GUIDE

Sustainability and ESG Management at Companies

How to get started, who to involve and what to prioritize

2022

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1. INTRODUCTION

The concepts of social responsibility and corporate sustainability are based on the assumption that public or private entities have commitments to society that go beyond fulfilling their legal obligations. This understanding has been taking shape in the capital market, especially through growing regulations and demands from investors and asset managers on social and environmental issues. Nevertheless, even though sustainability is gaining more and more space in society and in the market, it is still a theme that needs maturing in many companies.

In the survey **ESG Disclosures: What are publicly-held companies reporting?** (Grant Thornton Brasil, 2022), data obtained from the information disclosed by 328 publicly-held companies in Brazil show that although 75% of participants consider ESG aspects a priority, only 14% include them in their decision-making, and less than half (48%) publish their sustainability report or integrated report. At the same time, as revealed by the survey **A landscape of sustainability in the Brazilian Market** (Anbima, 2022), 86% of the more than 900 financial institutions consulted assigned a score of 7 or more to the importance of the sustainability topic.

ESG is the acronym for Environmental, Social and Governance factors in the context of business management. In simplified terms, it summarizes the proposal that a business should also be evaluated by these factors, and not only by the usual market criteria and indicators, such as profitability, competitiveness, solidity, indebtedness levels, etc.

In this context, stock exchanges have been protagonists in the development of actions to improve the good corporate governance practices of companies, in supporting the creation of new markets, and in advancing the social and environmental agenda.

B3, as a natural consequence of its commitment to sustainable development, invests in structured initiatives to include a sustainability approach in its internal management, as well as in its products, services and relationships. In addition, it supports engagement, awareness and information initiatives for the various stakeholders. Among them, companies play a central role, as they form a network of exchange, relationship, influence and partnership with the Exchange. And this Guide was developed for them, and is now in its third updated edition, so that companies have at hand a practical and didactic material, which contextualizes and assists them in this journey of inserting sustainability into their business. This Guide, as it could not be otherwise, is distinguished by showing the sustainability approach from the perspective of the capital market.

The **Guide to Sustainability and ESG Management at Companies: How to start, who to involve and what to prioritize** aims to share and disseminate knowledge, reflections and best practices on these topics, which can contribute to the trajectory of differentiation, perpetuity and value creation of large, medium and small companies. After all, there is no doubt that the adoption of a sustainability agenda and the insertion of environmental, social, and governance criteria in business management are here to stay. It is important that each company finds its own solutions, taking into account their main impacts, the materiality of their business and sector, and a positive agenda of contributions to society as a whole.

Although the terms sustainability and ESG are increasingly used, their real meaning continues to raise questions. In many situations, the concept of sustainability - which deals in an integrated way with the system comprising environment, society, and economy - has simply been replaced by the acronym ESG, which translates a business perspective on this system. In this Guide, we use both terms, considering that, before analyzing the business perspective, it is also necessary to consider the scenario as a whole, through the broad lens of sustainability.

2. Preface

It is known that stock exchanges are key structures that support the financial market, contributing greatly to the country's economic development. Thus, the mission of meeting market demands, shaping its processes and services to the needs of investors and companies, could be sufficient for these important service providers. However, by joining the Global Compact in 2005, B3, which already had governance as a focus, also made the importance of the social and environmental dimension more evident in companies. It signaled, therefore, that sustainability not only served to improve the conditions of society and the environment, but also contributed to adding long-term value for companies and shareholders.

Therefore, when the market still did not talk about ESG, B3 was already positioning itself as an inducer of responsible investment in Brazil, encouraging transparency in corporations and creating benchmarks that became the basis for offering sustainable financial products. More than a signatory to the PRI - Principles for Responsible Investment, B3 has since 2010 been an important partner in promoting these principles, encouraging the incorporation of ESG issues by investors and companies, as well as the practice of stewardship and disclosure of ESG information.

The 2022 version of *B3 Guide to Sustainability and ESG Management at Companies: How to start, who to involve and what to prioritize* is yet another demonstration of B3's commitment to the practice of responsible investment and the Sustainable Development Goals. Despite being aimed at companies, the Guide also addresses the evolution of sustainable finance in a didactic way, highlighting the role of the responsible investor. Additionally, the document highlights the advances and challenges of international organizations to create a global standard for reporting sustainability-related performance, the ISSB, as well as taxonomy initiatives, which are fundamental to combating greenwashing.

