ANBIMA

ESG GUIDE

Incorporating ESG aspects into investment assessments

June/2020

Summary

01
Foreword

Sustainability is an increasingly important matter. Over the past several years, the whole world has undergone significant climatic changes and seen an increase in environmental accidents, scarcity of natural resources, changes to working conditions, among many other transformations. The concern with this issue is increasing and worldwide, encompassing many sectors of the economy.

The financial market has a key role in this debate and is one of the pillars of sustainable economic growth. Through so-called ESG (environmental, social, and governance) assessments, the market has been incorporating these three criteria into risk and/or opportunity analyses when deciding whether to invest in a certain company or project.

ESG criteria are being adopted all over the world and at an advanced stage in some countries, in particular in Europe. The expectation is for ESG investments to become the most representative type for the continent over the coming years, as has occurred in Canada and Australia. The movement is still timid in Brazil when compared to the international scene, with little engagement from both managers and investors.

The benefits of this type of practice for the

Zeca Doherty, CEO of ANBIMA

market include advanced risk assessments, as the ESG analysis is quite comprehensive and focused on the long term, attraction of institutional and foreign investors, such as assets and pension funds, and attraction of younger clients that see value in purpose-based investments. Society also benefits greatly from this in innumerable ways. By directing resources to companies that generate positive social, environmental, and governance impacts, a virtuous circle arises in favor of sustainability. It's a win-win.

ANBIMA — the Brazilian Financial and Capital Markets Association — in its role as the spokesperson for the market, has been leading and participating in a number of actions related to this subject since 2012. We have an internal Sustainability Advisory Board to share experiences and maintain an agenda that seeks to spread sustainability practices among our members. Every two years, we also perform a survey to measure the level of engagement of the financial institutions that consider ESG criteria in their investments, and we seek to interact with market initiatives by, for example, participating in workgroups at LAB (the Financial Innovation Laboratory), a forum composed of CVM (the Securities and Exchange Commission of Brazil Commission), IDB (Inter-American Development Bank), and ABDE (the Brazilian Development Association).

This guide is part of our efforts to spread the word on ESG. It presents the concept of ESG investment and the main types of strategies, includes an overview of the current scenario in Brazil, and lists recommendations regarding the minimum criteria for creating an investment policy. We have added case studies of financial institutions that have adopted the ESG criteria to combine theory with facts. These cases were selected by the Sustainability Advisory Board as examples of what is already happening at countless companies throughout the market, such as BB DTVM, BRAM, BTG Pactual, Itaú Asset Management, Pragma, and Wright Capital Wealth Management — asset management companies who hold over BRL 2.5 trillion in net equity in investment funds.

This document aims not only to increase investors and companies' knowledge on this subject, but also to propose a reflection on the importance of the asset management industry adopting ESG practices. Over the next years, the demand for these investments will grow; therefore, we need to advance from our current position in the quest for alternatives that benefit not only our clients, but society as a whole. It is time for us to reflect upon the world that we wish to leave for the next generations.

Zeca Doherty
CEO of ANBIMA

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Introduction

ESG (environmental, social, and governance) issues are criteria for assessing investments used by investors all over the world. The adoption of ESG policies by the main financial markets outside Brazil is at an advanced stage and has become a part of the reality of many investors. The subject has been discussed in Brazil for quite some time now, and many market participants have established ESG-related initiatives.

The public sector, in addition to promoting talks, seminars, and forums on ESG, has also published two important resolutions via the CMN (National Monetary Council): Resolution 4.327/14, which establishes that financial institutions and others whose operations are authorized by the Brazilian Central Bank must adopt a Social and Environmental Responsibility Policy (known as 'PRSA,' for its initials in Portuguese); and Resolution 4.661/18 [1], that states that the Complementary Private Pension Funds (known as EFPCs for their initials in Portuguese) must consider aspects related to the economic, environmental, and social sustainability and governance of their investments [2], whenever possible.

In the private sector, there are many different initiatives. In 2014, Febraban, the Brazilian Federation of Banks, issued Regulation SARB 14 for the Creation and Implementation of Social and Environmental Responsibility Policies to formalize social and environmental practices. Then, in 2015, it has launched a practical guideline for creating and implementing such policies.[3]

1. The first regulation to include ESG in risk assessments was Resolution 3.792/09, which was replaced by Resolution 4.661/18.

2. Art. 10, paragraph 4.

3. (Febraban, 2015) cmsportal.febraban.org.br/Arquivos/documentos/PDF/GUIA%20PRATICO%20PRSA.pdf

B3, in addition to being a signatory to a variety of ESG-related initiatives[4], has indices based on shares from companies that adopt ESG[5] policies, giving more visibility to such companies. In 2017, it also created and published a sustainability handbook related to business opportunities in the financial intermediation sector.[6] Also, in 2017, ABRAPP, the Brazilian National Association of Pension Funds, issued a handbook[7] with guidelines and tools related to ESG matters, focusing on Pension funds. Likewise, ABVCAP (the Brazilian Private Equity and Venture Capital Association) recently put out its guidelines to help institutions select and monitor ESG criteria[8] in their investments.

ANBIMA, in turn, published in 2012 the minimum requirements for the voting policies of boards of directors[9], addressing governance issues. The increasing concern with this subject led to the creation of the Sustainability Advisory Board in 2015, which aims to promote sustainable development practices, encourage the sharing of experiences, and maintain an active agenda of initiatives to disseminate ESG integrated management among all members. In addition to promoting dialogue and organizing initiatives related to these issues in the market, the group has coordinated two sustainability surveys that have mapped the level of concern of our associates with ESG criteria in the investment process.[10]

Following the evolution of the matter within the Brazilian market, the purpose of this report is to help managers, administrators, and investors to better understand what ESG investments are, presenting the basic concepts, the types of strategies, and case studies.

In addition to this report, we recommend minimum criteria for creating an investment policy to help managers include ESG elements in their investment assessments.

4. www. ri.b3.com.br/b3/sustentabilidade

5. ICO2, ISE, IGC, ITAG, IGCT, and IGC-NM (B3, s.d.).

6 bvmf.bmfbovespa.com.br/download/Folheto_ESG_B3_PT.pdf

7. (Abrapp, 2017)
http://www.abrapp.org.br/GuiasManuais/Guia%20da%20EFPC%20Respons%C3%A1vel%20ASG.pdf

8. www.landingpage.abvcap.com.br/l/XPSDfcABF1112

9. www.anbi.ma/2f

10. ANBIMA, 2016 anbi.ma/pesquisa2016
ANBIMA, 2018 anbi.ma/pesquisasustentabilidade2018

03

The ESG concept

ESG Investment

The concept of ESG investment incorporates environmental, social, or governance matters into the investment assessment and takes long-term sustainability into consideration. This is a broad definition, and managers must define for themselves what constitutes an ESG investment in the context of their operations, establishing the criteria that best fit their organization and decision-making processes.

Often, other names are used to refer to this type of investment: responsible investment, sustainable investment, social impact investment, ethical investment, green bonds, infrastructure investments , among others. These are terms that refer to investments that have an ESG factor in their assessment or investment project (such as in the case of the green bonds) and, thus, can be deemed as ESG investments.[11]

To better understand this matter, see below a list of issues that may be considered in each ESG factor:

Environmental	Use of natural resources	Carbon emissions	Power efficiency	Pollution	Clean technology
Social	Labor policies and relations	Inclusion and diversity policies	Workforce training	Human rights	Data privacy and security
Governance	Board independence	Board structures and diversity	Board Compensation	Ethic	Transparency

[11]. For more information, see Schedule II - Regulation in Brazil and international references.

Materiality

Materiality is an important term in the understanding of ESG investments. In simple terms, it is the process of defining relevant ESG aspects, i.e., those that may substantially influence stakeholders' assessments and decisions. In the case of administrators, managers, and investors, material themes are those that can influence investment decisions.[12,13]

Therefore, materiality is a method that reveals how the whole process of including ESG factors will impact investments, clients, the environment, and society. This process defines relevant ESG factors, how they will help in identifying opportunities, investment trends, and risks, what information will be used to assess and disclose the results, and how the investment cycle will be, from the moment of the assessment to the moment the investment is made, as well how it will be maintained.

Why is this important?

Including ESG factors in the assessment helps investors anticipate opportunities and contributes to better risk assessments. With the additional information this provides, investment decisions can be made on a more solid foundation. An ESG assessment allows for a broader vision of the investment portfolio, making it easier to identify opportunities that often are overlooked when only a conventional financial assessment is conducted. When the manager implements ESG factors in their investment policy, this supplements the traditional assessments by highlighting risks that are not identified in the traditional evaluations, particularly long-term risks, which makes for in a more robust and effective diagnosis.

The developments and events of the past decades point toward a trend that will lead to the adoption of ESG policies becoming a common requirement for attracting foreign investments and, especially, institutional investors such as assets and pension funds. Throughout the past decades, investors from a number of developed countries were voluntarily encouraged to engage more with ESG issues, whether it be in the structuring of projects or financial investments. There is now a growing international movement that will lead to the demand for a greater commitment to these issues.[14]

An increase in the flow of resources destined to ESG investments is an established trend. The preference for investments that take these factors into account is growing, especially amongst millennials. A recent study conducted by Bank of America Merrill Lynch estimated, conservatively, that the new generation of investors will allocate between USD 15 to 20 trillion in funds that have ESG policies over the coming decades.[15]

12. GRI – Global Reporting Initiative (www.globalreporting.org).

13. For references on materiality standards in other countries, see the TCFD (Task Force on Climate-related Financial Disclosures) Final Report, pages 55 to 61.

