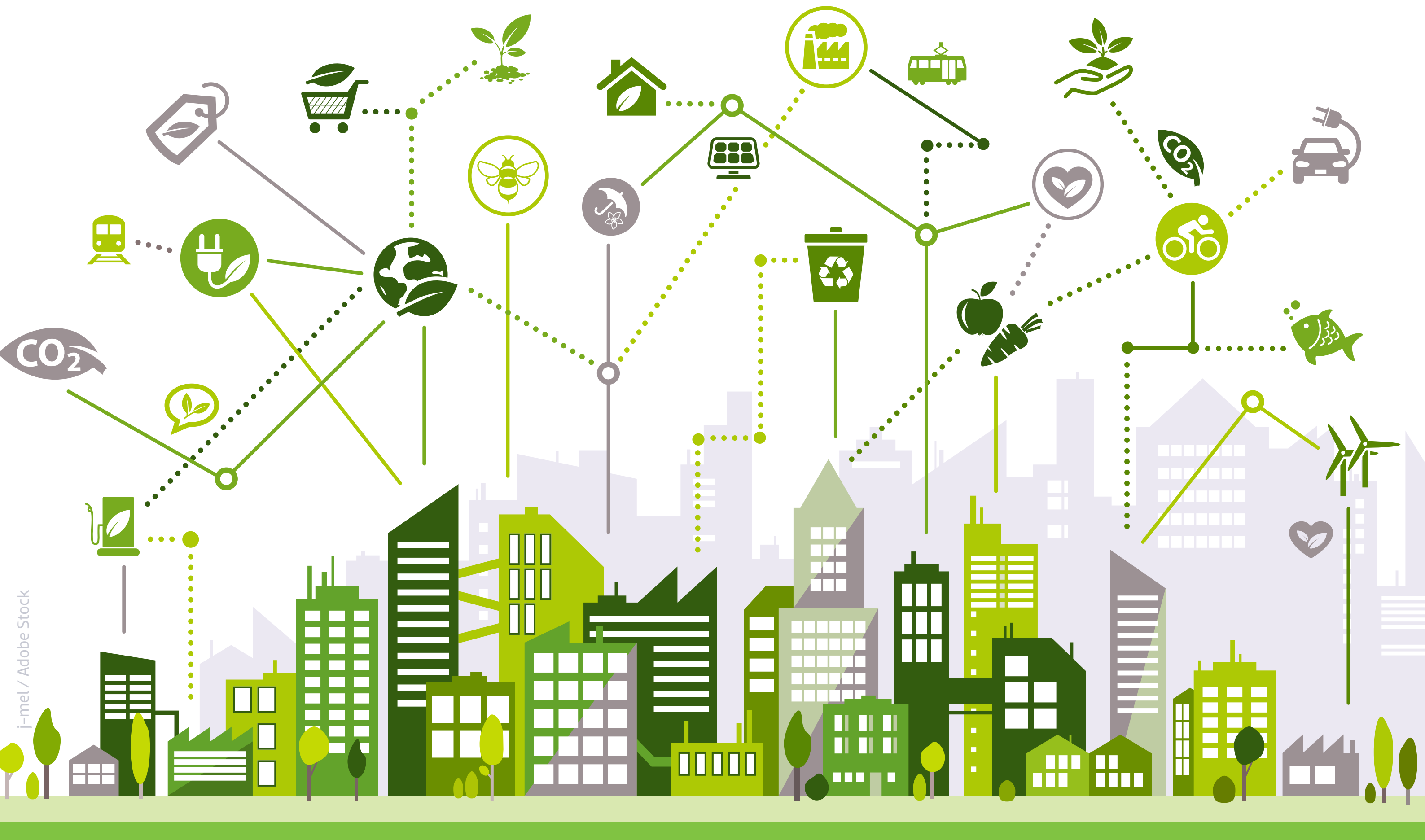
ESG GUIDE II

ESG aspects for asset managers and investment funds

ANBIMA



ESG GUIDE II

ESG aspects for asset managers and investment funds

Contents

PRESENTATION

Sustainability is a perennial and pressing agenda for the asset management industry. There is no more room for dispute. It is a fundamental part of the long-term survival of business and is aligned with the growing demand from investors and the imminent needs of society and the planet. Market risks, credit risks, and liquidity risks are taken into account in investment decisions on a consolidated basis, but ESG (environmental, social and governance) issues are increasingly becoming part of this equation, as a reflection of a global trend.

The growing interest and engagement of participants in the Brazilian capital market in favor of ESG issues is notable, mainly in the creation of discussion forums and the structuring of teams and intelligence aimed at understanding the risks and opportunities ushered in by ESG guidelines.

Here at ANBIMA, this agenda has been a fixture for nearly ten years, and is currently coordinated by the Sustainability Advisory Group, a forum directly linked to the Association's Executive Board. It is responsible for stimulating debate and the exchange of experiences on this matter. The list of actions we have carried out is a long one: it ranges from surveys to measure the maturity and evolution of asset management firms, banks, brokerage firms and distributors regarding ESG practices, to mapping out market's understanding on this issue, to publishing this guide, which offers guidance for the implementation of policies by management firms.

The Advisory Group's current work agenda focuses on two main axes: disseminating content and encouraging the adoption of good practices. To cover the first one, the topic of sustainability will be included in the ANBIMA certification exams, and we will develop courses targeted at market professionals and investors. Regarding the second axis, in 2021 we created rules for identifying sustainable funds via self-regulation, and such funds are the primary motivation for publishing this guide. For now, they are valid for equity funds and for fixed-income funds, but will soon be expanded to other classes.

The new standards are a milestone in the evolution of the sustainability agenda and take the market to another level. They are the result of extensive effort, which involved analyzing and adapting international trends, taking into account the maturity and specificities of Brazil, in addition to being aligned with recent directives of the International Organization of Securities Commissions (Iosco). The rules aim to provide transparency, avoid greenwashing, and contribute toward the robust and orderly growth of sustainable investments in Brazil.

As the protagonist of these issues, it is ANBIMA's role to provide information to make life easier for asset managers and encourage the evolution of the management industry. The purpose of this guide is to help managers understand the rules for identifying sustainable funds, which are part of our self-regulation, by gathering examples and didactic cases as well as seeking to consolidate the concepts of sustainability on the Brazilian capital market.

The process of drafting the rules was conducted by a working group, formed exclusively for this discussion, under the coordination of the Sustainability Advisory Group. As this is a living agenda, which will certainly undergo revisions and evolve, the guide will be updated whenever necessary.

Our work doesn't end there. The sustainability agenda is burgeoning and – as spokespersons for this issue – we are aware of the speed with which the demand for sustainable products grows as well as the needs that arise as a result of this progress. We will spare no effort to keep this issue at the center of our business, transforming the Brazilian financial and capital markets, and contributing toward a better world.

Good reading!

Zeca Doherty
CEO of ANBIMA

ANBIMA

01

INTRODUCTION

In order to reflect the stage of the local market and the evolution of international initiatives, ANBIMA's Sustainability Advisory Group decided to establish criteria for identifying investment funds related to sustainability. This measure is in line with our concern to mitigate risks of greenwashing and ensure a solid growth of these alternatives of investment in Brazil.

Similar initiatives in other countries were mapped out, and trends were identified based on this experience. One of the lessons of this survey is that considering ESG issues in funds is a process that is not limited to the portfolio composition approach: the manager should also be able to certify and provide information on its policy and governance dedicated to sustainability.

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Another lesson learned is that rules or guidelines aimed at improving the availability of information – in the case of investment products – should help investors to better understand (and differentiate) not only products aimed at sustainability, but also the material risks and opportunities linked to sustainability in the various products.

In line with local and international references, ANBIMA's rules aim to:

- enable the proper identification of sustainable products among investment funds ("IS" funds), which have specific risks and opportunities, in order to ensure consistency between the fund's name and goal;
- to distinguish the different funds that already incorporate ESG risks and opportunities, even if they do not have sustainability as their primary goal, from those that do not;
- establish the requirements for such funds to demonstrate their commitment to sustainability and continued actions in this respect, and to disclose consistent information about these policies, practices, and procedures to investors.

ANBIMA established criteria and requirements to be met by investment funds – in the equity and fixed-income classes at first – either currently identified or that intend to be identified as sustainable investment funds, including those using this term or similar terms (ESG, SDG, green, impact, among others) in its name.

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The published rules determine that "IS" (which stands for Investimento Sustentável in portuguese, or Sustainable Investment) funds are those that have sustainable investment as its objective. They must formally attest to this commitment in their documentation, adopt strategies and monitoring compatible with achieving this objective, and provide transparency about these characteristics to investors and to the general audience.

In order to contribute toward promoting the sustainability agenda, the new rules also allow funds (also in the equity and fixed-income classes) that take into consideration ESG issues – even if they do not have sustainability as their main objective – to disclose such status in their marketing materials, provided they also meet certain requirements.

This initiative launches a roadmap aimed at funds and managers, anticipating the next steps expected in this agenda, e.g., extending the rules to other classes of funds, structuring information and monitoring standards on fund actions, and promoting systematic ESG integration processes among all institutions.

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Introduction

The second edition of the ANBIMA ESG Guide

The current edition of the ANBIMA ESG Guide updates the main information on the local market context and provides data, references, and examples that can help managers to understand our rules. This document does not have a regulatory character and is not intended to be an exhaustive material for the implementation and compliance with the rules, but rather is aimed at supporting managers in obtaining a greater understanding of the subject matter through practical examples.

Just as it happens on the local market, we were able to ascertain that several countries also experience contexts of maturity and differentiated implementation concerning this agenda. An effort is currently underway to build consensus on terminology and transparency when it comes to considering sustainability issues in fund management. However, new references to methodologies, data, and metrics appear all the time, which indicates that defining such criteria should take into account the possibility of ongoing evolution in these precepts.

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The idea of using a publication such as the ANBIMA ESG Guide to complement our self-regulation code aims to constantly update references and useful examples in order to comply with our rules, which is in step with the development of international initiatives on the topic and their new instruments. Over time, we will put out new editions of the Guide, reflecting the evolution of the subject matter.

This publication is structured as follows: the next section provides information on the Brazilian and international context regarding sustainable funds. Then, we gather similar initiatives and references researched in the international experience. The following chapter deals with criteria for "IS" funds and for those that consider ESG issues, in addition to gathering practices and examples that can help one comply with the rules. Lastly, we describe the next steps taken by ANBIMA regarding this topic. The annexes bring the Guide to a close, providing regulatory and terminology references, as well as the bibliography.

This guide does not overlap with the regulations and legislation in force, but rather provides additional guidance to institutions; such guidance should be assessed according to their own specificities, size, and scope of activity.

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MARKET OVERVIEW

Discussions about sustainability are part of the corporate agenda since 1987, when the UN's World Commission on Environment and Development, in a document titled "Our Common Future", introduced the concept of sustainable development, defining it as: "development that meets the needs of the present without compromising the ability of future generations to meet their own needs.[1]

1 – See United Nations (1987).

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In the context of the financial market, the acronym ESG was first coined in the report "Who Cares Wins: Connecting Financial Markets to a Changing World", published by the Global Compact in 2004.[2] Incorporating social-environmental issues or ethical principles into investment theses is, however, a centuries-old practice, dating back to the 1700s. Later, in the modern era, the first ESG-themed funds appeared in France (Amundi's Pioneer Fund, 1928), Sweden (Aktie Ansvar Myrberg, 1964) and the United States (Pax World Fund, 1971). In the 1990s, the first ESG index (Domini 400 Social Index tracked) and the first company ESG rating (Seven Pillars of Corporate Social Performance and Responsibility – CSP/CSR) were launched.

The topic became even more high-profile in 2006 with the creation of the Principles for Responsible Investment (PRI), an initiative that organizations could join voluntarily, which requires signatories to take ESG factors into account in their investment analysis and decision processes. The measure gained force over the years, and by March 2021 it had more than 3,000 signatories, including service providers, managers and institutional investors, the latter two with assets under management exceeding US$ 120 trillion as of the same date.

2 – Available here.

