and play a major role either by stimulating the issuance and listing or by distributing and allocating such securities. Participants can also introduce companies to investors and promote the development of new segments and products.

- Receivables Investment Fund (FIDC) Shares
- Agribusiness Receivables Certificates (CRAs)
- Real Estate Receivables Certificates (CRIs)
- Debentures
- Incentivized Infrastructure Debentures
- Financial Bills
- Promissory Notes

³ As mentioned in the SUSTAINABLE STOCK EXCHANGES INITIATIVE (2016).



“ESG issues and related megatrends, such as the scarcity of natural resources (e.g. potable water) and demographic changes (e.g. the economic rise of pro-sustainability millennials) are relevant to investment risk and return across all asset classes.”

(CFA INSTITUTE, 2015)

1.2.3 Integrating ESG issues into research activities

For participants offering recommended and research portfolio preparation services, integrating ESG issues into the securities valuation and designation process may be one of the key practices to consider.

Especially when working with institutional investors, research activities should consider the risks of potentially invested companies, which includes environmental, social and corporate governance risks. Academic studies (ECCLES ET AL., 2013) and market studies have demonstrated the importance of these issues for the generation and destruction of value in companies and those studies present the theme both with a risk management bias and as the attainment of key competitive edges.

Market associations such as the Brazilian Association of Capital Markets (Apimec) in Brazil and the CFA Institute abroad are positioned to integrate ESG issues into investment analysts’ both on the buy side and sell side.

Although the corporate governance dimension is better understood by the mainstream investment industry, professionals still find it difficult to gauge and analyze socio-environmental issues.

A possible exercise for the development of ESG analysis criteria is presented in the following chart. Relevant criteria should be identified and, after data collection, be integrated into the analysis methodology and securities recommendation.



Fonte: Febraban, 2015

Participation in offerings

Participants involved in structuring IPOs, follow-on offerings or secondary offerings are responsible for the analysis and consideration of ESG risks when evaluating securities, working closely with investment bank staff responsible for the transaction, preparing road show materials, and making presentations to investors.





2 Business structuring as per Bacen Resolution 4,327

Bacen Resolution 4,327, published on April 28, 2014, provides for the necessary guidelines for the preparation and implementation of a Socio-Environmental Responsibility Policy (PRSA) by financial institutions, and also provides for an action plan to assist such implementation.

In this section, we highlight the guidelines related to governance, relevance and proportionality principles, PRSA, socio-environmental risk (processes and operations), action plan, and dissemination to exemplify how participants can structure the PRSA and integrate ESG issues into their business models.

Governance structure

- Officer in charge: has access across all areas and participates in decision making involving socio-environmental risks.
- Areas involved: must be familiar with activities.
- Multitask group: if necessary, this group should be formed to support the PRSA implementation.

2.1 Governance

Art. 3 Institutions (...) must maintain a governance structure compatible with their size, the nature of their business, the complexity of services and products offered, as well as with the activities, processes and systems adopted, to ensure compliance of the PRSA guidelines and objectives.

Paragraph 1 The governance structure mentioned in the main section must provide the conditions for the exercise of the following activities:

I - Implement the actions under the PRSA;

II - Monitor compliance with the actions established in the PRSA;

III - Evaluate the effectiveness of the implemented actions;

IV - Ascertain the adequacy of the socio-environmental risk management set forth in the PRSA; and

V - Identify any deficiencies in the implementation of actions.

§ 2 - The establishment of a socio-environmental responsibility committee of an advisory nature linked to the board of directors or, when there is none, to the executive board, with the purpose of monitoring and evaluating the PRSA, may be proposed and such committee may propose improvements.

Paragraph 3. In the event that the committee referred to in paragraph 2 is established, the institution shall disclose its composition, even if it is composed of stakeholders outside of the institution.

Participants should maintain a governance structure compatible with the size and nature of their business and appoint an officer, who is responsible for the implementation of the PRSA and the socio-environmental risk management system, so that there will be no restrictions on the accumulation of positions and functions by the same officer. In addition, participants must ensure that the sustainability theme permeates all areas and levels of the institution.