14. See (Sustainable Finances).

15. See (Bank of America Merrill Lynch, 2018).

Investment strategies

Several different strategies include ESG factors in investment analyses. The categories that we will present are the main ones present in the world of ESG investments.

There is no one-size-fits-all solution, and each manager/investor might adjust the strategies to their needs, increasing or decreasing their complexity. More than one strategy can be employed, which is a significantly common way to supplement the main investment strategy. There are cases in which the decision to invest in a certain asset is involuntarily in accordance with more than one type of strategy.

Negative screening

This is one of the most used strategies in the world. It involves excluding investments (in countries, sectors, companies, or projects) according to ESG criteria in a way that reflects the manager/investor's ethical values, or due to a failure to comply with the minimum standards established by domestic or international organizations.[16] An example of this is how many sectors are avoided by investors due to the inherently high social and environmental risks they present, as is the case with the weapons, tobacco, nuclear energy, pornography, gambling, and alcoholic beverage industries.

Positive screening

This strategy is similar to the negative screening; however, instead of excluding assets, it includes those that meet defined standards and criteria.[17] There is also an alternative form of investment included in this type of strategy: thematic investing. This type of investment is required to present specific themes generally related to sustainability. For example, when the reduction of carbon emissions is established as an important theme, countries, sectors, or companies that have active carbon emission reduction policies are chosen to receive investment.

Best-in-class

This is another type of positive screening; however, the difference is that it employs a ranking system. ESG criteria are chosen to assess a certain sector or project and, based on this assessment, the best candidates to receive investment are determined in comparison with their peers. In general, this type of analysis can capture competitive advantages of companies in the same industry, for example, retailers that have inclusion and diversity policies may attract more clients than those from that same industry that do not have such policies.

16. In general, investors use lists of organizations that do not comply with the minimum standards set by the UN, OECD, UNICEF, the World Bank, or even by domestic agencies, such as the 'dirty list' of companies that use slave labor in Brazil that is published by the Ministry of Labor.

17. Assets that are not listed do not necessarily conflict with the concerns of ESG criteria; they may just not present the specific criteria used to create the list.

Impact investing

Impact investing refers to investments in industries, companies, or projects that focus on making a positive social and environmental impact. The main requirement is such impacts to be measurable. The performance of the investment is evaluated according to the combination of its impact on society/the environment (hence the need for measurable results) and the financial returns it presents.

ESG Integration

ESG integration involves incorporating environmental, social, and governance factors into the financial analysis model used to evaluate the company or project. This strategy captures the impacts that certain factors will have on the future of the company, whether it be in the form of its risk profile or profit generation. For example, the financial analysis model will apply a discount to the valuation of an automotive company that does not currently produce electric cars or have plans to do so in the near future.

Corporate engagement

Corporate engagement[18] is the idea of using shareholders position to influence a company's strategy with regard to the adoption of ESG policies. This model is the one that best fits passive investment management. Moreover, it is an excellent alternative to divestment: instead of selling assets of companies that do not adopt ESG policies, the investors will maintain their investment and try to persuade the company to adopt ESG practices.

[18.] Another common name for this same strategy is "corporate engagement."

Several criteria for asssessing investments by asset type

There are several tools that are useful in the assessment of all types of assets, such as qualitative analysis, for example, (questionnaires sent by companies to collect data on ESG issues and the company's agenda related to such matters, among others). However, a more in-depth assessment, if needed, requires individual approaches for the specific features of each type of asset. The following are some examples of assessment criteria according to asset class:

Fixed income

– **Credit analysis:** includes the investment strategies that may impact the company's payment capacity in the credit analysis model.

– **Maturity analysis:** selects investment strategies according to the transaction's maturity (some ESG factors are given more weight in medium-term bonds than in long-term bonds and vice-versa).

– **Profitability analysis:** compares the asset's profitability with those from other companies in the same industry that conduct ESG assessments.

Equity

– **Forecasts:** take into consideration how the investment strategies will impact the revenue, costs, cash flow, and other KPIs of the company.

– **Valuation models:** the creation of models that incorporate discounts or premiums according to the company's engagement with ESG issues.

– **Sensitivity analysis:** stresses scenarios for identifying ESG policies that will be more effective for a determined industry.

04

ESG and performance

The relationship between the incorporation of ESG policies and financial performance has been studied for quite some time now. There are currently a vast range of academic studies and articles that seek to understand this relationship. These studies use different approaches and, therefore, may produce divergent results.

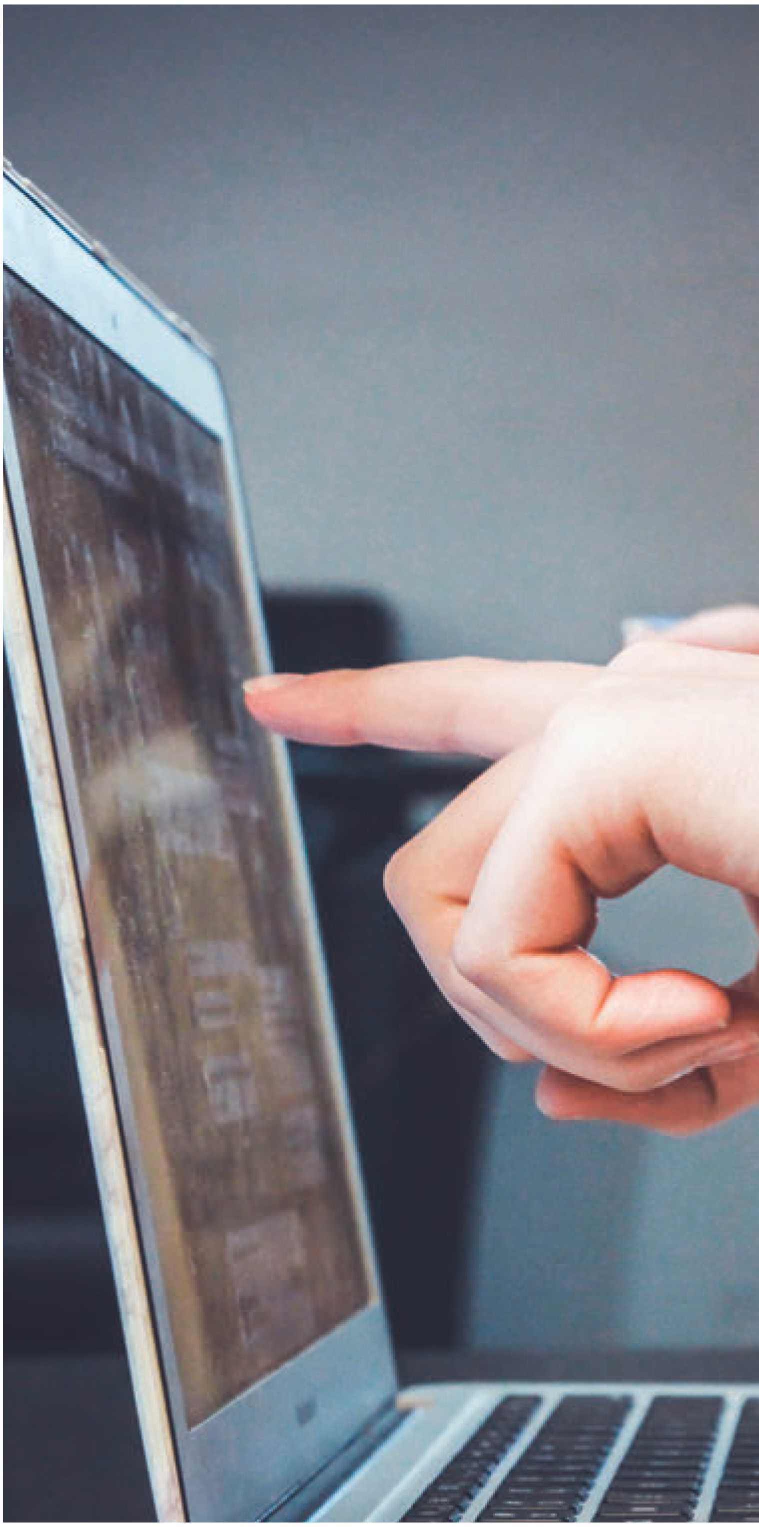
In many studies, the authors identify a positive correlation between the adoption of ESG elements and financial performance, especially in the long term. In the survey by Eccles, Ioannou & Serafeim (2014), the authors analyzed the performance since the 1990s of 90 companies that adopted such issues. The survey shows that these companies presented the best results on the stock markets and, also, better financial performance in comparison with those that had not adopted ESG policies or that were not actively engaged with ESG policies. This finding is consistent with the evidence found by Cai & He (2013), which shows that the shares of companies that implemented ESG policies presented long-term financial performance higher than the market average. This result suggests that adopting investment policies that take into account ESG factors may allow for the identification of stock opportunities that have not yet been observed by the market.

The authors Attig, El et al. (2013) state that companies that adopt this type of practice generally have more market credibility, as they present more operational and financial efficiency, a lower risk of engaging in unethical conduct, and have a better relationship with their shareholders, which results in better credit ratings, occasionally leading to lower financing costs.

The work by Shan, Fu, & Zheng (2016) shows that companies with greater corporate gender equality (a very important theme for implementing CSR — Corporate Social Responsibility at a company) are able to increase their return per share, since they present better productivity indicators due to the fact that they attract and retain more talented employees and/or because the workplace is more open to diversity and creativity.