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The international context

Currently, different markets have been recording significant growth in the volume of investments with an ESG perspective. The numbers may vary according to the way these investments are identified in the different countries and the diverse concepts adopted. Using the 2021 biannual report published by the Global Sustainable Investment Alliance (GSIA) as a reference, the total inventory of ESG investments reached US$ 35.3 trillion in 2020, representing a 15% increase compared to 2018. Based on the foreign markets covered in the report (Europe, United States, Canada, Japan, and Australia/New Zealand), this volume accounts for 36% of all professionally managed assets.

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The study also indicates that there was a decrease in the ESG market in Europe (-13%) due to significant changes in the way sustainable investment is defined in that region under European Union legislation, making comparisons with previous versions of this report rather difficult. In other regions, however, there was growth, such as in Canada (+48%) and the United States (+42%). Canada is also the market with the highest proportion of ESG investment assets (62%), followed by Europe (42%), Australia and New Zealand (38%), the United States (33%), and Japan (24%).

Table 1
ESG investments by region and local currency 2014–2020 (billions)

Region	2014	2016	2018	2020	2018 / 2020	Annual growth rate
Europe[3] (Euro)	€9.885	€11.045	€12.306	€10.730	-13%	1%
United States (USD)	$6.572	$8.723	$11.995	$17.081	42%	17%
Canada (CAN)	$1.011	$1.505	$2.132	$3.166	48%	21%
Australia and New Zeland[4] (AUD)	$203	$707	$1.033	$1.295	25%	36%
Japan (JPY)	¥840	¥57.056	¥231.952	¥310.039	34%	168%

Source: Global Sustainable Investment Alliance (2021)

3 – Europe, Australia and New Zealand have enacted significant changes to the way investments with an ESG angle are defined in these regions; therefore, direct comparisons between regions and with previous versions of the publication will not be easy to make.

4 – Idem.

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In the analysis of the methodologies used[5], the most common ones in terms of volume are ESG integration (143% growth between 2016 and 2020) and negative screening (even with no changes in the same period), followed by corporate engagement (25% growth). Despite the fact that the GSIA study separates investments by strategy type, it is increasingly common (even desirable) for the same investment vehicle to accumulate several of them. For example, an equity fund manager that intends to promote or achieve an ESG goal will often also use negative screening and adopt corporate engagement practices to ensure such results. Therefore, consideration of ESG issues is increasingly perceived in an organic and holistic manner, not from the perspective of segmenting investment strategies.

5 – See Annex II for terminology.

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The local context

Corporate sustainability and sustainable finance are not new topics in Brazil. In the late 1970s, Brazilian companies began to publish sustainability reports, at the time called "social balance". The financial and capital markets followed the trend and, in the early 2000s, several funds were launched that invested in shares of companies with good credentials in corporate sustainability or that passed along a share of the fund management fee to social or environmental organizations, a practice that has now fallen into disuse. On the market and in the specialized press, these funds were called "socially responsible funds", "ethical funds" or "funds for the common good".

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Also at the turn of the millennium, some asset managers began to gradually incorporate some ESG information (mainly the "G") or to apply negative screening in their investment strategies, specifically as a risk identification tool, even though generating a positive impact was not the fund's primary objective. Recently, the realization of the importance of taking into account ESG aspects in the investment analysis process has been growing among market agents. Increasingly visible effects of climate change, environmental tragedies and social problems have triggered an alert for the need to include sustainability in investment decision processes, as illustrated by the experiences recorded in the first edition of the ANBIMA ESG Guide and the surveys carried out in 2016 and 2018.

These previous surveys also indicated that the incorporation of ESG principles, policies and data by management firms in Brazil varies significantly within the segment. In 2021, ANBIMA carried out its 3rd Sustainability Survey, with more than 250 participants (32.6% of the total number of institutions that adhere to ANBIMA's self-regulation codes), including asset management firms, commercial banks, full-service banks, investment banks, brokerage firms, securities distributors, and others. The results showed that sustainability has become increasingly relevant at financial and capital market institutions (being rated with scores from 7 to 10 on a scale of importance by 86% of respondents), and also showed that this agenda is expected to gain even more momentum in the near future (indicated by 90% of the respondents).

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The survey also showed that the market is comprised of institutions at different stages of maturity on this subject, and different understandings of the term "sustainability", ranging from business soundness, philanthropy and benevolence to full commitment, in addition to the perception of difficulties in dealing with this issue. Despite being heterogeneous, the market is evolving. Another noteworthy finding is the percentage of institutions that are currently working on the issue or that, although do not present concrete initiatives, have plans to implement ESG policies and processes. More than two-thirds of institutions declared that the commitment to sustainability integrated into strategic business decisions is in the process of being implemented or is already fully in place.

Regarding asset management firms, evolution in the adoption of ESG practices was measured in a survey carried out in 2018, and one can clearly see progress in this period. More companies have responsible investment policies, the volume of assets analyzed through the lens of ASG has increased, and the number of companies that have a specific internal framework to deal with the issue has increased.

Other conclusions drawn from the survey are presented on the following page:

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Market overview

- The percentage of asset management firms who, in their investment process, consider the potential impact of sustainability issues remained practically the same: from 85% in 2018 to 84% in 2021, even with the significant increase in the number of participants from one survey to the next.

- The percentage of assets under management valuated through the ASG lens has increased. In 2021, 49% of management firms said they considered factors for more than 50% of assets under their management, while in 2018 this figure was 27%.

- There has been an advance on the market in this respect: while in 2018 only 34% of management firms said they had a framework for dealing with ESG, in 2021, 71% say they have some type of framework (exclusive or not) with employees directly involved or trained, or even with a specific committee dedicated to the issue.

- In 2021, more asset management firms claimed to have a responsible investment policy or a document that formalizes their treatment of the issue; if it is not yet in place, it is at least under development: 80% of the firms participating in the current edition of the survey, vis-à-vis 69% in the previous edition. 19% of management firms have a general document at the institution that also deals with the subject, compared to 27% in 2018. On the other hand, among those that already have a specific policy on responsible investment, the number grew from 21% to 26%, mainly covering those management firms with more than R$ 7 billion in assets under management. Around one third (35%) of the institutions that took part in the survey are in the process of developing a document incorporating ESG issues.

Funds linked to sustainability

Despite the growing interest, it is difficult to quantify the exact volume invested in sustainability-related funds on the Brazilian market. According to ANBIMA's classification of funds regulated by CVM Instruction 555, existing up to 2021, the subcategory of the share class designated as "Sustainability/Governance" is the only one that includes sustainable investments. This subcategory includes the "funds that invest in companies that show good levels of corporate governance, or that stand out in long-term social responsibility and corporate sustainability, according to criteria established by entities widely recognized by the market or overseen by a board not linked to the management of the fund."[6] In late 2021, a few dozen funds were registered in this subcategory, totaling a net worth of approximately R$ 2 billion, a negligible amount compared to the total amount industry-wide.

Nonetheless, by checking the nomenclature, the investment policies, and other information available from the funds, one can identify a much larger number of products distributed in different classes, e.g., fixed-income, multi-asset, equities and pension funds, reaching total assets under management at least ten times greater. Moreover, when a historical analysis is carried out considering these same criteria, there is a growth of roughly 50% in the number of funds that declare themselves as sustainable, and nearly 300% growth in assets under management between 2016 and 2021.

These data corroborate the importance of defining criteria for sustainable investment funds in order to ensure the robust and healthy growth of these products on the Brazilian market.

6 – ANBIMA, "Cartilha da Nova Classificação de Fundos", p.20.

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INTERNATIONAL REFERENCES

In recent years, the strategic importance of the sustainability agenda and the commitments made by each country regarding climate change and sustainable investment goals have driven the proliferation of investment products on capital markets that consider or impact ESG issues. In the area of investment funds, this growth was notable and rapidly expanded to the various types of collective investment.

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International references

The bigger offer of these products has also raised concerns from the participants themselves and from regulators as well, in the sense of ensuring that such alternatives effectively correspond to investments that consider, promote, or have ESG goals. The correspondence between the name of a fund denominated as ESG and its investment policy, the effective implementation of changes in management based on adherence to initiatives related to sustainability, transparency regarding the goals, and actions taken to ensure progress in this agenda should be verifiable, otherwise there may be situations of greenwashing – whether intentional or not.

Currently, there is already a wide range of initiatives aimed at identifying or attesting to investment funds' commitment to sustainability. Attribution of labels by specific entities in the European Union, and various entities' definition of common criteria or standards for disclosing information to be used by managers and funds committed to this agenda, are just a few examples. Also included are instructions from regulators that signal expectations about asset managers' practices and procedures for products denominated as ESG. More recently, the first regulations aimed at this identification – or at ensuring the disclosure of information regarding the consideration of ESG issues in funds – have entered into force. Annex I includes the main references of recent publications in this regard, summarized below.

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International references

Stamps and labels

According to a survey released by Novethic,[7] in 2020, more than one thousand funds already had at least one of the nine sustainable labels mapped in Europe (such as SRI in France, LuxFLAG in Luxembourg, or Towards Sustainability in Belgium). Sustainable labels, green labels or environmental labels are granted by government or private initiatives, for the purpose of attesting the funds that incorporates such criteria into portfolio selection and evaluation, and its transparency process.

Labels are optional, i.e., they depend on a manager's voluntary request for their ESG practices to be evaluated independently and according to constantly updated public methodologies, in addition to transparency requirements. In general, the evaluation criteria combine ESG integration or selection approaches that cover a high proportion of portfolios (90% to 100% screening) with exclusion methodologies and/or thresholds, in addition to scoring systems. One of the fronts of the European sustainability package provides for the creation of an EcoLabel at the regional level, which is still under discussion. The experience of the labels offers lessons to be learned, highlighting the advantages of combining methodologies and developing specific scores.

7 – See Novethic (2020).

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International references

Initiatives by international entities and associations

Entities and associations representing the financial and capital markets have also been preparing materials that guide and offer consistency to the practices and procedures adopted by funds and fund managers with this agenda. In this group, the document titled Global ESG Disclosure Standards for Investment Products, published by the CFA (Certified Financial Analyst) Institute in November 2021, is mention worthy. This document contains voluntary standards for the disclosure of information on how ESG topics are considered for the purposes of goals, investment strategies or stewardship practices of an investment product.[8] This is also the case with the methodology published by the Investment Association (UK) in 2019 to guide the disclosure of information on sustainability, differentiating those at the manager level (i.e., "firm level") from those at the fund level (i.e., "product level"). The white paper[9] formulated by the Investment Company Institute (USA), published in 2020, proposes differentiated concepts for the use of ESG integration, sustainable investment strategies and impact investment strategies, helping to develop appropriate descriptions of these methodological choices in the fund materials, included as examples in the text.

8 – Available here.

9 – See ICI Fund's Use of ESG Integration and Sustainable Investment Strategies: An Introduction, 2020.