It should be noted that the PRSA must be approved by the senior management of the institutions, which entails its commitment to the PRSA implementation.

In support of the governance structure, participants may set up committees or multitask working groups to discuss and deliberate on relevant issues or initiatives to be implemented.

2.2 Relevance and proportionality principles

Art. 1 (...) Sole paragraph. For the purposes of establishing and implementing the PRSA, the institutions referred to in the main section shall observe the following principles:

- I - Relevance: the level of exposure to socio-environmental risk of the institution's activities and transactions; and*
- II - Proportionality: the PRSA compatibility with the nature of the institution's business and with the complexity of its activities and its financial products and services.*

The relevance and proportionality principles are key drivers for the preparation of the PRSA, which is also regarded as an integrated management tool.

- **Relevance:** it is necessary to define the themes or issues that impact on or are impacted by participants' activities, be it in their transactions or in their relationship with clients and other market agents, so that they are reflected in the PRSA and integrated into the provision of services.
- **Proportionality:** it is necessary to analyze the institution's structure, its activity segment, and the products and services it offers to better understand how ESG issues can be integrated into the participants' activities.

In defining the PRSP themes, it is important to [evaluate the institution's conditions](#) for implementing and monitoring these issues in its transactions.

For evaluation

- Are the themes listed actually the most relevant to ESG issues?
- Are there different ways to evaluate and monitor the issues identified in the PRSA?

2.3 Socio-Environmental Responsibility Policy (PRSA)

Art. 2 The PRSA must contain principles and guidelines that guide the socio-environmental actions in the business and stakeholder relationships.

Paragraph 1. For the purposes of the provisions in the main section, the clients and users of the products and services offered by the institution, the internal community and other persons who, according to the institution's criteria, are impacted by its activities.

Paragraph 2. The PRSA shall establish guidelines on strategic actions related to its governance, also for the purpose of socio-environmental risk management.

The following points should be clear in the implementation of the PRSA:

- **Scope:** activities and transactions that should be prioritized, according to the relevance and proportionality assessment;
- **Governance structure:** the officer in charge and the existence or not of a multitask area, committee or working group;
- **Themes:** issues relevant to the performance of activities and transactions with clients;
- Stakeholder relationship: defined or prioritized by PRSA participants.

The decision-making process regarding the PRSA scope and themes should be documented, as well as the issues not included, which should be duly justified or detailed in the action plan.

2.4 Socio-environmental risk – processes and operations

Art. 4 For the purposes of this Resolution, socio-environmental risk is defined as the possibility of occurrence of losses in the institutions mentioned in Art. 1 due to social and environmental damages.

Art. 5 The socio-environmental risk must be identified by the institutions mentioned in Art. 1 as a component of the various risk modalities to which they are exposed.

Art. 6 The management of the socio-environmental risk of the institutions mentioned in Art. 1 shall consider:

- I - Systems, routines and procedures to identify, classify, evaluate, monitor, mitigate and control the socio-environmental risk present in the activities and in the institution's transactions;*
- II - Record of data regarding actual losses due to socio-environmental damages for a minimum period of five years, including amounts, type of damage, location and economic sector related to the operation;*

III - Prior assessment of potential negative social and environmental impacts of new product and service modalities, including those related to reputation risk; and

IV - Procedures for adequacy of socio-environmental risk management to legal, regulatory and market changes.

Art. 7 The actions related to the management of socio-environmental risk must be under a risk management unit of the institution.

(...)

Art. 8 The institutions mentioned in Art. 1 shall establish specific criteria and mechanisms for risk assessment when carrying out transactions related to economic activities with greater potential to cause social and environmental damage.

According to the evaluation of each financial institution, specific criteria should be adopted for the treatment of transactions subject to high levels of social and environmental risks, which must be understood in as integrated into risk management. In this phase of the PRSA implementation, participants should be aware of direct and indirect impacts.

It should be noted that ESG issues are related to the fiduciary duty of asset managers. Therefore, participants should incorporate the ESG theme into their activities considering, besides the risk management of their transactions, the importance of providing services to their clients and the latest market trends.