However, not all studies have found a positive correlation between adopting ESG policies and financial performance. Eccles & Serafeim (2013) noted that not all ESG policies adopted by companies generate positive returns, given the high cost of implementing some of them. Another study (Margolis et al., 2013) questions the causal relationship between the two and investigates if ESG policies result in better financial performance or if it is actually the better financial performance that results in the adoption of best ESG practices. Horváthová (2010) goes further, claiming that difficulties in accessing data and the lack of standardization of the information examined in analyses may lead to inconsistent results.

Friede, Busch, & Bassen (2015) analyzed over 2,000 studies regarding this subject to gain a broader perspective on the matter. In their analysis, the authors show that approximately 90% of publications state that there is a neutral or positive correlation between ESG factors and financial performance, whereas more than half, 63%, show that the correlation is positive. Only 8% of the studies found a negative correlation. This result shows that adopting ESG aspects, in the vast majority of cases, increases the performance of the institutions, in addition to aligning them with responsible investment practices.

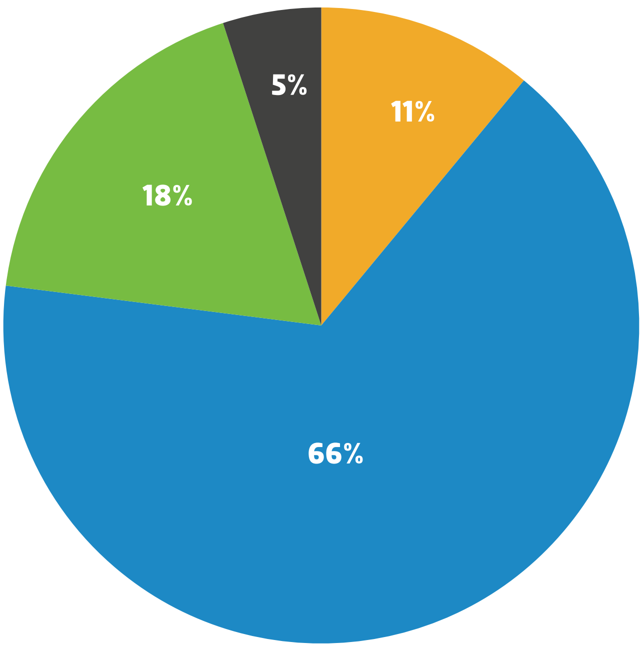


05

Overview

Domestic scenario

Investors in Brazil have only recently begun to make ESG investments. Although most of the managers that took part in ANBIMA's 2nd Sustainability Survey[19], published in 2018, considered the potential impact of ESG in their investment processes, only a small portion had a specific department (11%) or directly involved employees (18%), or a specific committee (5%) dedicated to assessing ESG investments.



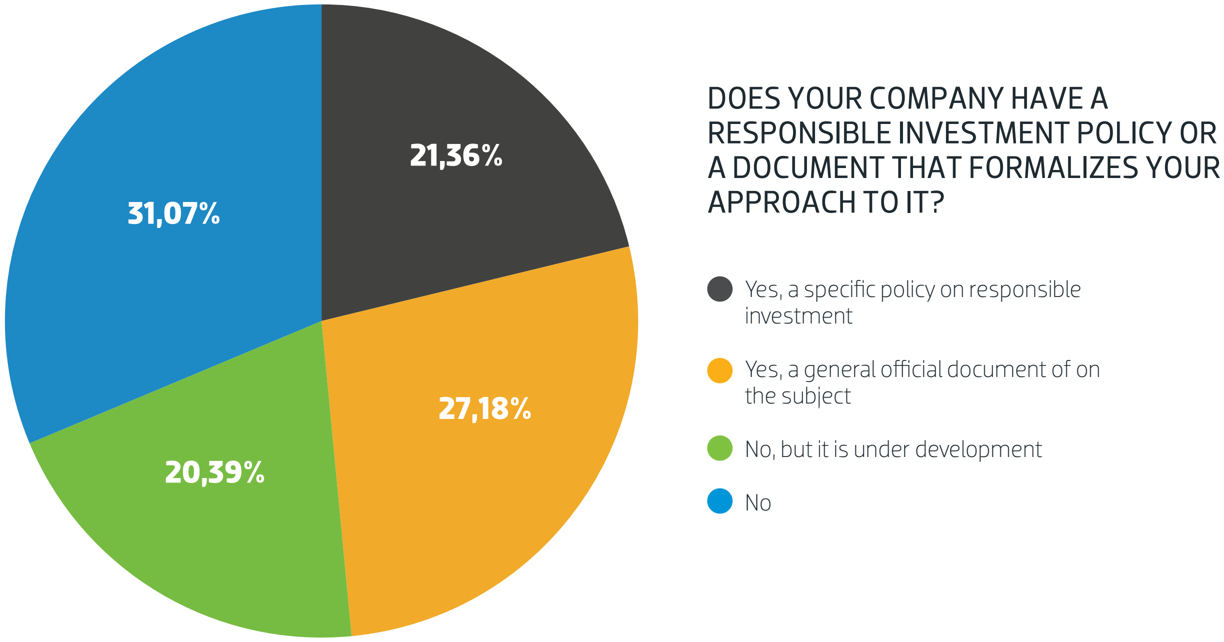
DOES YOUR COMPANY HAVE A SEPARATE STRUCTURE DEDICATED TO ESG?

- Yes
- No
- No specific department, but employees directly engaged
- No, but it has a specific committee dedicated to the matter.

Source: ANBIMA's 2nd Sustainability Survey

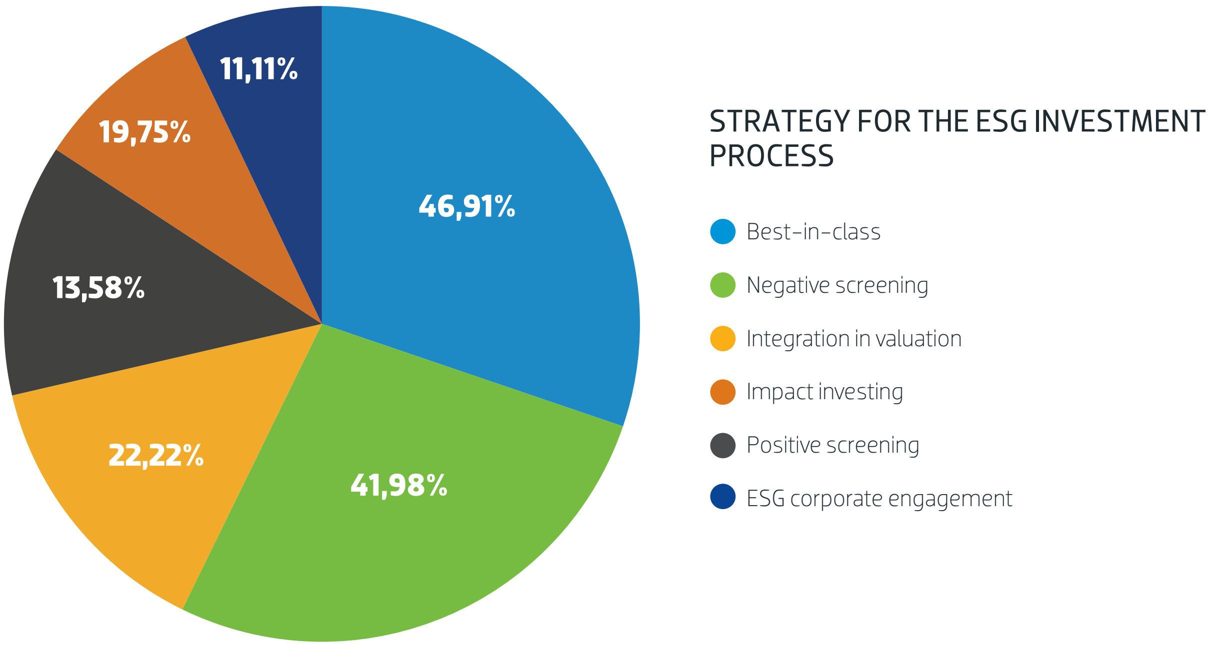
19. 110 participants in total responded to the survey, including asset managers and administrators, associates and companies that adhere to our self-regulation codes, and members of ABVCAP, the Brazilian Private Equity and Venture Capital Association. The net equity managed by the sampled institutions that answered the survey corresponds to 78.05% of the whole industry, or 3.2 trillion.

Nevertheless, the market has made progress concerning important ESG-related issues. The survey showed that, in addition to the managers that already have established an ESG-related policy (48.54%), 20.39% of them stated that they are preparing a document regarding the subject.