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International references

Among the organizations with a relevant role in guiding the principles of voluntary membership, the PRI should be included, as it has a relevant network of institutional investor signatories.[10] The Eurosif Transparency Code, created in 2008 and updated in 2018 with information from the Task Force on Climate-Related Financial Disclosures (TCFD), is a reference source in Europe for disclosing fund and manager information. In international initiatives, the TCFD is the most prominent. In addition to the pillars for the dissemination of information, recent publications[11] by the initiative provide examples of scenarios, metrics and instruments for objective approaches to measuring and disclosing risks and opportunities related to climate change, also showed progress regarding portfolios.[12]

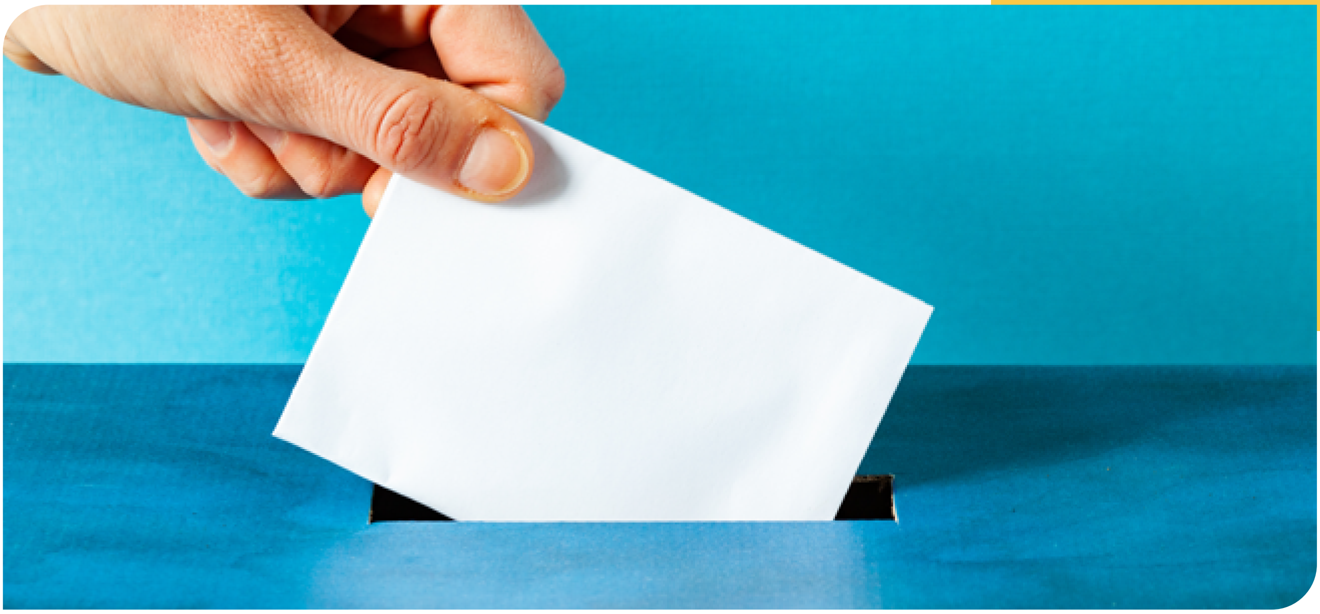
It is also worth mentioning the introduction of BS ISO DIS 32210:2022 Sustainable Finance, the first global-level standard dedicated to sustainable finance, in January 2022. Created by the International Organization for Standardization (ISO), it is aimed at providing the financial sector with practical guidance on how to integrate sustainability principles into its operations.[13]

10 – See no site do PRI.

11 – See TCFD Guidance on Metrics, Targets, and Transition Plans, out. 2021.

12 – Other international initiatives focused on climate have been advancing regarding the commitment to targets for reducing net carbon emissions, as is the case of the Net Zero Alliance. Further information available here.

13– Further information available here.



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International references

Regulation on disclosure of fund sustainability information and regulatory initiatives

Iosco, an entity that brings together securities regulators from more than 100 countries around the world, recently published a final report on policies, practices, procedures, and disclosure of information on sustainability in fund management activities. In the document, the entity identifies three types of approaches adopted by regulators: voluntary adherence to ESG information disclosure, based on guidelines or codes, as in the experience of Singapore and Japan; use of comply-or-explain approaches, as is the case in France and England; and publication of specific regulations on the subject, as occurred in the European Union and in Hong Kong. Iosco also identifies the main situations of greenwashing, providing examples and mapping out measures aimed at avoiding such situations, as shown in the table on the following page.

03
International references

A regulatory approach can also dismiss the publishing of specific rules or new guidelines and rely on an understanding of how to apply general rules to sustainability issues. The US Securities and Exchange Commission (SEC) is currently studying how to apply or revise the Name's Rule (a 2001 rule that requires mutual funds traded on stock exchanges to invest at least 80% of their assets in the type of investment, sector and geographic location that their names suggest) for handling funds with ESG nomenclature.

What is to be avoided

Table 2

Greenwashing situations mapped by Iosco and a few examples

situation   example

Manager

Marketing does not reflect considerations of sustainability risk and opportunity

The website and marketing materials of a fund manager that does not take ESG criteria into account in the investment process of its funds contain information related to its sustainability visions and initiatives (e.g., participation in the TCFD), but do not make it clear that its funds do not engage in investment in ESG strategies or climate risk.

A management firm describes its sustainability-related commitments (e.g., implementing sustainable policies, developing green funds) without clarifying the scope of these commitments, potential limitations, and impacts on the company's business and strategy.

Failure to fulfill publicly-made commitments

In order to obtain positive media coverage, an asset manager publicly commits to a sustainability-related information disclosure framework, but does not follow through on such commitment on an ongoing basis.

Source: Iosco (2021a)

What is to be avoided

Greenwashing situations mapped by Iosco and a few examples

situation example

Product

Lack of alignment between product name and respective investment goals/strategies

- A fund includes "ESG factors" in the name, but its investment objectives only state that it seeks to provide added value of capital by investing primarily in equities.
- A fund has the word "sustainable" in its name, but its investment goals only refer to financial performance.
- A fund has "ESG" in the name, but only uses a limited negative screening strategy to exclude investments in controversial weapons and does not materially consider ESG factors in the rest of its investment strategies.
- A fund has the word "sustainable" in its name, but its marketing material states that the manager may take ESG factors into account in the product's investment strategies, without any real commitment to do so.

Marketing that does not accurately reflect product objectives or strategy

- A fund is marketed as an ESG product, however, while the manager has access to ESG ratings and data, it does not take them into account in its investment process, using only strategies similar to those used by non-ESG products.
- A fund is marketed as one that focuses on all three ESG components, but disclosure of the documents indicates that the product only targets water quality, without any focus or supporting information on social or governance issues.

Extent and nature of the fund are different from those advertised

- A fund is marketed as an impact investing product but does not actually adopt an impact strategy and only employs a basic level of negative screening.

Source: Iosco (2021a)

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International references

The regulatory framework known as the Sustainable Finance Disclosure Regulation (SFDR) is the foremost reference of current specific regulation for identifying funds that take into account ESG issues and applicable information requirements. In force in the European Union since May 2021, the regulation identifies informational and declaratory obligations for managers, and establishes distinctions between funds that consider (or do not consider) ESG issues (article 6); that promote sustainability (article 8 or light green); and that have sustainable investment as its objective (article 9 or deep green). The supplementary regulation under discussion will bring technical requirements for green funds' disclosure in the documentation, periodically, and on the website.

Table 3
Information to be made available on the fund manager's website

Article 8 – Light green	Article 9 – Deep green
Summary	Summary
No sustainability goal	No significant harm to the sustainable investment goal
Social or environmental characteristic of the fund	Sustainable investment goal
Investment strategy	Investment strategy
Investment proportion	Investment proportion
Monitoring of social and environmental characteristics	Monitoring the sustainable investment goal
Methodologies	Methodologies
Data sources and processing	Data sources and processing
Limitations of methodology and data	Limitations of methodology and data
Due diligence	Due diligence
Engagement policies and	Engagement policies and
When a benchmark is used for the purpose of meeting the social and environmental characteristics promoted by the funds; the index used	Measures to meet the fund's goal

Source: SFDR draft Regulatory Technical Standards (ESA, 2021)

03
International references

Some jurisdictions have also been incorporating activities, sectors and/or assets or projects classified based on a taxonomy[14] into the identification of sustainable products. Taxonomies can be used by managers to determine which financial products and activities are aligned with a fund's sustainability goals.

Even when not related to regulatory frameworks, publications by regulators are important references, as is the case of the Guidelines[15] published through a letter from the UK's Financial Conduct Authority (FCA) addressed to fund managers in that country. The document establishes expectations to be met by ESG and sustainable funds, in order to improve the quality and clarity of information, with real-world examples. Similar work was carried out by the Swiss Financial Market Supervisory Authority (FINMA) in November 2021.[16]

Several trends can be drawn from this international experience. One such trend is that different approaches (e.g., positive or negative screening, corporate engagement) can be used dynamically and tailored to incorporate and achieve ESG goals. Experts and regulators have highlighted the importance of attesting to the consistency of the methodologies used, the primary data sources, and the types of tools used, as well as metrics and actions of monitoring/diligence regarding the effectiveness of these instruments. For example, the European regulatory framework requires the identification of "green" products, without establishing specific approaches or methodologies, but rather determining compliance with requirements and monitoring performance over time.

14 – See Annex II for terminology.

15 – See Guiding principles on design, delivery and disclosure of ESG and sustainable investment funds FCA jul. 2021.

16 – FINMA (2021), "FINMA Guidance 05/2021: Preventing and Combating Greenwashing".

Trends in identifying ESG funds

- Ensure consistency between the commitments made ("what you say you do") and the practices adopted ("what is actually done");
- Use metrics and performance indicators and monitor results over time;
- Adopt actions of diligence and engagement related to the fund's goals on an ongoing basis;
- Combine methodologies and build one's own scores;
- Identify limitations of methodologies, data, and indices used.

- Determine prescriptive criteria regarding the methodologies to be adopted;
- Use percentages of portfolio composition as an isolated criterion;
- Support the selection of assets based on outsourced data and ratings, with no knowledge of the methodologies used;
- Adopt negative screening as the only ESG methodology;
- Build sustainability policies based solely on institutional initiatives.

04

IDENTIFYING FUNDS THAT ARE SUSTAINABLE AND THOSE THAT TAKE INTO CONSIDERATION ESG ISSUES

On January 3, 2022, the document titled "Rules and Procedures for Identifying Sustainable Investment (IS) Funds" entered into force in ANBIMA's self-regulation. It establishes criteria and requirements for identifying equity funds or fixed-income funds as sustainable investment funds. They should formally attest to their commitment to sustainability, adopt regular actions compatible with the achievement and monitoring of this objective, and make these characteristics transparent to investors and to the general audience (see table on page 34).

04
Identifying funds that are sustainable and those that take into consideration ESG issues

The new rules also allow equity funds and fixed-income funds that take into consideration ESG issues, even if they do not have a sustainability goal, to distinguish themselves from those that do not, by disclosing this condition in their marketing materials – by also meeting certain requirements.

For both cases, there are certain conditions to be fulfilled not only by the funds, but also by the managers. This is because, unlike other types of funds whose characteristics are mainly determined by the asset classes that comprise the portfolio, in the case of sustainable products or products that take into consideration ESG issues, there is an understanding that this option is the result of a process incorporated into management. Therefore, their identification or differentiation depends on requirements to be fulfilled by the manager and on criteria related to the investment funds managed by them.

The criteria established for managers are not related to their internal sustainability policies as a company, but rather to their policies, procedures and frameworks aimed at incorporating ESG factors into their investment analysis and management process. In a similar way to funds, the requirements applicable to managers can be divided regarding proof of the assumed commitment to sustainability (documented policies, procedures), the ongoing actions taken (in this case, organization and functioning of governance and qualification of teams), and transparency with investors and the general audience.

	Manager	"IS" Fund*	Fund that take into consideration ESG issues
Commitment to sustainability	Sustainability policy (approved document)	**The fund have sustainable investment as its objective** Sustainable Investment objective summarized in the fund's bylaws and investment policies that seek portfolio alignment; "do no harm" (bylaws, policies, and declaration)	**Fund's investments consider ESG** Investment policy or technical material includes ESG consideration (formal documentation)
Ongoing actions ***	Governance structure (approved report)	• Strategy (methodologies and data) other tools and engagement • Limitations of methodologies, data, and tools • Due diligence and monitoring measures (periodic statements/ report**)	• Methodology and data; limitations • Other tools and engagement (where applicable) • Due diligence measures (periodic statements/ report**)
Transparency	Disclosure of policy and governance (manager's website/ materials)	• Disclosure of the goal; strategies and actions to pursue and monitor the goal (fund materials/ factsheet) **Fund name includes the term "IS" (Sustainable Investment)**	• Disclosure of the methodology, data sources, limitations, and due diligence actions (marketing materials/factsheet) **Marketing includes the phrase "this fund integrates ESG issues in its management"**
Important!	Refers to the management activity. Commitments accompanied by respective actions. Manager will not be classified	• Monitoring the goal with metrics and indicators, as well as a commitment to "do no harm" • Specific risks and opportunities	• Differentiation in advertising materials • Monitoring of established parameters for ESG consideration • Portfolios with different objectives

Prepared by: ANBIMA

(*) Funds that use "sustainable", ESG, "green" or similar expressions should comply with the rules for "IS" funds.