Internal processes and structures, as well as their direct impacts, are the responsibility of the institutions. The interface with ESG issues varies according to each participant's business model and its physical structure.

Below are some examples of ESG issues that need to be addressed, as already addressed by the PQO.

Client Registration

The client registration and renewal process – which currently comprises identification, information on the client's economic and financial status and issues such as corruption, money laundering and politically exposed people – may include research on socio-environmental issues. Furthermore, a reputational analysis or criminal record checks can improve the client portfolio risk management.

ESG issues likely to be analyzed in the client registration

- Participation of clients in environmental crimes
- Client involvement in slave, child, degrading or slave-like labor.

Care with electronic data security, paper and documents disposal

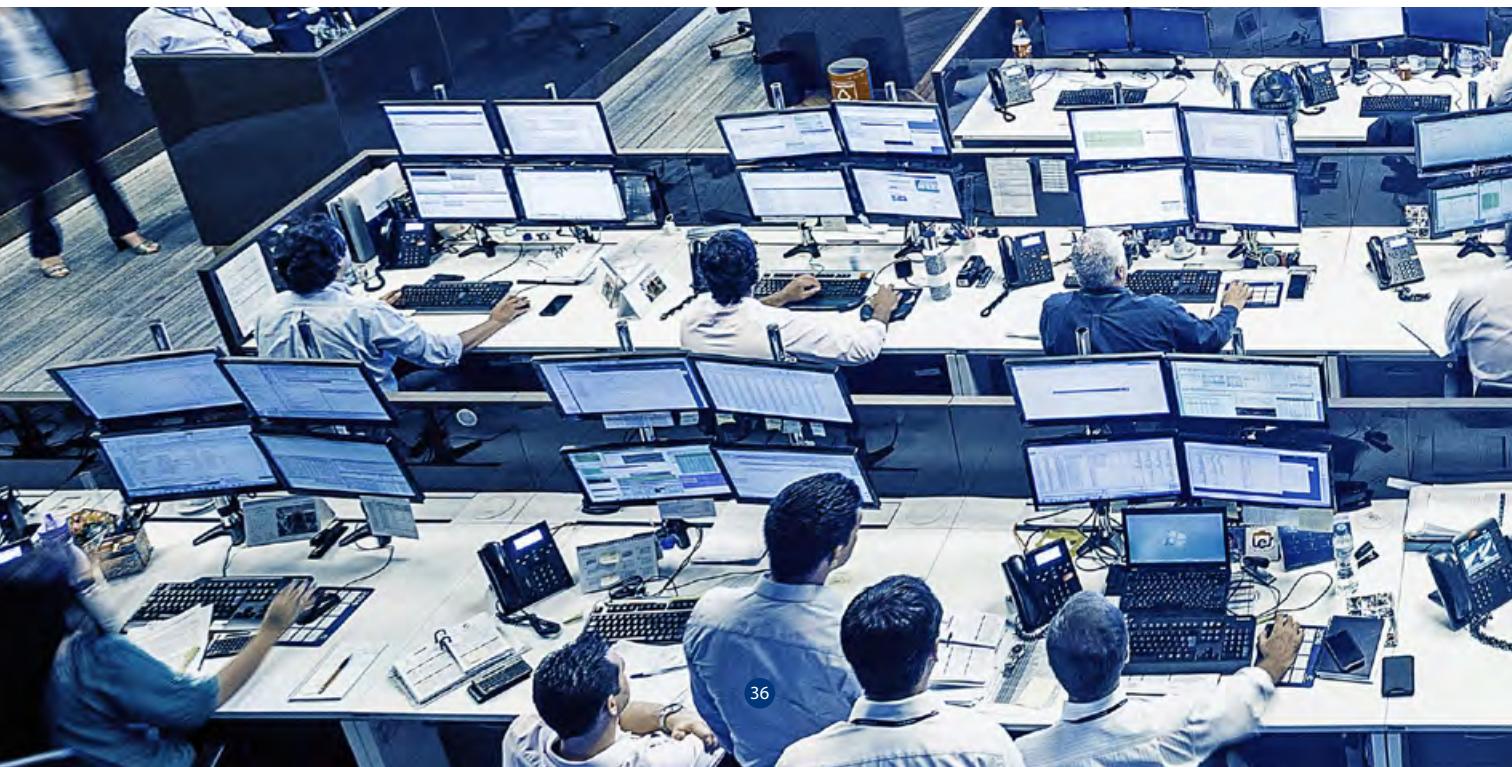
Participants need to have processes that ensure confidentiality and appropriate handling of sensitive and confidential information that directly impacts on the reputation and image of the institutions.