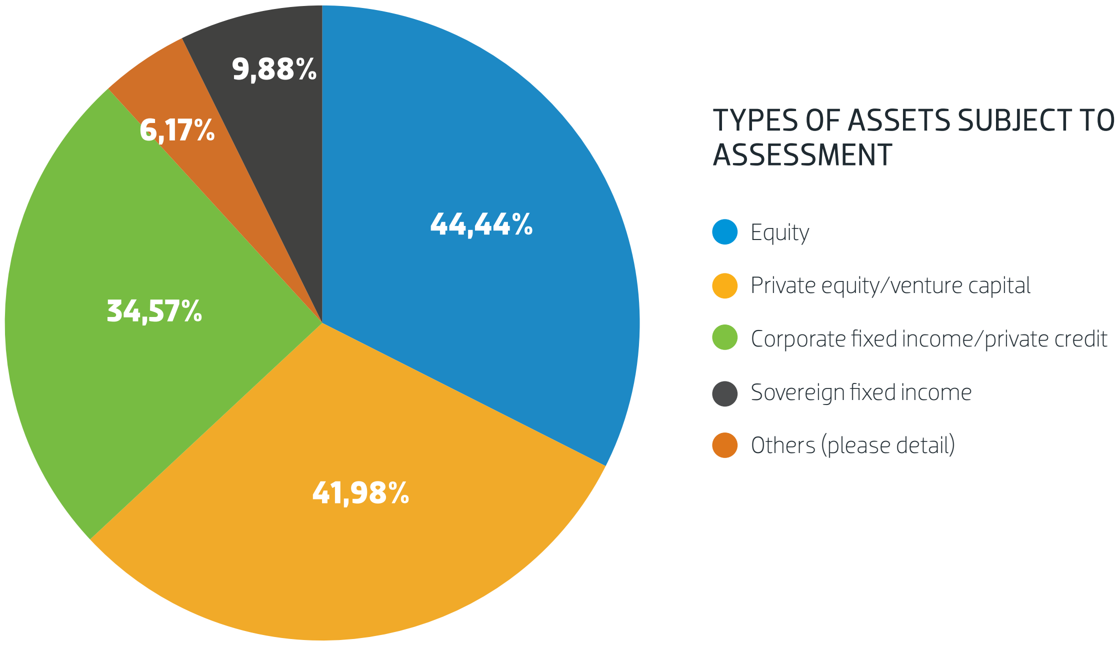
Source: ANBIMA's 2nd Sustainability Survey

The survey mapped the strategies used in the ESG investment process. Best-in-class is the most frequently employed, representing 46.91% of the sample. Negative screening comes second, with 41.98%, followed by ESG integration (22.22%).



Source: ANBIMA's 2nd Sustainability Survey

With regard to the assets assessed according to ESG aspects, most are equity (44.44%), followed by private equity (41.98%), and corporate fixed income (34.57%).



Source: ANBIMA's 2nd Sustainability Survey

International scenario

More significant than the actual amount of ESG investments, which reached USD 30.7 trillion, according to the report published by the Global Sustainable Investment Alliance[20] in 2019 — a 34% increase in comparison with the previous study from 2016 — is the rate of growth of such assets. This report indicates that ESG investments will be the most representative type of investment in Europe, the United States, Canada, Japan, and New Zealand over the coming years.

According to the data from the report, in regions where this type of investment is already widespread, a constant and sustainable rate of growth was observed between 2014 and 2018. In Europe, which is home to 49% of all ESG assets[21], such investments have grown 6% on average over this period. In the regions in which the assets represented a smaller share, extremely accelerated growth was observed, such as in the case of Japan, with an average annual expansion of 308% between 2014 to 2018, and Australia and New Zealand with an average annual increase of 50% over the same period.

20. International collaborative organization that counts on the participation of forums on the theme from different regions: Eurosif (Europe), US SIF (United States), JSIF (Japan), RIA Canadá (Canada), and RIA Australasia (Australia and New Zealand).

21. Sustainable Investment Alliance, 2019.

ESG INVESTMENT PER REGION AND LOCAL CURRENCY 2014 – 2018

Region (currency)	2014	2016	2018	2104-2018	Annual Growth Rate
Europe (€)	9,885	11,045	12,306	24%	6%
United States (USD)	6,572	8,723	11,995	83%	16%
Canada (CAD)z	1,011	1,505	2,132	111%	21%
Australia/New Zealand (AUD)	203	707	1,033	409%	50%
Japan (¥)	840	57,056	231,952	27,513%	308%

Source: Global Sustainable Investment Alliance (2019)

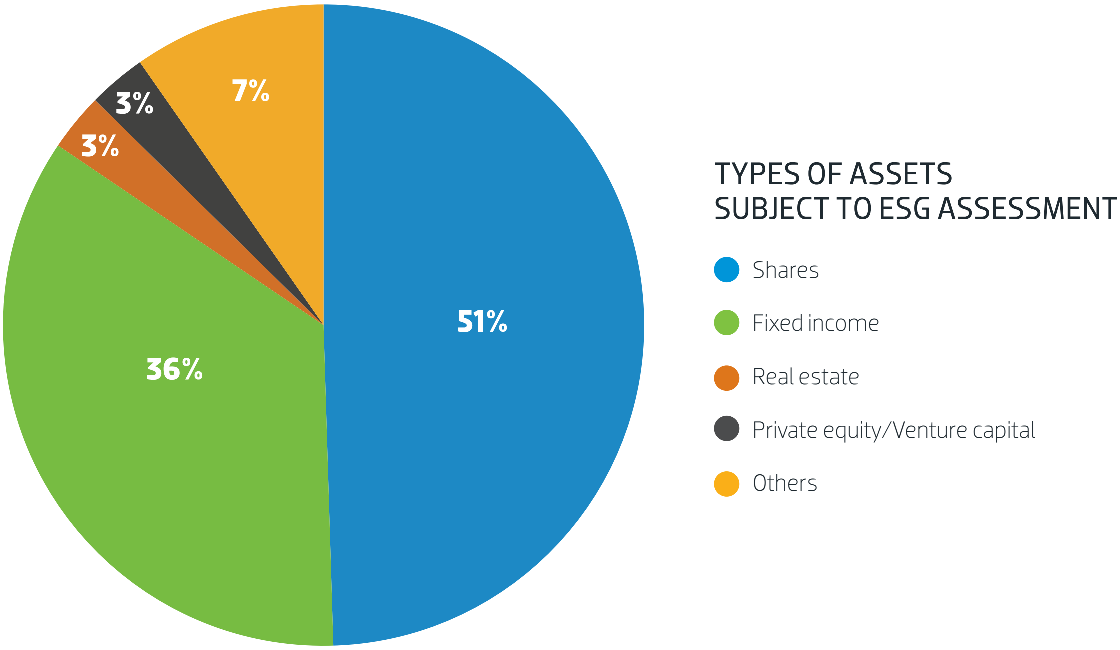
When analyzing the strategies used, the positive screening is still the most common, representing 36% of ESG assets. Integration appears in second place, at 32%, and, in third, corporate engagement, with 18% of the total. It is worth mentioning that the strategies that showed the most growth between 2016 and 2018 included: sustainable thematic investing (92%), impact investing (34%), and ESG integration (30%).

EVOLUTION OF ESG INVESTMENTS PER STRATEGY 2016 - 2018

Estratégia	2016	2018	2016-2018	Annual Growth Rate
Impact investing	248.47	444.26	79%	33.7%
Thematic investing	276.16	1,017.66	269%	92.0%
Positive screening/best-in-class	818.01	1,841.87	125%	50.1%
Positive screening/specific principles	6,195.40	4,679.44	-24%	-13.1%
Corporate engagement	8,385.17	9,834.59	17%	8.3%
ESG integration	10,353.20	17,543.81	69%	30.2%
Negative screening	15,063.57	19,770.96	31%	14.6%

Source: Global Sustainable Investment Alliance (2019)

As expected, the most common assets are those most used as ESG investments. Shares represent 51% of the total, followed by fixed income securities at 36%.



Source: Global Sustainable Investment Alliance (2019)

Fiduciary duty and stewardship code

A recurring theme in the ESG discussion regards the obligations arising from fiduciary duty. CVM Instruction 558, which regulates the professional activity of fiduciary administrators and asset managers, dictates that these professionals must carry out their responsibilities in good faith and with transparency, diligence, and loyalty to their clients. Some understand their main obligation (duty) to clients as solely providing greater financial returns and see ESG issues as an obstacle to this.

However, this concept of fiduciary duty, quite common in the investment world, is being reevaluated by many market participants. The reason behind the creation of a stewardship code is precisely to address the new concerns of managers, administrators, and investors, complementing traditional notions of fiduciary duty. The code defines several mechanisms that should be adhered to during the investment process, increasing responsibility in the governance of one's investments.

A stewardship code is adopted voluntarily in most countries[22] and is mandatory only in some territories. Even if the countries have different stewardship codes, given the specific features of each market, the basic mechanisms are addressed in all of them, such as:

- Identification, management, and resolution of conflicts of interest;
- Definition of a proxy voting policy;
- Active engagement with and monitoring of invested companies;
- Consideration of ESG issues in activities;
- Alignment with collective engagement actions.

One of the main global initiatives in this realm, the UN's PRI (Principles for Responsible Investment)[23] initiative, published a report clarifying this debate and presenting recommendations for updating the concept of traditional fiduciary duty[24]

Regulation

In Brazil, various regulations address ESG issues. The main ones in effect are Resolutions 4.327 and 4.661[25] of the CMN (National Monetary Council). For easier reference, Addendums II and III present the regulations in effect in the local market that are geared toward sustainability and the main international initiatives that are guiding the adoption of the sustainability agenda in Brazil and abroad.