(**) The same requirements apply to passive funds, including due diligence on limitations and monitoring measures.

(***) The manager may include information on the continuous actions in the fund's official documents, pursuant to the terms of the ANBIMA's Portfolio Administration Self-Regulatory Code, such as: regulations, policies, essential information factsheet, due diligence questionnaire, advertising or technical materials, among other documents.

04
Identifying funds that are sustainable and those that take into consideration ESG issues

One of the international trends is the use of various approaches to incorporate and achieve ESG goals. Instead of being prescriptive in defining percentages or recommending one alternative or another, experts and regulators have highlighted the importance of attesting to the consistency of the methodologies used, the primary data sources, the types of tools used, metrics, engagement policies and/or themes, and actions of monitoring and due diligence regarding the effectiveness of these instruments. This process is done on an ongoing basis.

Following this trend, the rules defined by ANBIMA are less prescriptive and based more on commitment, diligence and transparency of the practices and policies of managers and managed funds. The following item provides references and examples to help readers understand market requirements.

It is important to note that none of the chapters of this Guide have a regulatory character or constitute exhaustive material for the implementation of and compliance with ANBIMA-approved rules. The purpose of the content is only to support fund managers in a better understanding of the topic.

4.1

REQUIREMENTS FOR MANAGERS OF "IS" FUNDS AND THOSE THAT INTEGRATE ESG ISSUES

The criteria established by ANBIMA for fund managers –"IS" fund and those that take into consideration ESG issues– address the existence of a formal commitment to sustainability in all activity relating to management, governance and transparency (see the table on the next page). The document that formalizes such commitment should contain a description of guidelines, rules, procedures, criteria, and/or controls that are adopted with respect to sustainability in the management of one or more funds at the institution, the stage and scope of implementation, and corporate governance. This document should be available for internal and public consultation and updated at least every 24 months.

4.1 Requirements for managers of "IS" funds and those that integrate ESG issues

In order to identify sustainable funds and those that consider ESG issues, the requirements applicable to the manager are a condition established by ANBIMA's self-regulation. Fulfillment of these requirements does not seek any form of isolated evaluation or classification of these participants.

	Criteria	Manager requirements
1	Commitment to sustainability	Attest to its commitment through a **written document** that describes guidelines, rules, procedures, criteria, and controls regarding ESG issues and/or sustainable investing
2	Governance	Maintain a **governance** structure dedicated to ESG issues
3	Transparency	Ensure the **disclosure** of the sustainability policy and the respective governance structure

4.1
Requirements for managers of "IS" funds and those that integrate ESG issues

Manager's commitment to sustainability

The manager should submit a document that demonstrates its commitment to sustainability. Even if it does not set out specific policies or provisions, it should at least stipulate practices and procedures regarding sustainability/ESG and be approved, comprising a formal document of the institution. It can be part of a set of policies or contained in a company-wide document, represent a dedicated policy (commonly known as an "ESG Policy" or "Sustainable Finance Policies"), or be included in its corporate charter. Furthermore, it can refer to the entire portfolio of assets under management or only to a specific organizational area or division directly responsible for managing funds.

Procedures related to sustainability organized at the manager level – e.g., dialoguing with issuers, managing sustainability risks and opportunities, gaging impacts or establishing metrics, and selecting and evaluating information providers – can be part of these policies, when properly documented (see examples of coverage of "firm-level" screening and stewardship policies of the Investment Association (2019) and the pillars suggested by Iosco (2021)). One often sees good international practices in the preparation of this documentation, such as those issued by the PRI.[17] Developing a responsible investment policy and presenting a commitment from senior management and from the internal workforce or external collaborators to implement it are among the minimum requirements to be a signatory to the PRI.

Managers also voluntarily incorporate ESG aspects into their business processes, strategic direction, and decision making, aligning them with other business priorities and incorporating environmental governance and social responsibility into their general management system.

17 – For example, PRI (2012), "Writing a Responsible Investment Policy".

4.1
Requirements for managers of "IS" funds and those that integrate ESG issues

Governance

Funds' managers that consider ESG issues, as well as those that have a sustainable investment objective or thesis, are expected to have an appropriate functional, organizational and decision-making framework, so that the responsibilities related to managing these products are fulfilled. This framework may correspond to a department, a forum and/or a team of professionals, provided that it is formally recognized and approved by the institution's senior management or equivalent body. The team should have qualified professionals, whether hired internally or outsourced, with clearly assigned roles and responsibilities.

In the current stage of the local market, one can see that there are autonomous structures, possibly coordinated by leaders or boards, with specific roles for sustainability, but there are also managers that have opted for a diluted model, in which competences in the area of sustainability or ESG are distributed company-wide, i.e., the respective professionals have added sustainability skills to their traditional roles.

Hence, in either case, it is important to attest to how the characteristics of this corporate governance structure work for sustainable funds. In this regard, the independence of the ESG area is understood to mean the identification of a professional or instance (such as a person or framework) with powers to analyze, indicate, and oversee whether the assets to be acquired (or already acquired) by the aforementioned "IS" funds adhere to the management firm's internal policies. In the case of team qualification, it is necessary to prove experience in the area as well as courses and/or certifications related to ESG issues.

4.1 Requirements for managers of "IS" funds and those that integrate ESG issues

According to Iosco (2021), governance is the most common requirement in jurisdictions that have already developed specific rules or recommendations on sustainability at the firm level. The rationale – according to the aforementioned entity – is that these governance frameworks help in identifying and assessing sustainability-related risks and opportunities in a manner that is consistent within the institution. Furthermore, the involvement of the executive board and executives in this exercise allows such risks and opportunities to be considered in the short and long term regarding strategies, business, and product plans, thus generating visibility of the institution's development in terms of sustainability goals and targets.

4.1 Requirements for managers of "IS" funds and those that integrate ESG issues

Transparency

Transparency practices that should guide the conduct of managers include public disclosure – on the company website – of the document that formalizes sustainability-related practices, procedures and guidelines in their management activity, as well as documents that supplement their actions in this regard (see note 1). Annual publication of a report has also become a common practice, describing activities, indicators and results of sustainable investment strategies or the integration of ESG issues.

Adherence to international organizations and initiatives, such as PRI and the TCFD, among others, or to stewardship codes, e.g. the Amec (Association of Capital Market Investors) Code,[18] is important to illustrate the manager's willingness to set commitments regarding its actions on that agenda, and may also be the object of additional information about it. Nonetheless, it is expected that public disclosure of information in this regard will also clarify the meaning and scope of the commitments, as well as the impacts and actions identified by the manager starting from its adherence to these commitments.

The manager can also establish actions to monitor, verify, audit, or assure its sustainability approach. This independent service – to be requested by the fund manager or the fund administrator – aims to assess whether the ESG integration methods or the sustainability goals reported to members are being fulfilled.

18 – Brazilian Stewardship Code and Principles. This new document represents an updating of the code created in 2016.

4.1
Requirements for managers of "IS" funds and those that integrate ESG issues

Note 1

How will managers be able to report on sustainable investment or consideration of ESG issues?

Publicly reporting on how sustainability goals or ESG issues are integrated into a manager's corporate governance and fund management is an essential tool for aligning the product with market expectations. It could also be a way to attract long-term members who are looking to apply ESG requirements in their investment criteria. There are numerous references, e.g., the European Transparency Code (Eurosif 2018), the PRI annual reporting tool (updated in 2021), the TCFD recommendations, or any other format that the manager deems to be the most appropriate for its profile, even the inclusion of specific information in the organization's annual report or other more comprehensive report.

Regardless of the fact that asset managers have several disclosure alternatives, certain parameters can be useful: (1) identification and definition of sustainability goals; (2) identification and definition of activities and asset management strategies used in order to meet the sustainability goals or policy; (3) identification of ESG-related opportunities (provided by new cost-saving solutions or the development of new products and services, for example); (4) identification of positive and adverse impacts on society and the environment (environmental, social and labor issues, respect for human rights, anti-corruption and anti-bribery issues, among others); (5) methods of collecting, processing and using information, metrics, or data used in this activity (see table 4).

4.1 Requirements for managers of "IS" funds and those that integrate ESG issues

It is worth noting that, when preparing or disclosing materials to the market or investors, institutions that follow the rules of the ANBIMA's Portfolio Administration Self-Regulatory Codeshould have information that is accurate, complete, consistent, and in line with the fund's documents, and that does not mislead investors.

Manager-level information

- Identify the processes involved in the sustainability policy regarding fund management, differentiating them from other internal and institutional actions
- Develop processes related to sustainability with regard to the pillars of governance, risk management, investment strategy, and metrics and goals (the TCFD pillars can be used as a reference)

- Publish the firm's adherence to international initiatives without taking the corresponding actions
- Disseminate unclear and non-objective messages regarding the sustainability policy adopted by the firm

4.2

REQUIREMENTS FOR "IS" FUNDS

In addition to the criteria to be applied to the asset manager, the designation of a fund as sustainable (by using the initials "IS" in the fund name) depends on a set of requirements explained in the document "Rules and procedures for identifying sustainable ("IS") funds" to be verified at the fund level.

These funds can be identified according to criteria of commitment to sustainability, adoption of ongoing actions, and transparency of information in this regard, as shown on the next page.

Criteria	"IS" fund requirements
Commitment to sustainability	• The fund bylaws should provide a summary of the fund's sustainable investment goal (see note 4); • The fund should be able to demonstrate the portfolio's alignment with the sustainable investment goal and that the respective investments do no harm that compromises such goal (see note 4).
Ongoing actions	Adopt an investment strategy that includes the methodology(ies), data and tools used to achieve the fund's sustainable investment objective; Identify: • Limitations in methodologies, data and tools used and due diligence actions adopted in this regard; • Engagement policies and other measures adopted regarding the fund's sustainable investment objective; • The monitoring tools to assess the fund's sustainable investment goals; • Fulfillment of the same actions, in the case of funds that use benchmarks.
Transparency	Disclose the fund's sustainable investment objective and the actions adopted to pursue and monitor this goal, in a clear, objective, and up-to-date manner.

4.2
Requirements for "IS" funds

Commitment to sustainability

In the case of ANBIMA, the identification of "IS" funds requires a summary of the fund's sustainable investment objective in the respective bylaws (see note 4). It should also be demonstrated that the portfolio is aligned with this goal and that remaining or temporary investments "do no harm" to this purpose.

The option of not using prescriptive criteria – such as minimum percentages of composition or indication of acceptable methodologies – is based on the understanding that different combinations of portfolio and management can produce similar results in achieving a sustainable investment goal. In any case, the manager must define parameters for the assessment of portfolio alignment and potential damage to the fund's goal as part of the request.

"IS" funds have equivalents in other jurisdictions. In the European Union, the best-known reference is the so-called Deep Green funds (defined in article 9 of the SFDR regulations[19]). The preliminary technical requirements[20] stipulate the information that should be provided in the distribution of these funds, in their periodic descriptive documents, but are not prescriptive with regard to the strategies accepted and the content of the required information. The fund should inform its objective, the composition of the portfolio's investments aimed at this goal, and the criteria for the other investments. The list of indicators that will be used to monitor this information and other information related to the pursuit of achieving the purpose of the fund should also be informed. Moreover, investment funds characterized as article 9 under the SFDR should also respect the DNSH ("do not significant harm") principle.

19 – See SFDR (2018).
20 – See ESA (2021).

4.2
Requirements for "IS" funds

Ongoing actions
Investment strategy

The fund should adopt an investment strategy and/or methodology(ies) to achieve its sustainable investment objective. The manager should indicate how its sustainability objective guide investment practices throughout the time chain (sourcing, diligence, investment, holding, exit) and which are the methods for building the investment universe. There are various alternatives and different naming conventions to define ESG integration methodologies, as well as thematic or sector-based selection screening, impact funds, among other funds with a sustainable purpose.[21]

The fund must identify limitations in the methodology(ies) used for the "IS" objective (including the information used/processed) and adopt actions of due diligence in relation to the goals and limitations identified. For example, as impact assessment approaches are still maturing[22], the manager can explain how to protect against potentially harmful or unaudited information. Other example: the manager should inform how it ensures conflict management when engaging ESG rating agencies, which may also provide consulting services to the companies or funds that are the target of their valuation.[23]

21 – See Annex II for terminology

22 – See Jennifer Howard-Grenville (2021), "ESG Impact Is Hard to Measure — But It's Not Impossible," Harvard Business Review.