Information Security

The participants' internal controls and information security structure is key if the [privacy](#) of registration and client transactions data is to be ensured.

Eco-efficiency and waste management

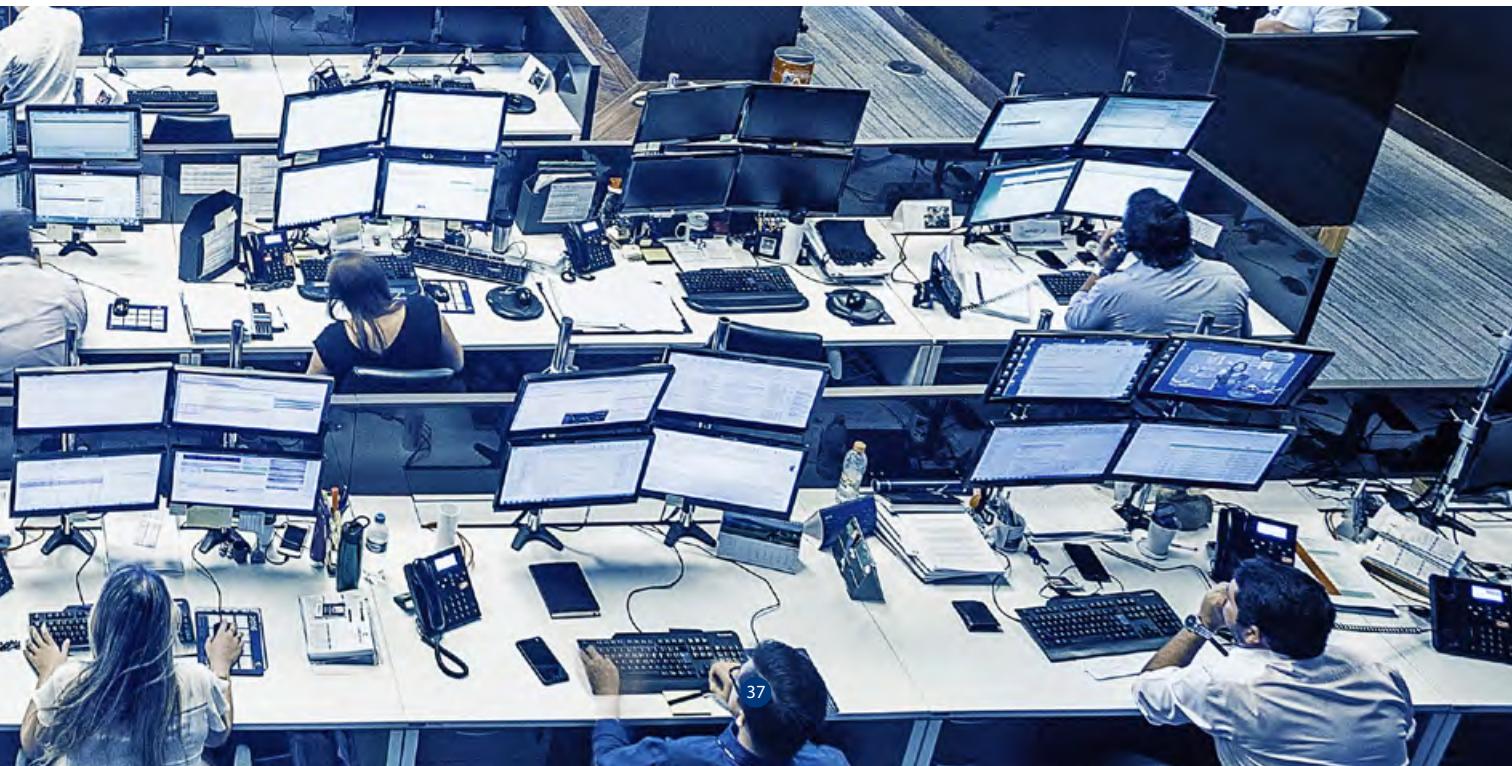
Participants should also consider environmental damage arising from their activities in order to minimize them, even if their administrative structure does not cause environmental impacts comparable to those of industrial plants, for example.