Overseas, the discussions in the most advanced stage are those taking place in the European Union. In 2018, an action plan was announced with sustainable finance initiatives, some of which are already in the final stage of implementation. Among these is the creation of a regulation to rank sustainable activities (taxonomy), aiming to make information more homogeneous, and an update of European Union Directive 2016/2.341 that makes it mandatory for institutional investors and asset managers to disclose how they approach ESG matters in their risk assessments.[26]

22. In Brazil, AMEC (the Association of Capital Markets Investors) published its stewardship code in 2016.

23. (Fiduciary Duty in the 21st Century, 2015): www.unpri.org/fiduciary-duty-in-the-21st-century-finalreport/4998.article

24. See (Sustainable Finances, s.d.).

25. Replaces Resolutions 3.792

26. See (Sustainable Finances).

06

ESG Investment Policy

We recommend that institutions adhere to the following principles as the minimum requirements for creating an ESG policy:

Art. 1. The asset manager that wishes to implement ESG aspects in their investment assessment must clearly and objectively disclose how such criteria are incorporated into the investment policy establishing the rules, procedures, and controls for implementing and maintaining this type of investment. It is recommended that the document contain at least the following information:

I. A list of funds that adhere to the ESG policy;

II. Total ESG assets under management;

III. Employees in charge of ESG assessment and management, as well as the delegation of responsibilities;

IV. ESG factors that are considered relevant and that are the focus of the investiments;

V. Indicators used to assess ESG issues;

VI. Procedures adopted to purchase and monitor ESG assets;

VII. Form of governance adopted and actions implemented, including voting policy and the criteria for divesting in assets that no longer fit the requirements established by the ESG investment policy;

VIII. Frequency of the review of the manager's investment policy.

§1°. His liability notwithstanding, the asset manager may hire third parties to assist with the assessment or monitoring of the ESG aspects of the assets under his management, after a careful prior evaluation of the service providers.

§2°. The document must be periodically reviewed, and its content must be revised whenever the conditions, environment, and premises on which it is based significantly and materially change.

Art. 2. His liability notwithstanding, the asset manager may organize a committee or other body in charge of approving the acquisition and monitoring of ESG assets for the investment funds under management.

Sole Paragraph: if a committee or other body is organized in the manner described as above, it is recommended that it:

I. Establish how reporting will be conducted, including hierarchy and purview;

II. Define the frequency of the meetings;

III. Document the decisions and deliberations made;

IV. Maintain the documents regarding the decisions on file.

Art. 3. It is recommended that the institution responsible for this policy publish this document on its website, keeping it up to date and providing the date it came into effect and the date of the latest revision.

07

Conclusion

The market is increasingly more concerned with ESG investments and is approaching an inflection point each year. To attract client investments, in particular international clients, some level of engagement with ESG issues will be required.

In Brazil, the discussions regarding ESG are just beginning and, so, it is common to believe that ESG investments are a long way off. A lack of debate leads to hasty conclusions, such as the idea that the mandatory inclusion of ESG factors in the investment process will generate costs, that the strategies do not fit certain investment profiles, or even that there is a trade-off between including ESG factors in the assessment of investments and their financial performance. This report has demonstrated that those conclusions are mistaken.

ESG issues can be integrated into the investment assessment without generating extra costs. All this requires are simple themes and information easily accessible to the public. The investment strategies being employed in the market show that there is no standard; the information in this report can provide guidelines, but it's up to the investor/manager to adapt them to their needs. When ESG issues become a natural part of the decision-making process, the complexity of the assessments and strategies can gradually be increased. It was also noted that including ESG issues in investment assessments does not harm performance; on the contrary, more than 60% of the studies investigating the matter show a positive correlation between including ESG factors in assessments and the financial performance[27] of the companies that do so.

There is still a long way to go before ESG investments become habitual for the market. Investors have a key role to play in helping this matter further develop and continue to gain ground in Brazil. ANBIMA understands the importance of the implementation and adoption of practices related to ESG issues and, as a private association concerned with the financial market, is sharing this knowledge in order to encourage the inclusion in Brazil of ESG policies, which already have been widely adopted in the main financial markets around the world.

27. (Friede, Busch, & Bassen, 2015).

08

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Addendum I: Case studies

ANBIMA's Sustainability Advisory Board selected several asset managers to present their experiences with ESG. The goal is to present some practical cases of what is effectively taking place now in the Brazilian market.

BB DTVM

Gender equality is an important theme for Banco do Brasil. In 2018, upon analyzing market trends and with the conviction that gender equality adds value to the corporate world, we decided to launch BB Ações Equidade (BB Shares Equality) to convey to our stakeholders the importance of this theme.

The goal of BB Ações Equidade is to invest in Brazilian and foreign companies that publicly assume the commitment to gender equality and are traded through Brazilian Depositary Receipts ("BDRs") on the Brazilian stock exchange. For this purpose, we have adopted as a key requirement that any company to receive investment be a signatory to the Women's Empowerment Principles (WEPs) established by UN Women and UN Global Compact. These principles are a set of guidelines to help businesses incorporate values and practices that promote gender equality and women's empowerment.

Several different areas of Banco do Brasil were engaged in the launch of this product: the staff felt motivated to offer the fund, and our clients believed in and invested in this theme. BB Ações Equidade also caught the attention of the companies included in the portfolio, who sought us out to understand our process and what they needed to do to have more women's representation in the fund.

Two major challenges were encountered during the conception of the product: first, how to delimit the scope of eligible companies; second, how to assess companies with regard to the equality criterion. The solutions were, respectively, to adopt the WEPs as the basis for selection, in addition to examining the annual sustainability reports disclosed by the companies, as they contain specific criteria that evaluate themes such as women's participation in leadership roles.

Upon examining the fund's portfolio, it can be seen that securities that were well ranked according to our equality criteria made positive contributions to the fund's returns, having presented significant valuation. The companies Magazine Luiza and Natura are worthy of mention, as they were responsible for major contributions to the portfolio's overall performance. This composition allowed our fund to achieve a return of over 35% from the day it was launched up to the end of May of 2019.

The BB Ações Equidade strategy was also a huge success for our clients: the fund's net worth surpassed BRL 180 million and over 3,200 shareholders.

For more information, see the investment policy: https://bit.ly/31NwK55

BRAM - Bradesco Asset Management

BRAM adopts the best-in-class strategy in its socially responsible funds. Currently, it offers two equity funds and one private credit fund that adhere to these principles.

Although the best-in-class strategy is meant to select the best assets of a certain industry, the Brazilian stock market is quite small and often has only one company representing a certain industry. To bypass this limitation, BRAM chose to select assets that stand out according to their ESG methodology when composing its funds, regardless of industry.

The BRAM methodology consists of an ESG rating that assesses companies based on a series of social, environmental, and governance indicators, weighted by the materiality of the sector.

It is important to highlight that BRAM's mission is to provide superior and sustainable returns in the management of its clients' investments, and this is no different for the funds that adopt the best-in-class strategy.

In the selection process of the companies that compose the portfolio of these funds, the companies are both assessed by the investment analysis teams and also approved by BRAM's ESG methodology.

This way, BRAM combines ESG assessment with its financial assessment expertise, allowing for a more comprehensive and holistic view of the companies, contributing to more efficient investment decision

For more information, see the investment policy: https://bit.ly/2TYSqJL

BTG Pactual

At BTG Pactual, we believe that environmental, social, and corporate governance (ESG) factors have a direct impact on the bottom line of the companies in which we invest. Since it was launched in 2007, Família Absoluto (Absolute Family) has been based on a solid investment foundation, enabling us to have a unique view of different aspects of the shares in which we invest. We not only know our investment options, but we are also paying close attention to the companies to understand their corporate governance and how financial, environmental, and social aspects may impact the business, whether from a perspective of risk or to new opportunities.

The investment philosophy of Família Absoluto is based on the following principles:

1. Capital preservation and alignment: we are an experienced team that has been working together for over ten years, and our partners invest in the same strategy as our clients, ensuring a greater degree of trust in the decisions we make.

2. Focus and conviction: our team selects assets with a high degree of conviction, and we focus engagement on a smaller number of high-quality companies, resulting in better returns. For example, the ten largest positions of the fund represent 80% of the portfolio.

3. Profound knowledge: our investment team knows the companies that we invest in very well. We engage in routine visits of the companies to understand all the phases through which they are passing. At this stage, we inform ourselves of the adequacy of the governance structure, as well as on the financial, sectoral, environmental, and social aspects of the specific company. We hold periodic meetings with the main executives of these companies, which allows us to have a better grasp of the reality in which they operate. We seek to interact with the whole value chain of these companies, at as many links as possible, be they suppliers, distributors, or unlisted companies.

Our team has in-depth knowledge of the sector, industry, and competitive environment that form the context of the company, as well as its operations, allowing us to anticipate risks and opportunities in all the important, relevant spheres in order to safeguard our investment. We also monitor the news about and quarterly data of all 90 companies that we follow in depth, in addition to participating in their conference calls. Furthermore, we constantly monitor the risk/return of the companies in which we have already invested.

4. Quality: our team focuses on management quality, proven performance, and the alignment of interests between shareholders and executives. One of our premises is to give preference to exceptional companies rather than average ones with apparently discounted valuations.

Based on these pillars, the BTG Pactual team integrates the environmental, social, and corporate governance aspects of the fundamental analysis of the selected companies. All our models are proprietary and utilize discounted cash flow analysis. We evaluate the quality of the executives, the governance structure, and the capacity of the leadership team to face challenges such as surprising results, market consolidation, operational turnaround, and changes in the competitive environment. That is how the ESG aspects are integrated into the decisions of the asset manager's team.

Specifically, in the case of Família Absoluto, we decided to invest in companies with a high degree of governance, integrating all the qualitative aspects of those assessments into our models and making them a fundamental factor in the decision-making process.