23 – See Iosco (2021b).

4.2
Requirements for "IS" funds

Note 2

Negative screening and positive screening[24]

Applying exclusion screening to certain sectors, companies or practices of a fund or portfolio based on certain ESG criteria (e.g., arms industry, tobacco, nuclear energy, pornography, gambling, and alcoholic beverages) should not be exclusivist. Thus, a fund that – in a reductionist way – focuses its sustainable investment strategy only on negative screening, should not be considered a sustainable investment fund.

Likewise, a fund is not necessarily eligible to be an "IS" fund if it uses screening to include certain sectors, companies or practices based on certain ESG criteria (e.g., industries linked to sustainability or social impact, allocation of capital to companies with better performance in corporate sustainability with the aim of capturing possible competitive advantages among companies in the same sector). Positive screening should be part of a comprehensive strategy for incorporating sustainability policies, practices, and data.

24 – Sustainable Finance Working Group Report (2019): "The Case for Simplifying Sustainable Investment Terminology." e Global Sustainable Investment Alliance (2021), "Global Sustainable Investment Review 2020".

4.2
Requirements
for "IS" funds

Ongoing actions
Engagement and proxy voting

The fund must adopt a systematic process of active engagement with the companies of the portfolio on material issues, for the purposes of its objective(s). Depending on the strategy chosen, the manager may have to play a prominent role as an inducer of better social-environmental and governance practices in investees. Active engagement can be practiced by both equity investors and debt securities holders (see note 3). As for voting power, the manager should establish a policy and adopt voting practices that are in harmony with the fund's sustainability l objective(s) (proxy voting), and remember that the ANBIMA's Portfolio Administration Self-Regulatory Codehas rules in this respect.

Ongoing actions
Due diligence and monitoring

The indicators and/or metrics defined for the purpose of verifying the performance of the fund in terms of its sustainability objective, the limitations of its methodology and/or the data used, and the verification of the principle of "do no harm" on the allocation of portfolio's assets should be recorded and monitored over time.

4.2
Requirements for "IS" funds

Transparency

The sustainable investment objective of the fund, together with the strategies and actions used to pursue and monitor this purpose, must be clearly and objectively stated and be kept up to date in the fund's documents (see note 4).

Contents

In the case of funds that use an index as a reference, the fund is expected to be able to attest that the indicator used is aligned with the sustainable investment goal. The manager may replicate indices that incorporate sustainability criteria, refine an existing indicator, build a proprietary index, or actively engage with index companies concerning issues of sustainability. The methodology of the indicator, or other methodology adopted, should be formalized, and the performance of the index relative to the fund's goal should be monitored, as well as its previously identified limitations.

4.2
Requirements for "IS" funds

Note 3

Corporate engagement

Corporate engagement, also called corporate activism, which is based on the use of ownership interest held by investors to influence the company's strategy in adopting ESG policies, is a fundamental activity in managing an "IS" fund. It is the model that is best suited for active investment management. It is seen as an alternative to divestment: instead of selling assets of companies that do not adopt ESG policies or that have difficulties in achieving sustainability goals, investors maintain their shareholdings and try to persuade the company to adopt better policies on social and environmental issues.

This engagement is also possible for fixed-income investors. Holders of debt securities can engage with companies – both investment grade and high yield – either reactively (mitigating problems) or proactively (setting and achieving targets). These engagement activities can provide more information about the underlying companies or entities, improve transparency, and influence business and sustainability practices.

Regulatory interest in active engagement activities began with the publication of the UK's Stewardship Code in 2010. The aim of the document is to improve the quality of engagement between institutional investors and companies, in order to help improve long-term financial performance for shareholders and to provide for the efficient exercise of governance responsibilities. As a result, good practices were defined in engagement with investees, to which institutional investors should aspire.

4.2
Requirements for "IS" funds

Note 4

Defining and measuring sustainability investment objective and aligning the portfolio

While each fund may select different objectives and associated methodologies, these may specifically include:

a) Objectives related to generating a positive impact by the manager and its positive externalities: Such positive impact can be measured or aligned with the Agenda 2030 and the SDGs (Sustainable Development Goals[25]), the 2015 Paris Agreement,[26] or any other metric or taxonomy recognized by Brazilian or international entities. These goals may also be associated with the protection of sustainability targets already achieved by the manager or by third parties, in addition to ensuring ESG rights.

25 – At the United Nations Summit in New York in September 2015, the 17 SDGs were approved, heirs of the progress made with the eight MDGs (Millennium Development Goals), which guide the new Agenda 2030, in force for 15 years (2015–2030). The Agenda addresses the three dimensions of sustainable development (economic, social, and environmental) in an interconnected way, considering new areas not covered by the MDGs, such as peace and security, combating climate change, promoting inclusive economic growth, and adopting sustainable patterns of consumption.

26 – In December 2015, during the XXI Conference of the Parties to the United Nations Framework Convention on Climate Change, in Paris, a historic multilateral commitment was reached, known as the Paris Agreement. Its main objective is to limit the increase in the world's average temperature to well below 2 °C and to make efforts to limit this increase to 1.5 °C. This goal will be achieved through the implementation of measures that limit or reduce the global emission of greenhouse gases.

4.2
Requirements for "IS" funds

The manager, when establishing its objectives and creating its portfolio, should assess whether the majority of a company's revenue derives from products and services that help to achieve the goals, whether the company's products or services meet a social or environmental need that is unlikely to be satisfied by third parties (such as competitors or the government), and/or whether the company carries out economic activities that contribute toward a sustainability goal as defined by existing national, regional or international sustainable finance taxonomies and legislation.

b) Objectives related to identifying and mitigating adverse impacts on sustainability factors resulting from investments, avoiding harm or degradation: Through capital allocation decisions, financial market participants may bring about (or at least allow for) negative impacts caused by their decisions on ESG issues. For example, an asset manager that finances a retail clothing company may unwittingly contribute toward the exploitation of child labor, or, by investing in an electric car company, the manager may cause the emission of carbon dioxide in the manufacture supply chain. Thus, the fund could present, as one of its sustainability objectives, the gradual elimination of these negative impacts.

c) Objectives related to improving the sustainability credentials of investees, through active engagement actions and guided by the application of systematic action plans and the use of qualitative or quantitative metrics: Actions aimed at improving asset sustainability practices should have a comprehensive and non-reductionist scope, considering the environmental, social and governance dimensions in a balanced way.

4.2 Requirements for "IS" funds

Once the objectives have been established, the manager's investment portfolio should be aligned with them, whether thematically or methodologically. If the goal is to promote the education of low-income youths, it should not invest in private education companies that do not have educational inclusion programs or scholarships. If the goal is to reduce the carbon footprint, it should not invest in companies that do not have formally approved plans to do so in the short, medium or long term. If the purpose is to contribute to corporate sustainability, its portfolio should not include any companies with which the fund has not adopted an action plan to improve its sustainability performance.

Moreover, the investments cannot harm the fund's goals. For example, if the manager's focus is to mitigate the effects of climate change, it should not financially support companies whose activities have the secondary effect of negatively impacting local flora or fauna by interfering with water or soil management. Or the manager should not, for example, invest in companies whose products and services are aligned with their sustainability goals if these companies have low credentials in internal corporate sustainability (e.g., problems of transparency, corporate governance, or human rights violations).[27]

The manager should adopt qualitative or quantitative instruments to monitor progress and verify that it has achieved its objectives, using metrics such as IRIS+, directives such as the Impact Management Project, or similar guidelines. Whenever possible, the principle of additionality should also be verified, i.e., identifying the differences between the asset that was affected by the investment and what would have happened if it had not received the investment. When a fund pursues less measurable objectives, performance regarding such objectives should be evidenced and evaluated, with examples of actions taken to achieve those objectives.

27 – The exception would be distressed assets funds and special situations, whose mission is to transform companies toward corporate sustainability.

4.2
Requirements for "IS" funds

Case – Positive example

Fixed-income manager

Fund manager AAA (fictional name) launched a new fund that invests in a diversified portfolio of emerging market debt securities (50% Latam, 40% Asia, 10% others) while pursuing environmental, social and governance goals. The fund invests exclusively in green bonds, social bonds, sustainability-linked bonds and transition bonds, duly certified and aligned with the principles of the International Capital Market Association (ICMA).

The launch of the fund is the result of the manager's investment in sustainable finance, carried out by training its executives in this area, adopting internal policies ("Responsible Investment Policy" of 2018, "Global Sustainability Policy" of 2020, "Environmental and Social Risk Policy" of 2020, among others) and the launch of other funds in other asset classes. In credit strategies, the manager started by incorporating ESG elements into company analysis, cash flow modeling, and credit due diligence, considering both qualitative and quantitative risks when assessing the risk profile of the companies issuing the invested assets. The new corporate bond product goes a step further and sets quantitative sustainability goals that the organization wishes to achieve through investments in debt securities.

The fund's two portfolio managers are not originally ESG experts, but have been trained over the years to identify sustainable securities with the greatest potential for financial impact and performance. They are supported by the manager's sustainable investing and impact investing division. AAA is a signatory to the PRI and the Nasdaq Sustainable Bond Network.

4.2
Requirements for "IS" funds

Cases – Negative examples

1. Fund CCC (fictional name) claims to have a strategy to invest in companies that contribute toward a "positive environmental impact". However, it predominantly allocates capital to companies that, by the nature of their products or services, naturally have low carbon emissions. These are not companies that have an explicit goal of reducing their carbon footprint and contributing toward the net zero transition. The fund does not have a strategy to measure and monitor its impact.

2. Fund DDD (fictional name) presents itself as a public equities thematic fund, which invests in energy companies that can generate positive environmental impacts. Its portfolio consists of around 40 assets and its average ticket is US$ 40M. However, the portfolio contains investments in two companies that are major carbon emitters among the fund's ten largest shareholdings. The fund does not explain this apparent discrepancy in any public information (whether regulatory or marketing materials). The manager also did not adopt any corporate engagement policy or practice. Even if it had, in these two particular cases, the level of equity interest is not high enough for it to be able to propose significant changes at either company.

3. Manager EEE (fictional name) manages a passive fund self-designated as an ESG fund. However, in practical terms, the fund tracks an equity index that does not appear to have an ESG strategy. The fund also does not adopt a policy of exclusions or repositioning against the index based on ESG criteria.

"IS" funds

- Ensure consistency between the name of the fund, its objective, and its investment strategy, even if the fund is linked to an index
- Prepare periodic reports on the performance of indicators and the treatment of limitations
- Provide transparency to the specific risks and opportunities of the "IS" fund

- Prepare fund launch materials without providing for monitoring indicators and due diligence actions
- Establish goals and procedures solely based on outsourced data and assessments
- Absence of documented stewardship procedures and/or voting policy

4.3

FUNDS THAT CONSIDER ESG ISSUES IN THEIR MANAGEMENT

The use of ESG policies, practices and information in the management of investment portfolios and funds is a trend that should be universalized in the management activity, as a reflection of the relevance of this subject matter in the agenda of policymakers and, eventually, the recognition of the benefits of this strategy in identifying and managing risks and opportunities. ANBIMA expectations are that, over time, the integration of ESG issues into asset management activity will be done on a regular and universal basis, and therefore it will be practiced by all managers.

Accordingly, at an early stage, we offer the possibility for funds that integrate ESG issues to differentiate themselves from funds that do not yet do so. This distinction will be made through the inclusion of a phrase that informs such condition in its advertising materials, but the idea is to encourage managers to pursue such differentiation and for such attitudes to become predominant over time.