- **Use of natural resources:** consumption of energy, water and paper are the main items to be observed in administrative offices. Practices to reduce the use of these resources may represent less exposure to the risk of shortages that may lead to water or energy crisis, and reduce operating costs.
- **Waste management:** with the enactment of Law 12,305 of August 2, 2010 which sets forth the National Solid Waste Policy in Brazil, the co-responsibility for the waste generated has taken on greater importance for companies. Participants should monitor the final disposal of electronic waste, which may be hazardous and potentially contaminate water and soil, and may contain confidential and privileged client data.

Eco-efficiency measures

Promote environmental responsibility and may reduce operating costs. Some examples of eco-efficiency measures include reducing consumption of energy and water; adopting eco-efficient equipment; using paper from certified forests; and selective waste collection programs, among others.



2.5 Action plan

Art. 9 The institutions mentioned in Art. 1 shall establish an action plan for the implementation of the PRSA.

Sole paragraph. The plan mentioned in the main section must define the actions required for the adequacy of the institution's organizational and operational structure, if necessary, as well as the routines and procedures to be executed in accordance with the policy guidelines and a schedule specified by the institution.

Art. 10. The PRSA and the respective action plan mentioned in Art. 9 must be approved by the senior management and, when applicable, by the board of directors, ensuring adequate integration into other institution's policies, such as credit, human resources management and risk management.

Bacen Resolution 4,327/2014 provides for the preparation of an action plan for the implementation of the PRSA, which seeks to integrate socio-environmental issues into work routines, processes, products and services of institutions under the Central Bank of Brazil regulation.

Although the action plans have already been prepared and presented to the Central Bank of Brazil, revisions and adjustments may be made based on the [model to the left](#). Relevant themes, implementation framework and results measurement should be addressed.

Category	Governance
Action	Set up multitask working group
Required resources	Hours of participating professionals
Start date	00/00/0000
Finish date	N/A
Areas Responsible	Participating areas: compliance, legal, sales, research
Status	In progress
Indicator	- Number of meetings held - % actions accomplished
Remarks	

Note: This model is merely illustrative. Each institution should analyze its action plan and verify the need to adapt to other models to monitor the initiatives to be implemented.

Examples of dissemination channels

- Internal audience: intranet and internal communication campaigns, making sure that everyone is familiar with the impacts caused by the PRSA and the action plan in their activities.
- External audience: website and marketing e-mail.

2.6 Dissemination

Art. 12. The institutions mentioned in Art. 1 shall:

(...) II - Formalize the PRSA implementation and ensure its internal and external dissemination;

(...)

Institutions may prepare a PRSA by financial conglomerate. This must be mandatory and properly disseminated among [internal and external audiences](#).

Conclusion

This publication was written to promote the debate on sustainability in the financial Intermediation Industry and to encourage the integration of ESG issues into the activities of its professionals, as well as into the products and services offered.

In order to do so, section 1 introduces initiatives and products that exemplify such integration, without the intention of imposing them as guidelines or structures, since the idea is to invite participants in this sector to reflect on the ESG theme and develop their own proposals to suit their respective business models and clients' reality. In section 2, excerpts from Resolution Bacen 4,327/2014 were quoted highlighting some guidelines for the preparation, implementation and revision, if any, of the PRSA.

In this sense, this publication is also intended, to exchange information, present good practices and open another space for dialogue between various market players and institutions.

Clearly, the integration of ESG issues into the business mainstream, although challenging, represents a great opportunity and gain for participants, their clients, the market and, ultimately, the country. Therefore, the debate on this issue is of extreme importance for the success of the business, client satisfaction, and the strengthening of the Intermediation Industry.

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