For more information, see our investment policy: https://bit.ly/37nJhhy

Itaú Asset Management

As managers of our clients' assets, we have the responsibility to invest them in an ethical and responsible manner, seeking to completely understand the opportunities and risks involved in our decisions. The purpose of our investment process is to generate value for our clients through the utilization of our own fundamental analyses and contact with the companies, always seeking in-depth knowledge of the companies analyzed and their areas of operation. The goal is to have relevant data to make an informed decision.

We consider the importance of the ESG issues to the extent that these may impact the value of the assets in which we invest. Our approach with regard to this matter aims to generate value for our clients by identifying opportunities and reducing risks related to equity and private credit portfolios. Within this context, Itaú Asset Management considers engagement with the companies we invest in an appropriate way to increase our knowledge of them.

The goal is to establish a constructive dialog and to better understand how certain ESG issues may impact their market value. When appropriate, we encourage the adoption of better corporate governance and management practices in order to reduce risks and protect our clients' interests. Moreover, we encourage the companies we invest in to disclose material ESG information that may impact their financial performance.

In 2018, we engaged with 35 companies from 15 economic sectors regarding environmental, social, and corporate governance matters. The purpose of this active participation was to obtain ESG information relevant to the investment process and encourage more transparency and the adoption of ESG best practices by the companies.

In certain specific cases, we were able to influence in a positive manner the adoption of corporate governance best practices. In 2018, we contributed to a successful effort to keep members of the board of directors of a company from changing their compensation plans without holding a shareholders' meeting.

For more information, see our investment policy: https://bit.ly/3cvdkqq

Pragma Gestão de Patrimônio

The main benefit of the veto-based approach implemented by the negative screening strategy is aligning the portfolio with the investor's ethical preferences in a very objective manner. However, as our studies on this matter have progressed, we have come to realize that an approach based exclusively on vetoes is not the best use of ESG and sustainability concepts at Pragma. The main problem with this strategy is that it may eliminate from the investment pool companies that are correctly investing in transitioning their business to a more sustainable alternative in the future, despite being involved with activities or industries that, at first glance, may not be aligned with certain criteria related to sustainability.

The exclusion-based approach is a valid option for aligning the portfolio with personal preferences, but we realized that, in our case, the negative screening would not be the best way to employ ESG and sustainability concepts in the investment process. At Pragma, we believe that these issues, when dealt with in an in-depth manner and not merely based on strict rules for exclusion, help identify the best investment options in a way that focuses on long-term capital preservation. Given the complexity of the matter, our approach is ever the richer when based on a case by case analysis.

However, despite recognizing that the approach based on rules of exclusion is insufficient to meet our goals, for a small number of industries we felt the need to adopt a more rigid stance, as we realized that it would be difficult to hold investments in certain sectors that are completely unaligned with certain values that are non-negotiable to us.

Thus, we created a very short and objective list of exclusions, which functions as a negative screening for our direct investments. The fact of the matter is that other factors in our traditional process would end up eliminating from our investment pool companies barred by this list of exclusions. Anyhow, the list is a complment to our investment policy.

Wright Capital Wealth Management

We are now seeing the birth of the social and environmental impact ecosystem in Brazil. On one hand, there are many challenges: limited investment options, the fact that most investors are still unaware of this type of investment, the high costs of opening a fund, and impact managers' difficulty in accessing capital. Moreover, most of the impact invesments available on the market are Brazilian Participation Funds (FIPs for their initials in Portuguese) funds composed of venture capital or private equity investments, which discourages more risk-averse investors.

On the other hand, we believe that this sector presents a major investment opportunity. Companies that make a positive impact may help us solve Brazil's greatest challenges with efficiency, quality, and profitability. We believe that we need to help foster this ecosystem in Brazil, which is why we are talking to regulators, funding institutions, lawyers, universities, foreign investors, banks, and other family offices to accelerate this sector's growth.

Several investment vehicles focused on this strategy are starting to emerge in Brazil, from debentures of companies that conduct renovations in low-income communities for a fair price—creating a positive impact on the self-esteem, health, and privacy of community members—to FIDCs (Receivables Investment Funds) that focus on providing benefits to members of classes on the lower rungs of the social pyramid, whether they be individuals or companies that are underserved by traditional credit and financing agents.

The first successful exit from an impact investment fund in Brazil took place in 2018, with an annual internal return rate of 26% for the shareholders, including our clients. In that case, the fund, managed by Vox Capital, sold its shares in Tem, a company that offers pre-paid cards that grant significant discounts for medical consultations, private exams, and medication at pharmacies, focusing on providing access to healthcare to the lower classes.

Another success case in our portfolio, due to the broad social and environmental impact generated, is that of the asset manager Mov Investimentos, which includes among the businesses in its portfolio making a positive impact a company called Terra Nova. Terra Nova specializes in offering support and mediation services for regularizing illegally occupied land as a way of resolving conflicts between landowners and occupants. Through the mediation it provides, occupying families purchase the title to the land through payments in installments to the landowner. Also, with the regularization, the local government will implement infrastructure in the area, generating a variety of positive impacts on the families that live there.

We believe that our investments express our values. Investing in businesses that make a positive impact represents a great opportunity for us to vote with our money, allocating investments in companies that aim to solve the world's major challenges.

For more information, see our 2017-2018 Socio-environmental Impact Report: https://bit.ly/2GlK1Ie

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Addendum II: Regulation in Brazil and international references

As seen in the report, there have been advances over the past years in the incorporation of sustainability-related issues. The adhesion to international treaties on sustainable development and, in particular, climate change has pushed this agenda forward. Voluntary initiatives have also spread widely given the increasing need for common references to conceptualize, measure, inform, and integrate environmental, social and governance factors and risks into the routine of the market and its participants, effectively contributing to these actions.

1. Local regulatory frameworks and regulation in Brazil

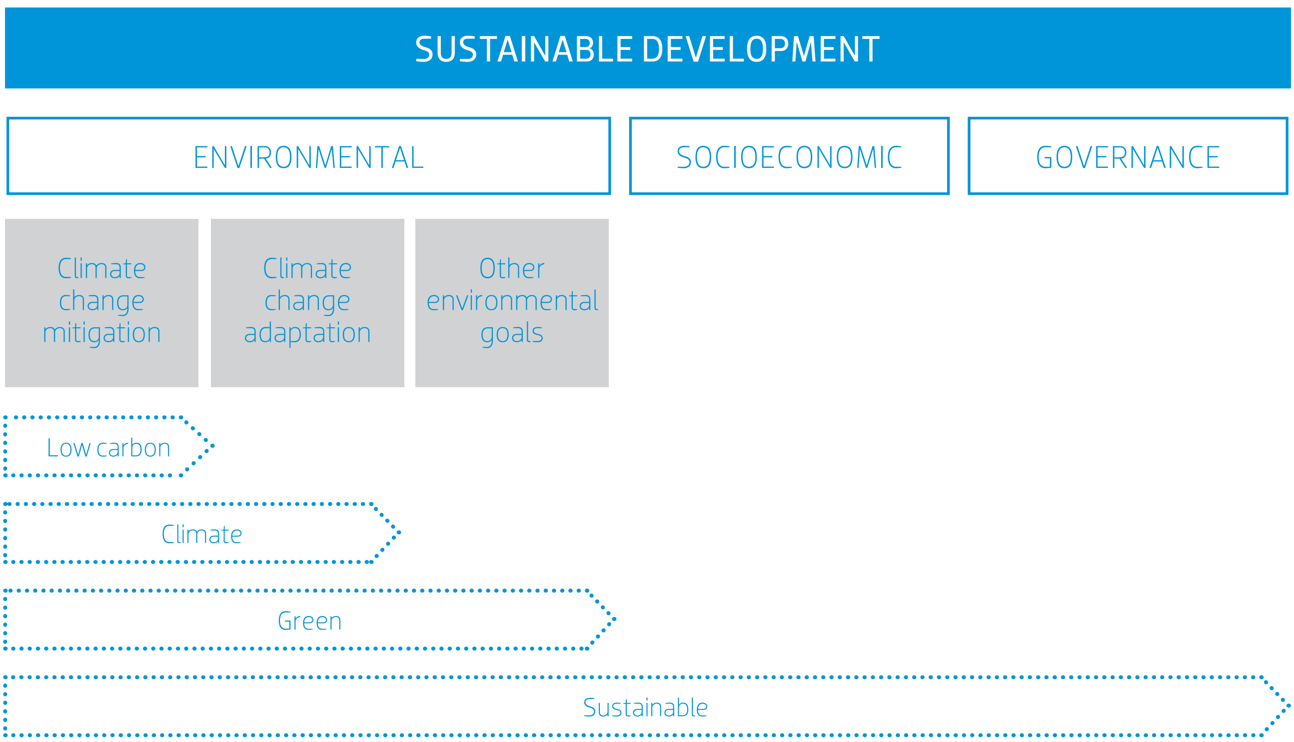
The construction of regulatory frameworks in each country is aligned with these developments and considers two dimensions: the positioning before international treaties and the integration, adhesion, or reference to principles and standards already established on a global basis.

Generally speaking, in each jurisdiction, the laws reflect the goals and commitments undertaken (or not) in treaties and provide concepts, indicators, and instruments to be used to comply therewith. The local market regulation, however, has evolved differently in each country, including with regard to its greater or lesser adherence to international principles and standards and regional priorities.

With certain aspects in common, both banking and capital market regulators are advising the incorporation of ESG factors and risks into the activities of financial institutions and institutional investors, as well as into the policies and financial statements of companies. The ESG agenda is also being employed to rate investments, bonds and projects, like green or sustainable.