4.3 Funds that consider ESG issues in their management

Funds that consider ESG issues may make this condition explicit in the sales materials by including a notice that roughly reads as follows: **"this fund integrates ESG issues in its management, in accordance with the ANBIMA's Portfolio Administration Self-Regulatory Code, available on the Association's website"**. As a counterpart, they should meet certain requirements characterized by a dynamic process that involves both the manager and the fund itself – and according to criteria similar to those applicable to sustainable investment funds.

Criteria	Requirements
Commitment to sustainability	Explain, in a fund document, the consideration of ESG issues in its management and the general lines of the methodology adopted for such purpose
Ongoing actions	Adopt a methodology that considers the ESG characteristics of the assets for the purposes of the investment policy and respective allocation. Document the following: • The limitations of the methodology used and due diligence actions in this regard, as well as the ways of monitoring the ESG aspects considered; • All material information, metrics and/or indicators used in order to identify and monitor the ESG characteristics of assets.
Transparency	Publicly disclose the procedure for considering ESG issues and how it is monitored over time

4.3
Funds that consider ESG issues in their management

Commitment to sustainability

Funds that take into consideration ESG issues can have a wide array of objectives, such as diversified investment in equity or debt security assets, whether corporate or otherwise. The commitment to consider ESG issues in its management should be made explicit in one of the fund's formal documents – whether in the bylaws or in another accessible document such as the investment policy or technical materials. Consideration of ESG issues should be associated with a methodology that – through the use of screening, indicators, metrics and other procedures – assigns ESG characteristics to the fund's assets or investments, impacting the selection and allocation of resources in its structuring and also over time.

4.3
Funds that consider ESG issues in their management

Ongoing actions

Ongoing actions include defining a methodology for ESG issues (which may include policies on integration, screening, and corporate engagement, among other policies mapped outlined in ESG terminology). Additionally, practices and tools used in the investment analysis and in the decision-making process should be determined, including how to select investments and allocate capital according to material information, metrics and/or indicators that allow managers to identify the ESG characteristics of the assets. Several practices can be mentioned, such as materiality assessment (see note 5) or the integration of ESG policies, practices, and data in the investment cycle (see note 6). The process of collecting, processing, and using this ESG information on each asset – and the details on how this is done (whether independently or with the assistance of external data providers) – should also be defined.

Potential limitations in the use of ESG information, and which due diligence activities will ensure proper implementation and monitoring, should be identified as well. Several international organizations have introduced guidelines on this topic. For example, the measures adopted in the engagement of rating agencies in order to mitigate conflicts of interest represented by consulting services for companies or funds being valuated by such agencies should be explained.[28] Whenever the same private or public organization offers ESG data services and/or consulting services on topics related to sustainable finance or corporate sustainability, managers – as potential clients of such service providers – need to demonstrate that they are not in any situation that involves conflict of interest.

28 – See Iosco (2021b). On the local market, see also art. 15, §4 of the ANBIMA Code for Third-Party Asset Management. Additionally, several studies have indicated the low correlation between the ratings of ESG rating agencies compared to the ratings of credit agencies. See: Berg, Kölbel & Rogobon (2019); Chatterji, Levine &Toffel (2009).

4.3
Funds that consider ESG issues in their management

Also on the use of outsourced data and assessments, although there are already specialized service providers, several countries have shown situations of concentration in certain sectors, lack of transparency, and comparability in methodologies that reinforce the need for managers to develop their own analysis capacity and/or adopt mechanisms to protect or mitigate risks arising from the exclusive use of these services.

Note 5

What is materiality and why is it important?

In the context of investments, materiality is a strategy to represent and prioritize the ESG issues that most positively or negatively impact a company's financial performance (e.g., revenue growth, margins, weighted average cost of capital (WACC), cash flow or risk) or that may substantively influence stakeholders' assessments and decisions.

Material ESG factors vary from one industry to the next — what affects a company in one industry might not affect a company in another one. Therefore, materiality is a method that reveals how the entire process of including ESG factors will impact investments, customers, the environment, and society.

4.3 Funds that consider ESG issues in their management

The Sustainability Accounting Standards Board (SASB) provides a materiality model, applicable to 77 different sectors, with environmental, social, and governance issues that may represent material impacts on a company's financial performance. [29]

Recent work by the Alliance of Sustainability Reporting Organizations[30] has demonstrated that materiality is not a static concept. Topics related to sustainability can become more material or less material over time, as a response to changes in companies' operating environments and investor expectations.

International precepts have already clearly shown the distinctions existing between requirements aimed at considering ESG issues attestable at the product level (i.e., fund level) and at the firm level (i.e., manager level) for the purpose of describing methodologies, procedures and ongoing actions adopted by the funds, for example. As the differentiation adopted by ANBIMA was established at the fund level, policies adopted at the manager level – such as exclusion, engagement and data processing – may constitute an integral part of the processes used by the manager to consider ESG issues, but the use or implementation of such policies should be described and attested for each fund; separately, they do not ensure compliance with criteria established at the fund level.

29 – SASB (2021).
30 – See Alliance of Sustainability Reporting Organizations (2020).

4.3
Funds that consider ESG issues in their management

Transparency

A description of how the fund considers ESG issues in its management and the methodology(ies) used, both in the fund's structuring as well as during its active maintenance period, should be accessible to investors and the general public in the respective materials. In many countries, and even on the local market, this description can be accessed in the same materials where the consideration of ESG issues is informed. It is important for everyone to have access to clear, objective and up-to-date information on the practices and procedures adopted to consider ESG factors, understanding the meaning of this decision, at least from the viewpoint of the investment policy and the associated risks and opportunities.

In the international regulatory framework, in addition to the methodology used, the indicators used in order to measure the characteristics of the portfolio's assets and how they are monitored are also reported. In certain types of funds, the percentage of reduction of the investable universe attributed to the implementation of the chosen methodology is reported. In many cases, the percentage covered by screening or the strategies applied to the selection of assets and other criteria used in order to measure the ESG performance of the investment universe are reported as well. Regarding the climate issue, there are already references for the use of metrics and "targets" to be achieved.[31]

31 – See TCFD (2021b), FCA (2021b), SEC (2021) e FSAHK (2021b).

4.3
Funds that consider ESG issues in their management

Contents

In the case of funds that consider ESG issues whose investment policy is linked to an index (passive funds), the same criteria apply. The commitment to consider ESG criteria should be communicated in a formal document, as well as its consistency with the chosen index or indices. Ongoing actions need to be based on detailed information on the choice of the index, its methodology and possible limitations, due diligence in relation to its governance, additional procedures used in the ESG investment strategy, and monitoring methods adopted to track this strategy over time.

Essential information about this commitment and the related actions should have a description accessible to the public, through the fund's documentation. Suggestions from the European regulatory framework include the following: explanations of the extent to which the designated index or fund's performance will differ from the performance obtained with a general market index as a result of consideration of ESG issues, as well as useful information and links to detailed information about the index's methodology. The UK regulatory agency also suggests anticipating information on possible bias or frequent errors expected from its use[32] and due diligence measures.

32 – FCA (2021a).

Note 6

Integrating ESG into fixed-income securities and equity securities

Although the principles inherent to the ESG can be applied transversally to all financial transactions, ESG practices should be shaped according to each asset class, respecting the dynamics of each one. Some examples:

Fixed income

For corporate bonds or other corporate debt securities, the manager should integrate material ESG factors into the internal credit search and assessment of issuers' creditworthiness; adjust financial forecasts and future cash flow estimates by integrating ESG analysis; and rank an issuer against a chosen peer group based on the ESG analysis. It can also analyze the spreads of an issuer's ESG bonds and their relative value relative to those of their industry peers, in order to discover if all risk factors are quoted. For sovereign and sub-sovereign bonds or other sovereign and sub-sovereign debt securities, the organization should consider ESG factors – such as climate-related risk, per-capita income, or energy transition – in the sovereign credit analysis, aimed at managing downside risk.

4.3
Funds that consider ESG issues in their management

Shares

Due diligence: guided by recognized typologies (e.g., IFC Performance Standards, CDC toolkit), each manager must adopt a due diligence process in order to identify, prevent, mitigate, and account for any adverse impact caused by sustainability factors in the value chain of its activity, including in financial fundamentals (such as impacts on revenues, operating costs, asset value, impact on liabilities, and financing costs). The organization should integrate the results of the sustainability due diligence process into the other phases of the investment cycle (investment, holding, and exit) and into the broader due diligence process.

Valuation models: if the manager follows fundamentalist (also known as traditional) strategies, it should review equity valuation methodologies, e.g., adjusting financial statements (such as revenue, operating cost, book value of assets, and capital expenditures), the company's valuation variables (such as: discount rates, growth in perpetuity, terminal value), valuation multiples (to calculate "ESG-integrated" multiples), as well as financial forecasts and cash flow estimates. If the manager adopts quantitative (also called systematic) strategies, it should build models that integrate material ESG criteria along with factors such as volatility, value, momentum, size, and growth.

4.3 Funds that consider ESG issues in their management

If it follows passive strategies (also known as indexing), enhanced passive strategies (also called enhanced index), or Smart Beta strategies (also known as Strategic Beta, Alternative Beta, and Factor Investing) at the portfolio level, it should: imitate an index that incorporates ESG rules into the index methodology, refine an ESG indicator by applying ESG methodologies (e.g., screening), build a proprietary ESG index or – in situations where the organization uses a market benchmark without ESG considerations – actively engage with index companies around sustainability issues.

4.3
Funds that consider ESG issues in their management

Case – Positive example

Listed company manager

FFF (fictional name) is a listed company manager that makes significant capital allocations to middle market companies, especially in Latin America (including Brazil). It is a relevant, engaged, and long-term investor. In 2017, the organization became a B corp and, in 2019, it adopted its first "Sustainable Finance Policy", centered on the concept of "ESG in Action".

ESG practices and data are used throughout the investment cycle, having the same weight as financial data in decision making. In the sourcing and due diligence phases, the risks inherent to each asset (political, compliance, market and ESG) are identified. Specifically, when identifying ESG risks, ESG opportunities are also identified: what social, environmental and governance issues can be corrected in order to unlock financial value? These ESG assumptions are accounted for under valuation methods (DCF). After the investment and during the first 100 days, the manager negotiates an "action plan" with each investee, establishing ESG goals and metrics. It supports companies on their sustainability journey, converting risks into opportunities in order to generate social, environmental, and financial value.

4.3
Funds that consider ESG issues in their management

Case – Negative example

Manager GGG (fictional name) launched a new fund, with a portfolio consisting of Ibovespa-listed companies that received good ESG ratings from a specialized data agency. However, the manager did not make any organizational or procedural adjustments in the organization, does not have any executives with expertise in ESG, and has not adopted any internal policy to carry out this type of investment. Engagement with portfolio companies does not address ESG issues. Moreover, the data agency hired is also not audited, and the methodologies it uses are not publicly available. The fund was created to meet the desire of investors (of the manager's other funds) to invest in an ESG fund. The performance has not been relevant, mainly because the manager has been unable to identify the companies with the highest capacity to generate financial value through ESG, or because the company is unable to estimate whether these companies' good performance in sustainability has already been priced by the market and is built into the share price. Nor has it been able to assess the risk profile of the assets in its portfolio with quality.

Funds that consider ESG issues

- Clear, complete and up-to-date information on the ESG methodology, indicators, and basic concepts are accessible in marketing materials
- Policies of due diligence and active participation in index governance, when the fund uses this ESG strategy
- Qualification of teams for internal assessment of the ESG characteristics of assets, in addition to the use of outsourced data providers

- ESG methodology is limited to negative screening without establishing an ESG performance indicator or metric for the investment universe
- Index-linked fund that does not have an ESG focus and adopts a limited number of exclusions, with no ongoing actions
- Methodology applies to a percentage of the portfolio, without defining procedures for the remaining portion of investments and stewardship

4.3
Funds that consider ESG issues in their management

Helpful questions about meeting "IS" fund criteria and considering ESG criteria

Manager

Commitment to sustainability – Formal documents, formal declarations, institutional documents

What document is this commitment based on? Does it contain a description of guidelines, rules, procedures, criteria, and/or controls adopted in the asset management activity, including the stage and scope of implementation? Was it approved?

Is it a dedicated policy, or part of a broader set of policies or document?