Finally, in the 14 steps towards sustainability, the Guide presents the best management practices of ESG issues in companies, advocating a strategic approach to sustainability, transversally to all processes, and taking into account the other stakeholders that make up the company's value chain. Taking advantage of its privileged position as a link between investors and companies, B3 has created a wide-ranging version of the Guide, which uses excellent references, and which allows for the practical application of ESG and sustainability concepts. At the same time, B3 has developed a robust theoretical framework, which is obviously not exhaustive, but is important to support future revisions, in a topic that is constantly evolving.

Enjoy your reading!

Marcelo Seraphim
PRI Brasil

3. Sustainability and ESG: Changing the Business World

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Sustainable development and sustainability

The Rio-92, the United Nations Conference on Environment and Development, took place 20 years after the first conference of its kind (Stockholm, 1972) and resulted in important developments for science, multilateral governance, the environment, and social justice, generating a high-level debate and contributions that are still valid today for development and economic growth in Brazil and worldwide.

From this Conference on, the concept of sustainable development, coined by the Brundtland Commission in 1987, became widely known:

"Sustainable Development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs *(Brundtland Report, Our Common Future, p. 24).* ***"***

As a result of Rio-92, a series of international treaties applicable to all actors of society were established: Agenda 21, Climate Convention and Convention on Biodiversity, among others. From then on, the Conferences of the Parties (COPs) are held to follow up on the established agreements and make the necessary decisions to promote their effective implementation.

On this basis, in several countries the concept of sustainable development started to be considered in public policies and to shape strategies and tactics recognizing that environmental preservation, the construction of a balanced coexistence with the planet and the creation of sustainable practices are essential to human life and a responsibility of all.

At the beginning of the XXI century, the importance of the private sector - with the weight of globalized and transnational business groups and the cumulative impacts of their activity on the environment and society - has led to a call for business to, in the words of Kofi Annan, Nobel Peace Prize winner and former UN Secretary-General, "give globalization a more human face, so that as many people as possible can enjoy its benefits". This call reflects and synthesizes the movement that in the business world became known as CSR - Corporate Social Responsibility, and in Brazil was called "*Responsabilidade Social Empresarial*" (RSE) or "*Responsabilidade Social Corporativa*" (RSC).

The contribution of British John Elkington was crucial to consolidate this understanding, when he coined, in 1994, a term that greatly influenced the incorporation of social and environmental criteria by companies: it was the Triple Bottom Line (TBL) - the tripod of corporate sustainability, which includes environmental, social, and economic results, translating to the business world the three pillars of sustainable development, which address these three aspects. From the perspective of this concept, companies have a responsibility to balance the economic, social, and environmental returns of their operations.

The last few years have been marked by the wide dissemination of the ESG agenda and the rapid growth in the number of evaluation and monitoring mechanisms, as well as sustainability standards, business initiatives, corporate

policies, voluntary codes of conduct and self-regulation mechanisms. Mentions of the issue of greenwashing are also increasingly common, i.e., business communications and attitudes that project an image of sustainability but lack a connection to reality, consistency, or real results. It is a problem that can even occur due to a simple lack of information from managers, and that needs to be tackled, as it can generate serious reputational risks and losses, both for companies and for investors.

In the current context - of post-pandemic globalization, technological advances, shortening of physical and virtual distances, increasing empowerment of stakeholders, emergence of new regulatory instances and pressing ethical dilemmas, social demands, and environmental emergencies - the business environment has changed. As detailed further on, the financial system - which by its very nature is sensitive to everything that could affect the stability and expected results of business and investments - has also evolved, incorporating these new perspectives and creating mechanisms to integrate them into its analyses and products.

Companies and sustainable development

The table below shows the evolutionary stages and organizational maturity levels of companies on the subject of sustainability, ranging from an initial, defensive stage, to the most advanced, in which the company becomes a protagonist in its area of activity or even in the entire market, challenging traditional practices and qualitatively improving the entire business environment.

Stage	What companies do	Motivations
Defensive	Deny practices, results or responsibilities for negative impacts	Defend against reputational attacks that, in the short term, can affect sales, recruiting, productivity and branding
Compliance	Adopt an approach based on compliance policies and procedures as a cost of bringing the business in line with regulatory requirements	Avoid medium-term loss of economic value as a result of ongoing reputational and litigation risks
Managerial	Incorporate social and environmental issues into its main management processes, as part of business strategies	Mitigate erosion of economic value in the medium-term and achieve medium and long-term gains by integrating sustainable business practices into their daily operations
Strategic	Integrate socio-environmental issues into its main business strategies, as elements of competitive differentials and its value proposition	Increase long-term economic value and gain an advantage by pioneering, aligning the strategy and innovation process with socio-environmental issues
Protagonist	Promote broad participation of its sector in strengthening sustainability ("Getting everyone to do it")	Generate long-term economic value, overcoming eventual disadvantages of pioneering and realizing gains through collective action, benefiting all of society

Adapted from *The Path to Corporate Responsibility*, by Simon Zadek.