As this is a relatively new theme that presents certain challenges, governments are opting for general rules that are not very prescriptive and allow room for the participants to adhere to internationally renowned initiatives and accords. Most of the regulations recently passed seek to balance the definition of clear and simple concepts with the adoption of rules based on principles that do significantly hinder the activities of the institutions they seek to regulate. On the one hand, the provisions regarding this matter must be consistent and not lead to legal uncertainty. On the other, several requirements related to these issues may be adopted over the coming years. This being the case, it is important to avoid adopting complex and costly rules that are hard to implement, lead to regulatory arbitration or constitute so-called "greenwashing," that is, the improper use of "green stamps" for investments that are not actually green or sustainable.

As for the scope of regulation and the sustainability principles, it is important to note that there are differences between the goals of different agendas, from the broadest (integration of ESG factors) to the most specific (the transition to a low carbon economy), including the distinctions between the "green" and "climate" agendas. The chart below may help to understand this differentiation:



Source: United Nations Environment Programme Inquiry. Created by IDB – Inclusion of Climate Risks in Financial Regulation, 2019.

2. Regulation in Brazil

These are the main treaties related to sustainable development and, especially, climate change risks mitigation and adaptation , that Brazil has joined:

- 2030 Agenda[28] – seventeen sustainable development goals (known as SDGs) agreed upon in 2015 within the framework of the United Nations to comply with an agenda of actions against climate change, focusing on clean water and sanitation, affordable and clean energy, responsible consumption and production, among others;

-The Paris Agreement[29] – commitments undertaken by the nations signatory to the agreement in 2016 to ensure the mitigation of and adaptation to climate change, including: the goal of keeping the global temperature rise this century well below 2 degrees Celsius and pursuing efforts to limit the temperature increase even further to 1.5 degrees Celsius; strengthening of the capacity of signatory countries to deal with the impacts of climate change through the allocation of funds, technological development, and capacity building; and actions to improve transparency with regard to climate change.

Brazil has been incorporating the international commitments of the sustainability agenda into its laws, such as Law 12.187/09, which establishes the National Policy on Climate Change, recently revised by Decree 9.578/18. There are also laws and decrees establishing concepts, indicators, and instruments related to the implementation of the agreements and Brazil's priorities for this agenda—such as the National Climate Change Fund. Recently, Law 13.576/17 and several specific decrees defined the Biofuel Policy (known in the market as RenovaBio) and concepts, in addition to creating committees and instruments related thereto, such as CBio, which is yet to receive complementary regulation.

In the financial system, the legislation is supplemented by the rules of the CMN (National Monetary Council). CMN regulates credit and financing transactions of the institutions and has passed rules aimed at prevention and control of deforestation, reduction of greenhouse gas emissions, and other priorities-sectoral, regional, or related to the funding instruments for this agenda — in addition to providing conditions for rural credit.

The creation of Social and Environmental Responsibility Policies ("PRSA") was established for financial institutions and authorized in 2013, under CMN Resolution 4.327, for the purposes of regulating the participants of the National Financial System (NFS). That resolution establishes governance guidelines, requirements for the management of social and environmental risks, and a calendar for implementation until 2015. The measure was supplemented by the self-regulation FEBRABAN Ordinance SARB 14 of the same year and the PRSA Guide.

[28] https://sustainabledevelopment.un.org/post2015/transformingourworld

[29] https://sustainabledevelopment.un.org/frameworks/parisagreement

In 2017, Resolution 4.557 included these ESG risks in the regulations related to capital and risk management and the reporting policies of those institutions. In recent years, references and parameters to comply with the rules have continued to be released: FEBRABAN published the Climate Risk Sensitivity Assessment Tool[30] and its respective guide, which advance issues regarding transparency, materiality assessments, and prioritization of actions. As for joint initiatives, LAB (the Financial Innovation Laboratory promoted by the IDB, CVM (Brazilian Securities Commission), ABDE (Brazilian Development Association)) and B3 have created the Sustainability Guide for Intermediaries.

With regard to institutional investors, Resolution 4.661 established the policy regarding investment in complementary private pension funds and includes social and environmental risks among those to be considered in the risk management of the investment portfolios of these institutions.

Voluntary codes supplement the principles and duties for asset management by institutional investors, such as the 2016 Stewardship Code of AMEC (Association of Capital Markets Investors) or the 2019 Corporate Governance Code of ABRAPP (Brazilian National Association of Pension Funds).

In the realm of corporate finances, CVM established the inclusion of social and environmental factors among the information to be disclosed by companies that issue shares or bonds by including them in the Reference Form (Instruction 552, Schedule 24). The rule requires that information be provided regarding social and environmental issues and policies and the costs of environmental recovery. CVM also mandated the disclosure of information on environmental impacts and corporate governance based on IBGC (the Brazilian Institute of Corporate Governance) Code and the standards regarding the registration of issuers (Instruction 556, which changed Instruction 480).

30. Climate Risk Sensitivity Assessment Tool, Febraban, Dec. 2018

ESG REGULATORY FRAMEWORK IN BRAZIL
REGULATION, SELF-REGULATION, AND VOLUNTARY PRINCIPLES

Incorporation of the agreements and establishment of goals, concepts, and instruments	2009	Law 12.187	National Policy on Climate Change
	2009	Law 12.114	National Climate Change Fund and FNMC (National Foundation of Conflict Mediation)
	2018	Decree 9.578	Regulates the National Policy on Climate Change (NPCC) and the National Climate Change Fund
	2008	Resolution 3.545	Environmental requirements for rural credit
	2009	Resolution 3.813	Requirements for expansion of rural credit
	2010	Resolution 3.876	Prohibition of rural credit and slave labor
	2009	Resolution 3.896	Institutes the Agriculture Greenhouse Effect Program
	2013	Resolution 4.267	Supports financing for National Climate Change Fund
	2017	Law 13.576	National biofuel policy
	2019	Decree 9.888	Establishment of RenovaBio Committee goals
Rules and principles for institutions and institutional investors	2014	Resolution 4.327	Social and Environmental Policy for Authorized and Financial Institutions
	2017	Resolution 4.557	Social-environmental and risk management
	2017	Memo 3.846	Risk management procedures and parameters
	2018	Resolution 4.661	Regarding administration of Social-Environmental and Complementary Private Pension Funds
	2014	AR Febraban	SARB (Self-regulation Banking System of the Brazilian Banking Federation) Regulation 14 for Social and Environmental Responsibility Policies
	2016	Amec*	Stewardship Code of Principles and Duties
	2018	LAB/B3*	Sustainability Guide for Intermediaries
	2019	Abrapp*	Corporate Governance Self-Regulation Code
	2019	Febraban*	Climate Risk Sensitivity Assessment Tool and Guide
Rules and principles for issuers and bonds	2014	ICVM 552	Addendum 24—Inclusion of ESG information—reference form
	2017	ICVM 586	Report on the Brazilian Corporate Governance Code
	2019	Ofício Circular CVM 3	Procedures for ESG information
	2015	IBGC*	Governance Good Practices Code**
	2016	Febraban*	Guide for the Issuance of Green Bonds in Brazil
	2016	B3*	Sustainability in Business**
	2018	B3 LAB*	Capital Markets and SDGs**

*Voluntary guidelines or standards. **Mentioned as a possible reference in CVM Ofício Circular 3.

CVM provides guidance to issuers of securities regarding the incorporation of social and environmental risks via memos (the most recent one was published in 2019). It recommends using documents formulated by voluntary initiatives, respectively: IBGC's Code for Corporate Governance Best Practices; B3's Business Sustainability Guide; and LAB's Guide on Capital Markets and SDGs. The main reference in Brazil on green bonds are the principles formulated by FEBRABAN in 2016 in partnership with CEBDS (the Brazilian Business Council for Sustainable Development).

The table above summarizes the main rules and references mentioned. Attached to this document is a full table on these rules, with detailed information on the sustainability framework of the local market.

3. International principles and standards

The creation of principles and standards that guide adherence to the sustainability agenda is supported in the international market by governmental organizations (such as the UN, FSB, and BIS) and representatives from the private sector, such as the PRI or the social, environmental, and green bonds initiative of the ICMA (International Capital Market Association). Some initiatives are the result of partnerships, such as the TCFD (Task Force for Financial Climate Change Risks' Disclosure) or the IFC (International Finance Corporation), the private financial arm of the World Bank.

As mentioned, the establishment of common standards and principles related to sustainability has catered to functions that go beyond the convergence with international treaties and transparency standards. They are also important to ensuring coordination between participants and alignment of the concepts in use to avoid unintentional results in this process, such as unnecessary costs, legal uncertainty, fragmentation, the need for arbitration, or greenwashing.

It is important to note that this diversity of references may contribute to making the adhesion effort more complex instead of advancing it (see the table on the next page). Therefore, the recent publications have sought to align the concepts and actions of the sustainable development agenda, especially the goals prioritized in the SDGs and in the Paris Agreement. This effort is noticeable in the initiatives launched in 2019 aimed at financial institutions, such as the Principles for Responsible Banking of September 2019, which includes goals to be set and fulfilled over the next years by the 130 signatory banks, and the Call for Action document, the first report by NGFS (Network for Greening the Financial System), formed by 42 supervisors and central banks during the G-20 meeting, which includes an agenda for regulation and prudential oversight regarding climate risk.