Ongoing actions – Descriptions, statements, periodic reports

How is the corporate governance structure referred to sustainability?

How do professionals or experts report to leaders, and how is the independence of reports assured? Are they hired in-house, or outsourced?

Are their roles and responsibilities clearly distributed?

What is the qualification of the professionals involved in this structure?

Is this information included in the document that attests to the commitment to sustainability, and how can it be consulted?

Transparency – Website information, marketing materials, fund's supplementary materials

Where is the document that attests to the commitment to the sustainability policy available?

Is governance information included?

Is it on the website and in the manager's materials?

How often is this report updated?

Does the manager adhere to international initiatives, such as the PRI and the TCFD, and how is this engagement disclosed?

4.3
Funds that consider ESG issues in their management

Helpful questions about meeting "IS" fund criteria and considering ESG criteria

"IS" Funds

Commitment to sustainability – Formal documents, formal declarations, institutional documents

Do the fund's bylaws contain a summary of its sustainable investment objective?

Does this document clearly demonstrate the portfolio's alignment with this goal?

Does the manager define parameters for assessing this portfolio alignment and for identifying any harm caused by the investment to the fund's goal?

What indicators are used?

Ongoing actions – Descriptions, statements, periodic reports

What is the sustainable investment strategy (methodologies, data, and other tools), and how is its performance being monitored?

What are the limitations in the methodology(ies) used for the "sustainable investment" objective and the due diligence actions taken with regard to such limitations?

What are the corporate engagement processes adopted? Does it adopt proxy voting practices?

If it is a passive fund, how does it ensure that the index is aligned with the fund's sustainable investment goal(s)? How is this monitoring carried out?

Transparency – Website information, marketing materials, fund's supplementary materials

Do the fund's documents address sustainable investment goals, as well as the strategies and actions used to pursue and monitor this goal? Are they referenced clearly, objectively, and on an up-to-date basis?

4.3
Funds that consider ESG issues in their management

Helpful questions about meeting "IS" fund criteria and considering ESG criteria

Funds that take into consideration ESG issues

Commitment to sustainability – Formal documents, formal declarations, institutional documents

Does the fund – in its investment policy or other materials – explicitly state that it considers ESG issues in its selection process or investment strategy, and the procedures that are followed?

Ongoing actions – Descriptions, statements, periodic reports

Does it inform, for investment policy purposes, the general guidelines adopted to integrate ESG issues?

Does this information include the methodology, practices, and tools used? Does it have a materiality policy?

Does it use information, metrics, and/or material indicators that allow it to identify the ESG characteristics of the assets?

Does it identify potential limitations of the ESG methodology used?

What due diligence actions are used in order to ensure implementation and monitoring?

Transparency – Website information, marketing materials, fund's supplementary materials

Do the fund's documents – including marketing materials – inform the ESG methodology clearly, objectively, and on an up-to-date basis?

Is information about the methodology, its limitations, and the indicators used made publicly available?

In what format are they published?

How often are these disclosures updated?

05

NEXT STEPS

The rules and procedures for identifying sustainable funds – which entered into effect in 2022 – seek to respond to the segment's concern with ensuring an expansion in the offer of products that is consistent with the relevance of the ESG agenda and provides for transparency, while mitigating risks of greenwashing. New regulatory frameworks and international benchmarks are being created for the disclosure of information by companies regarding the sustainable development agenda and, in particular, for the purpose of determining metrics and goals on the issue of climate change. Self-regulation of sustainable funds must incorporate the adjustments resulting from this evolution, and this Guide will be updated whenever necessary.

05
Next steps

ANBIMA's option for self-regulation also considers a roadmap for the coming months and years: although it refers to equity funds and fixed-income funds at first, the idea is to expand and establish criteria for other classes of funds, helping the segment and investors to advance in this agenda. Structured funds – Credit Receivables Investment Funds (FIDCs), Private Equity Investment Funds (FIPs) and real estate funds – will also have similar criteria, as will multi-asset funds.

While the current rules are essentially product- level rules progress is expected in the involvement and structuring of ESG practices at management firms-level as well. Through the possibility of differentiating funds that consider ESG factors in their management, we seek to stimulate the adoption of methodologies for incorporating ESG elements into risk management and investment fund policies as a whole. ANBIMA's idea is that such procedures will be the general rule in the future, and that ESG funds' differentiation will no longer be necessary.

"Sustainable Investment" ("IS") funds, on the other hand, must consolidate a differentiated type of collective investment, with specific sustainable investment objective, risks and opportunities. In line with Iosco's recommendations, ANBIMA's self-regulation established product-level IS requirements in order to help investors better understand sustainable related products and material sustainability related risks for all products.

In addition to the funds segment, the other lines of activity of the Sustainability Advisory Board for the coming years include additional initiatives focused on relevant topics, such as the qualification of distribution professionals on the issue of ESG, promotion of good practices, as well structuring investment products (sell side) and promoting the diversity agenda in the local market.

ANNEX I

International references on identifying ESG funds

Initiative/entity	Featured reference
Eurosif	▶ The entity that brings together responsible investment forums, composed of institutional investors and service providers in several European countries updated (in 2018) the voluntary adherence code for disclosing information about the fund and the manager used in the European region and accepted by various labels.
	▶ In 2018, the European Union's regulations for the disclosure of information on sustainability for financial products and institutions – the Sustainable Finance Disclosure Regulation (SFDR) – was published. Part of the rules entered into effect in May 2021, such as the identification of funds that integrate (art. 6), promote (art. 8), and have sustainable investment as its objective (art. 9), while the informational requirements for each type of fund (RTS) are expected for 2023.
TCFD	▶ In 2018, the Task Force on Climate-Related Financial Disclosures (TCFD) created pillars for the dissemination of financial information on climate change and began developing instruments and metrics for the consideration of climate issues by the different types of participants.

Initiative/entity	Featured reference
The Investment Association	In 2019, UK-based The Investment Association issued guidelines to support managers in ESG disclosure at the firm level and product level.
ICI Investment Company Institute	In 2020, US-based ICI released a study outlining types of considerations of ESG issues in funds and examples of disclosure in respective advertising materials.
Label ISR	The experience of European labels and stamps was reported in 2020 in several documents, such as Novethic's, report on labels, the mapping carried out by the French regulator AMF (Autorité des Marchés Financiers) (a pioneer in initiatives in this area), and even the survey on labels in the European Union conducted by ANBIMA.
FCA	In 2021, the UK regulatory agency FCA released a letter to managers, outlining principles to mitigate risks of greenwashing, with examples of procedures to be implemented by managers in opening the fund as well as registering and disclosing information.
CFA Institute	In 2021, after international public consultation, the CFA released a document that proposes standard terminology for ESG methodologies and examples on how to inform them in the case of financial products, including investment funds.
OICU-IOSCO	In 2021, Iosco – which is composed of regulators from more than 100 countries – published a final report with practices and procedures for managers and funds on sustainability, identifying situations of greenwashing and providing a roadmap of regulation and oversight in various markets in this regard.

Prepared by ANBIMA. Note 1 – On labels vs. ratings, see also Efama 2017.

ANNEX II

ESG terminology in funds

With the advancement of the ESG agenda, there is an effort by different sectors and participants to promote convergence and establish consensus regarding the terminology used in sustainable finance. We have gathered the main concepts and terms, taking into account the importance of establishing references for the Brazilian financial market in line with international precepts.

ESG

Environmental, social and governance (ESG) information. A set of data and topics that can be manifested at the systemic level (e.g., climate change or loss of biodiversity), the national level (e.g., legislation supporting inclusion and diversity), the sector level (human rights in supply chains) or the financial asset level, usually a company (e.g., policies on water management and material reuse) (see table 3). The ability to identify the ESG elements that make up each of these levels of analysis is an important tool for detecting, preventing, or mitigating dynamics and behaviors. A company has financial characteristics and ESG characteristics that influence its risk profile and financial performance. For example, ESG elements can impact strategy, governance, operations, products, and stakeholders.

ESG information

Environmental	Social	Corporate governance
Conservation of nature	**Consideration of people and relationships**	**Standards for managing a business**
• Use of natural resources • Carbon emissions • Air and water pollution • Clean technology • Mitigation of and adaptation to climate change • Biodiversity protection • Deforestation • Energy efficiency • Water management • Water scarcity	• Labor policies and relations • Customer satisfaction • Data security and privacy • Policies on inclusion, gender, or diversity • Engagement of employees • Community relations • Respect for human rights • Labor standard • Training and development opportunities • Supply chain management • Forced or child labor	• Structure, composition, independence, and diversity of the Board • Structure of the audit committee • Tax honesty • Fighting corruption and bribery • Compensation of executives • Lobbying • Political contributions • Whistleblowing framework • Internal controls and risk management • Ethics and transparency

Sources: CFA (2021), ANBIMA (2020), PRI (various years), LAB (2020).

ANNEX II

Sustainable investment

Investment with the intentional goal of protecting, contributing to, preventing damage or degradation to, generating a positive impact for, and/or ensuring rights in environmental, social and/or governance issues, without any intention to compromise the financial performance of the fund.

Materiality

Corresponds to the impact that different environmental, social and governance factors have on a company's or sector's development, financial performance, and position. The relevance of material topics varies across industries, sectors, and companies. The SASB developed a map that provides information on materiality in 77 sectors, which is a useful instrument for this assessment.[33]

Consideration of ESG issues

The process that combines policies, practices and/or information and/or data related to environmental, social and corporate governance issues in the financial and risk analysis models. In the case of funds, this includes those that consider ESG issues in their investment policies to achieve their various goals, such as a broader and more qualified risk identification and management, or early recognition of opportunities to unlock financial value and profit creation – even if they are not intended to intentionally achieve environmental, social and/or governance goals.

Incorporating ESG factors into the fund's investment policy complements traditional assessments, by highlighting risks that are not captured by traditional financial analysis, especially long-term ones, making the diagnosis more robust and effective. In other markets, this type of investment may also be referred to as "responsible investing." [34]

33 – See SASB (2021).

34 – The PRI defines "responsible investing" as the strategy and practice of incorporating ESG factors into investment decisions and the exercise of active ownership. Responsible investing complements traditional financial analysis and portfolio-building techniques. More information available here.

ANNEX II

ESG approaches and methodologies

According to the CFA, there is a wide range of methods for incorporating ESG considerations into a financial product's goal, or its investment process and/or engagement activities. The term includes (but is not limited to) approaches often referred to as: ESG integration, exclusion screening, negative screening, positive screening, best in class, thematic, impact investing, and engagement. Several other organizations, such as GSIA, Investment Association, PRI, IIF (Institute of International Finance), ICI, ICMA or BSI (British Standards Institution) have published definitions consistent with these approaches. They can be used in a dynamic, overlapping and customized manner to incorporate and achieve ESG goals.

Taxonomies

According to the ICMA, a taxonomy – in the context of sustainable finance – is a classification system that identifies activities, assets and/or project categories that meet key climate, green, social or sustainable goals with reference to identified thresholds and/or targets.[35] Aside from the well-known EU taxonomy, similar instruments are under development or in force in the United Arab Emirates, China, Mongolia, Singapore, South Africa, Canada, Japan, India, and Malaysia.[36]

35 – ICMA (2021), "Overview and Recommendations for Sustainable Finance Taxonomies".

36 –For an analysis of several existing taxonomies, see ICMA (2021).

ANNEX II

ESG and sustainability: **opportunities**

Holistic vision

This corresponds to incorporating ESG policies, practices and information into investment processes, thus enabling managers to have a more accurate and comprehensive view of all the impacts (risks and opportunities) of their investments (expanding their ability to create financial and non-financial value. The concept also encompasses the idea of "double materiality", i.e., how a company will impact ESG issues and how ESG factors – such as climate change – reverberate in the company. In line with this holistic view, the TCFD lists four pillars for identifying risks and opportunities relating to climate change: governance, investment strategy, risk management, and metrics and goals (see table 4). These elements have been considered a complete risks-and-opportunities approach to sustainability issues at the manager (or firm) level.[37]

Table 4

TCFD pillars for the dissemination of information on climate change

Governance	Strategy	Risk management	Metrics and targets
• Disclose the company's governance on the risks and opportunities related to climate change	• Disclose the actual and potential impacts of climate change-related risks and opportunities on the organization's business, strategy and financial planning, whenever such information is relevant	• Disclose how the organization identifies, assesses, and manages climate change-related risks	• Disclose metrics and targets used in order to assess and manage risks and opportunities related to climate change, whenever such information is material

TCFD (2021a), p. 27

37 – Iosco (2021a).