The most recent example of convergence is the initiative supported by the FSB and formed by a task force composed of institutions, institutional investors, companies, and service providers. The TCFD (the Task Force for Financial Climate Change Risks' Disclosure) has produced recommendations for companies and a calendar for adaptation to the reporting of more standardized information. The document provides instruction on how to identify, asses, and report liabilities, transitions, and physical risks related to climate changes through consistent and comparable informational requirements and has become a reference on this theme for a number of financial segments and sectors.

MAIN REFERENCES – INTERNATIONAL INITIATIVES

Initiative	Focus	Goal
TCFD – Task Force on Climate Related Financial Disclosure (FSB)	Recommendations for companies to disclose information on climate change financial risks (physical, transition, and liabilities)	Transparency—consistent and comparable information for investors, creditors, insurers, and other stakeholders
NGFS – Network for Greening the Financial System (G-20)	Recommendations for central banks and supervisors of the financial system with a focus on environmental and climate risks	Prudential—oversight of climate and environmental risks, impact assessment, and support for green finances
SBN – Sustainable Banking Network (IFC/WB)	Supports the implementation of best practices; composed by associations of banks and regulators of emerging markets	Supports the development and implementation of ESG standards and innovation in green/climate finances in emerging markets
Principles for Responsible Banking (UNEP FI)	Adoption of principles aimed at the adherence to the sustainability agenda, reporting standards, and goals held by banks	Alignment with the sustainability agenda (SDGs and the Paris Agreement) and establishment of banks' desired impacts and goals
Sustainable Finance Network (LO)	Platform for the sharing of information among securities regulators, creation of a task force, and the establishment of recommendations	Exchange of information and establishment of minimum transparency standards when issuing
PRI - Principles for Responsible Investment (UN)	Initiative by major investors supported by the UN for the establishment of principles regarding the incorporation of ESG themes into their respective assessments and processes	Monitoring of the adoption of ESG themes by institutional investors and their incorporation into investment due diligence processes
The Equator Principles	Initiative to establish minimum standards for diligence and monitoring of responsible projects in project finance, corporate loans, and bridge loan	Risk management tool to determine, assess, and manage social and environmental risks for financial institutions in financing projects

Several sources.

For institutional investors, the PRIs launched in 2005 have accompanied the progress of the recent convergence trends and discussions. The initiative's actions extend to the participants' transparency reports and preparation of due diligence questionnaires for sectoral investments. In 2018, a document was published to instruct managers on how to implement TCFD's recommendations.[31] The PRI initiative also provides reports and research on incorporating ESG aspects into different asset classes, as well as on responsible investments.[32]

With regard to so-called "green bonds," the main international references have come from initiatives by the ICMA, which launched in 2015 a guide for green bonds traded on the main European and Asian markets, and the Climate Bond Initiative, which established standards for climate bonds in a joint action with the SBN (Sustainable Banking Network), which is connected to the IFC. ICMA's action has also resulted in the creation of principles for social bonds and a sustainability guide for the issuance of bonds.[33]

31. Implementing the TCFD Recommendations: a guide to asset owners.

32. www.unpri.org/investor-tools

33. See: www.icmagroup.org/green-social-and-sustainability-bonds/

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Addendum III: Rules and principles in Brazil

Regulation	Date	General Provisions
Law 12.187/09	Dec. 25, 2009	Institutes the National Policy on Climate Change and other provisions
Law 12.114/09	Dec. 9, 2009	Creates the National Fund on Climate Change, changes articles 6 and 50 of Law 9.748/97, and other provisions. (Article 3 altered by Law 13.880/19)
Decree 9.578/18	Nov. 22, 2018	Consolidates the rules on the FNMC and the PNMC. Altered by Decree 10.143
CMN Resolution 3.545/08	Feb. 29, 2008	Changes MCR 2-1[34] to establish the requirement for proof of environmental compliance and other conditions for agricultural and livestock funding in the Amazon Biome, and that the financial institution must ensure that the venture will be conducted in conformity with the rules related to agroecological zoning and Ecological-Economic Zoning

Regulation	Date	General Provisions
CMN Resolution 3.813/09	Nov. 26,2009	Ties rural credit for the expansion of sugarcane production and industrialization to agroecological zoning[35] and prohibits funding expansion of plantations in the Amazon, Pantanal, and Alto Paraguai Basin Biomes, amongst other areas
CMN Resolution 3.876/10	Jun. 22, 2010	Prohibits granting rural credit for individuals or businesses that are enrolled in the Ministry of Labor's registry of employers that have kept workers in conditions analogous to slavery
CMN Resolution 3.896/09	Aug. 8, 2009	Institutes the Program for Reduction of Greenhouse Gases Emissions in Agriculture (ABC Program) for BNDES (the Brazilian Development Bank)
CMN Resolution 4.267/13	Sept. 30, 2013	Provision regarding funding to support FNMC resources
Law 13.576/17	Dec. 26, 2017	Institutes the National Biofuel Policy (RenovaBio), which is part of the national energy policy established in Law 9.478/97
Decree 9.888/19	Jun. 27, 2019	Defines mandatory annual goals to reduce the emissions of greenhouse gases in fuel sales and institutes the National Biofuel Policy Committee or RenovaBio Committee (altered by Decrees 9.964 and 10.102)

34. MCR 2-1 – Rural Credit Manual; Chapter 2: Conditions basic; Section 1: General provisions; section 2: Budget, plan and project. Section 1 item 1 sets out the essential requirements rural credit is subordinated.

35. The agroecological zoning of sugarcane was approved by Decree 6.961 / 09, which empowered CMN to establish standards for financing operations to the sugar and alcohol sector, under the terms of said zoning.

Regulation	Date	Provisions for financial institutions and institutional investors
Brazilian Central Bank Circular 3.846/2017	Sept. 13, 2017	Establishes procedures and parameters related to ICAAP and to IcaapSimp – Simplified Internal Assessment Process of Capital Adequacy — wording changed by Memo 3.911/18
Brazilian Central Bank Circular Letter 3.774/16	Jul. 14, 2016	Presents the ICAAP report template mentioned in Memo 3.547/11
CMN Resolution 4.327/14	Apr. 25, 2014	Provides the guidelines to be observed by financial institutions and other institutions authorized by the Brazilian Central Bank when establishing and implementing Social and Environmental Responsibility Policies
CMN Resolution 4.557/17	Feb. 23, 2017	Presents the risk management framework and framework for capital management of financial and authorized institutions. Article 6, item VI dictates that the risk management framework must identify, measure, assess, monitor, report, control, and mitigate social and environmental risks, as per Resolution 4.327 (altered by Resolution 4.606/17 and Resolution 4.745/19)
FEBRABAN SARB Regulation 014*	2014	Regulation for creation and implementation of social and environmental policy that formalizes fundamental procedures and guidelines for the social and environmental practices of its signatories with regard to their business and their relationship with stakeholders
B3 Sustainability Guide for Intermediar with LAB support	2017	Sustainability — Business opportunities in the intermediation sector: material with guidance on how to integrate ESG issues into processes and products, as well as into the relationship with clients in the intermediation sector (brokerage firms, distributors, and banks), above all with regard to the implementation of Social and Environmental Responsibility Policies, as per CMN Resolution 4.327/14

*Updated by Deliberation 7/17.

Regulation	Date	Provisions for financial institutions and institutional investors
Climate Risk Sensitivity Assessment Tool	Dec. 2018 and June 2019	Climate Risk Sensitivity Assessment Tool and Guide — Document and guideline for banks
CMN Resolution 4.661/18	May 25, 2018	Presents guidelines for the collateral funds of the plans administered by complementary private pension funds (altered by Resolution 4.695/19)
AMEC Stewardship Code	2016	Institutional Investors Principles and Duties Stewardship Code
ABRAPP Investors Corporate Governance Code	2019	Corporate Governance Code for Institutional Investors

Regulation	Date	Provisions for companies and bonds
CVM Instruction 552/14	Oct. 9, 2014	Alters Schedule 24 of CVM Instruction 480/09, which provides the content of the Reference Form (information to be disclosed by companies that issue shares or bonds). Fields 4 (risks), 7 (activities of the issuers), and 10 (comments by officers) now include, respectively, social and environmental issues, information on social and environmental policies, and environmental recovery costs
CVM/SEP Memo3/19	Feb. 28, 2019	General guidelines on procedures to be followed by publicly listed, foreign, and subsidized corporations, including references recommended for information on corporate governance best practices and social and environmental issues

Regulation	Date	Provisions for companies and bonds
CVM Instruction 586/17	Jun. 8, 2017	Makes reporting according to the IBGC Corporate Governance Code — publicly listed companies mandatory, as per provision included in Article 21 of ICVM 480/09 and respective articles 29-B and Schedule 29-B
IBGC Corporate Governance Code	2015	Recommendations of governance good practices with the purpose of contributing to the evolution of corporate governance of companies and other organizations in Brazil. Mentioned in CVM/SEP Memo 3
B3 Sustainability in Business	2016	New Value — Sustainability in businesses: how to start, whom to involve, and what to prioritize: guide with practical and educational material instructing the adoption of social, environmental, and corporate governance aspects by companies, presenting a capital market focused sustainability approach. Mentioned in CVM Memo 3
Capital Markets and SDGs	2018	Document that correlates the items of the Reference Form with the GRI guidelines used to report progress toward sustainable development goals. Mentioned in CVM Memo 3
FEBRABAN/CEBDS guide for issuing green bonds in Brazil	2016	Guide for issuing green bonds in Brazil

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