ANNEX II

In order to optimize the benefits offered by including ESG policies, practices or data, a manager should analyze ESG elements dynamically and not unilaterally. It should take into account not only the negative risks and impacts (of ESG topics on the manager/fund and of the manager/fund on ESG topics), but also the positive ones (ESG as creation of financial value and ESG as generation of positive impact) (table 5).

Specifically on climate change – and as explained in ISO 14097: 2021 –, every financing or investment decision has an impact on the climate, whether positive or negative, which can be affected by climate change, for example. This dual impact is considered "double materiality", i.e., it reflects both how climate change affects a company's value and how a company's activities impact the climate by reducing greenhouse gas emissions in the real economy and vulnerability to the impacts of climate change, and by increasing resilience. Qualified asset management approaches should therefore take into account an integrated and inclusive vision of investment.

Table 5
A holistic view of the ESG relationship with financial assets

	Negative impacts	Positive impacts
On the asset	Adverse impacts that certain ESG factors may have on financial assets and must therefore influence investment decision making. These risks can be internal (e.g., corruption or tax dishonesty) and/or external (e.g., climate change,[38] social inequality, demographic shifts, changes in the supply chain). These adverse impacts can be converted into quantitative or qualitative measures of financial risk	Analysis of the ESG profile of assets with the goal of identifying and seizing opportunities to unlock financial value through improving the corporate sustainability of the asset (e.g., cost reductions, operational efficiency and lower environmental costs, increased productivity and greater capacity to retain talents, sustainable product launches, and lower cost of capital)
Of the financial asset	Adverse impacts on ESG factors arising from a manager's investments (e.g., increase in greenhouse gas emissions, loss of biodiversity, displacement of local communities, increased gender balance, etc.)	Intentional generation of positive social or environmental impacts

Source: Granito Group

38 – There is increasing recognition that climate change is a source of financial risk and a potential source of instability for the financial system. See FSB (2020); NGFS (2019).

ANNEX II

ESG Performance

The contribution of ESG factors to the financial performance of the company and funds. Although the correlations between sustainability and financial performance or risk exposure have been the subject of consistent attention from scholars for quite some time, the results are still not unquestionable or universally accepted, due to the lack of data standardization and the comparative difficulties between the different ESG methodologies. However, the trend is generally positive, with companies showing a higher-quality and more stable flow of return in the long term, and investors able to identify this value before the pricing of assets by the market. A 2021 study by the NYU Stern Center for Sustainable Business, in partnership with Rockefeller Asset Management, analyzed 1,141 academic papers published between 2015 and 2020 and found that the positive relationship between ESG and investment financial performance was identified in 59% of the studies. Only 14% showed a negative relationship. Other surveys showed similar conclusions.[39]

39 – Friede, Busch & Bassen (2015) analyzed more than 2,000 academic papers on the subject matter and show that roughly 90% of them state that there is a neutral or positive correlation between ESG factors and financial performance, with well over half (63%) showing that there is a positive correlation. Only 8% of studies found a negative correlation.

ANNEX II

ESG and sustainability: **obstacles**

Terminology

There is still no universal terminology or harmonized requirements for disclosure of ESG practices and procedures. This process is under construction and is considered a priority by capital market participants in different jurisdictions.[40] It is important to pay attention to differences and possible discrepancies in definitions used in the field of sustainable finance.

Data

Incorporating ESG issues into investments and managing sustainable investment products requires the collection and analysis of a set of qualitative and/or quantitative information relating to each asset's ESG profile. This process – which can be carried out entirely by the manager or supported by a specialized rating agency or by other specialized service providers (such as those responsible for second opinions) – may present difficulties. Among such difficulties are limited access to quality information, low comparability among the methodologies used by rating agencies, problems in ascertaining the materiality of ESG information, and conflicts of interest between the rating and advisory work provided by some of these agencies.[41]

Despite significant advances in recent years (including the use of algorithmic tools), information on a company's ESG profile is still not comparable to the accounting information present in its financial reports, in terms of rigor and standardization. Therefore it is essential that managers use ESG data in a discerning and insightful way, and have tools at their disposal that can help them mitigate any risks associated with ESG data.

40 – ICMA (2020).

41 – Iosco (2021b).

ANNEX II

Greenwashing

Dissemination of misleading information containing untruths, exaggerations or omissions about the ESG profile of the manager, a fund, or an asset, even when done involuntarily.

According to Iosco, examples of greenwashing can be seen both at the firm level and the product level. In the first case, the entity identified situations in which unclear messages are made available regarding the meaning of published commitments or marketing communications that do not accurately reflect the level and/or extent dedicated to assessing sustainability-related risks and opportunities. Situations in which publicly assumed commitments are not fulfilled were also mentioned. A 2020 study indicated that while all 75 of the world's largest managers are signatories to the PRI, 51% of them do not integrate ESG practices as required for all signatories.[42]

When speaking about a particular product, examples of greenwashing include the following: lack of alignment between the product's sustainability-related name and its investment goals or strategies; marketing that does not accurately reflect the product's investment goals or strategies; misleading claims about the product's sustainability-related performance and results; lack of disclosure of results, among others (see tables on pages 27 and 28). [43]

42 – ShareAction (2020), "Point of No Returns: A Ranking of 75 of the World's Largest Asset Managers' Approaches to Responsible Investment".

43 – Iosco (2021a).

ANNEX III

Brazilian and international regulation

Brazilian regulation

In Brazil, the regulatory framework has evolved toward enhancing sustainable investments and the integration of ESG issues. Below are some of the main regulations adopted and in force in the Brazilian context.

Standard	Date	General provisions
Law 12187	12/29/2009	Establishes the National Policy on Climate Change (PNMC) and other provisions.
Law 12114	12/9/2009	Creates the National Fund on Climate Change, amends articles 6 and 50 of Law 9748 of August 6, 1997, and sets out other provisions (Article 3 was amended by Law 13880 of January 4, 2019)
Decree 9578	11/22/2018	Sets out provisions for the National Fund on Climate Change and the National Policy on Climate Change. Amended by Decree 10.143 of November 28, 2019
CMN Resolution 4883	12/23/2020	Consolidates – starting May 1, 2021 – the provisions included in chapters 1, 2 and 3 of the Rural Credit Manual (MCR), on the principles, basic concepts, and operations applicable to farm loans, incorporating aspects of previous resolutions in the granting of such credit.
BCB Resolution 140	9/15/2021	Establishes Section 9 (Social, Environmental and Climate Impediments) in Chapter 2 (Basic Conditions) of the aforementioned MCR, setting out restrictions on the granting of farm loans - Green Bureau of Rural Credit.
Law 13576	12/26/2017	Establishes the National Biofuels Policy ("RenovaBio") and defines its instruments, including emission reduction targets and "Decarbonization Credits" (CBIOs). Amended by Law 13986, of July 4, 2020. Regulated by Decrees 9888, 9964 and 10102.

Standard	Date	General provisions
BCB Resolution 4327 BCB Resolution 4945	4/25/2014 9/15/2021	Addresses the Social, Environmental and Climate Responsibility Policy (PRSAC) of the institutions authorized by the Brazilian Central Bank (BCB), and repeals – as of July 1, 2022 – the policy that sets out the guidelines for the Social and Environmental Responsibility Policy in force up to that date.
CMN Resolution 4557 BCB Resolution 4943	2/23/2017 9/15/2021	Sets out provision on the risk and capital management framework of authorized institutions, and addresses social-environmental risk, in art. 6. Amended by Resolution 4943 – set to go into effect on July 1, 2022 – which now sets out provisions on social, environmental and climate risk in articles 6, 38, and others. For S5 institutions, see Resolution 4944, which amends Resolution 4606.
BCB Resolution 139	9/15/2021	Sets out provisions for the Social, Environmental and Climate Risks and Opportunities Report (GRSAC). Complemented by BCB Normative Instruction 153. Enters into effect on December 1, 2022.
CMN Resolution 4661	5/25/2018	Sets out provisions on Complementary Private Pension Funds (EFPCs). Establishes that they should, whenever possible, consider aspects related to sustainability, environmental and social issues, and governance of investments in the risk analysis (art. 10, §4).

Standard	Date	General provisions
CVM Instruction 552	10/9/2014	Amend the text as well as schedule 24 of CVM Instruction 480/2009, which sets out the content of the Reference Form (information disclosed by securities issuers), including information relating to ESG risk factors, the adoption (or not) of a policy of ESG key performance indicators (practice-or-explain model), the positioning regarding the SDGs, among others.
CVM Resolution 59	12/23/2021	
Decree 10387	6/5/2020	Sets out provisions on the incentive to finance infrastructure projects with environmental and social benefits, amending Decree 8874 of October 11, 2016, which establishes requirements for the issuance of incentivized corporate bonds referred to in the Law 12431.

Self-regulation/voluntary commitments

We have also included some of the self-regulation initiatives and voluntary commitments related to the issue.

Code	Date*	Provisions for financial institutions, institutional investors and companies
ANBIMA "IS" rules	12/6/2021	Chapter XI of the ANBIMA's Portfolio Administration Self-Regulatory Code and Rules and Procedures for Identifying Sustainable Investment Funds, enters into effect on January 3, 2022.
Amec code	2016	Brazilian Stewardship Code and Principles.
Febraban self-regulation	2008	Febraban Code of Ethical Conduct and Self-Regulation, which includes a chapter on social-environmental responsibility.
IBGC code	2016	Brazilian Code of Corporate Governance – Publicly-held Companies. Gathers principles of corporate governance with a comply-or-explain approach.

* It is worth noting that these codes undergo updates over time in order to include any changes in regulation and market evolution.

Prepared by ANBIMA.

ANNEX III

International ragulation

The regulation of sustainable investments and investments that integrate ESG issues has grown significantly[44], driven by the perception among regulatory agencies that the financial sector can be both affected by a set of social and environmental risks as well as play a major role in dealing with global challenges, such as climate change. References on the evolution of these rules, with an emphasis on the European package and Iosco initiatives, can be found on the ANBIMA website, under International ESG References. Below we list the main ones related to investment funds.

Jurisdiction	Regulation/consultation
European Union	Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability - related disclosures in the financial services sector - SFDR Final Report on draft Regulatory Technical Standards of ESAs for Article 8(4), 9(6) and 11(5) of Regulation (EU) 2019/2088 – November 2021
United Kingdom	Authorised ESG & Sustainable Investment Funds: improving quality and clarity – FCA Guiding principles on design, delivery and disclosure – Jul 2021 Sustainability Disclosure Requirements (SDR) and investment labels – FCA Discussion Paper DP21/4 - November 2021
France	Reccomendation DOC 2020-03 - Information to be provided by collective investment schemes incorporating non-financial approaches – Jul 2020 Implementation of the SFDR regulation for asset management companies as of March 10, 2021 – AMF Guidelines – January 2021

44 – For a list of ESG policies and regulations around the world, we suggest consulting the PRI database.

Jurisdiction	Regulation/consultation
Switzerland	FINMA Guidance 05/2021: Preventing and Combating Greenwashing – FINMA – November 2021
Hong Kong	2019 Circular to management companies of SFC-authorized unit trusts and mutual funds - Green or ESG funds – SFC UK – Abr 2019 (effect Jan 2022) 2021 Circular to management companies of SFC-authorized unit trusts and mutual funds - ESG funds – SFC HK – Jun 2021 Management and disclosure of climate-related risks by fund managers – SFC HK –August 2021
Singapore	Guidelines on Environmental Risk Management (Asset Management) - MAS - December 2020
United States	Response to Climate and ESG Risks and Opportunities - SEC - 2021
Japan	Principles for Responsible Institutional Investors - Japan's Stewardship Code - March 2020

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ESG aspects for managers and investment funds

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