The ESG agenda

Although it was not widely popularized until 2020, the term ESG officially emerged in 2004, in the publication "Who Cares Wins". It is a broad series of recommendations produced by organizations in the financial system aiming at a better integration of environmental, social and governance aspects in their analyses and in the management of assets and insurance. Part of an initiative launched by the UN Secretary-General and the Global Compact, with support from the Swiss government, the report was endorsed by 23 financial institutions of international relevance.

From 2004 to 2008, this initiative held a series of events with professionals from the financial sector and companies, with the aim of increasing understanding of ESG risks and opportunities, and improving their integration into the business, with special attention to investments in emerging markets. These events served as the basis for the creation, in 2006, of the PRI (Principles for Responsible Investment), an organization created by the United Nations Environment Program (Unep) Finance Initiative and by the Global Compact, which requires its signatories to incorporate ESG themes in asset ownership and investment analyses and decisions.

THE ESG TSUNAMI

There are different explanations for the enormous popularization of the term ESG, which took place from 2020 onwards. For some, the main cause was the Covid-19 pandemic, which exposed weaknesses in the globalized and interdependent economy, drawing attention to existing risks and the need to better consider them in business management. For others, it was the repeated statements on ESG issues by major players in business and finance, such as the Business Roundtable's manifesto on the purpose of companies, signed by 181 CEOs of major global corporations, and the letters from Larry Fink, CEO of BlackRock, the world's largest asset manager. Regardless of the cause, the fact is that the acronym ESG quickly grabbed the headlines, and became an issue on the main business agendas.

Recently, as of 2022, questions have been raised about excesses or lack of care and clarity in the application of these proposals, which is natural, considering the speed and size of this veritable tsunami of information and proposals. Controversies aside, what can be said with certainty is that the acronym ESG is here to stay, even if with occasional adjustments in its use and understanding.

Although the term ESG is often used as a synonym, or even evolution, of the concept of sustainability, it is important to understand that they are not equivalent, and that confusing them can be a risk for both business and society. This is a warning that appears in the "Who Cares Wins" report itself, which explains that it deliberately used the acronym ESG to avoid using terms like sustainability and social responsibility, which have a broader meaning and are subject to different interpretations.

Currently, according to CFA Institute, *ESG is an approach to asset management in which investors explicitly recognize the relevance of environmental, social, and governance factors in their investment decisions, as well as in their role as owners and creditors, with the long-term return of an investment portfolio as their primary concern.*

ESG, therefore, should be understood as an approach specifically aimed at integrating certain non-financial aspects into business. Thus, it is different from sustainability, which, due to its broad, systemic perspective, considers the impacts of business on a comprehensive agenda of society's expectations of companies and all other factors involved in production and consumption systems.

Below are the main differences between sustainability and ESG:

Differences	Sustainability	ESG
Motivation	Dealing with the challenges and demands of society, under the assumption of social inclusion	Caring for the longevity of the business as it responds to the demands of the financial market
Ambition level	Defined by science, according to the urgency and magnitude of social and environmental challenges	Defined by market parameters and investor and manager expectations
Actors	Government, private sector and civil society	Private sector
Public	All segments of society	Mainly the financial market
Focus	Management of social and environmental impacts on society, economy and environment	Managing ESG risks to the business and impacts on the company's long-term financial and economic results
Transparency	Commitment to disclosure through sustainability and/or integrated reports (focus: material aspects for the company's stakeholders)	Commitment to disclosure through sustainability and/or integrated reports (focus: material aspects for risk pricing and valuation)
Decision-making process	Sustainability strategies not necessarily connected to specific business strategies and decision-making processes	ESG strategies focusing on corporate governance levels and decision-making processes (Board of Directors and Advisory Committees), prioritizing material topics for the business

Opportunities arising from sustainability and the ESG agenda

The adoption of strategies based on sustainability and the ESG agenda can add value to a company in different ways:

1. Revenue generation

- Adaptation of products and services to meet new customer demands;
- Development of new products and services;
- Access to new markets;
- Customer and consumer loyalty.

2. Cost reduction

- Optimization of the use of natural resources (water, electricity and other inputs) in production;
- Establishment of partnerships and induction of best practices in the supply chain;
- Lower costs of access to capital;
- Lower costs of insurance policies;
- Reduction of labor costs related to absenteeism, illnesses and occupational accidents.

3. Development of human and social capital

- Attracting and retaining talent;
- More innovative and diverse environment;
- A more humanized organizational culture, free from discrimination and harassment;
- Potential increase in workforce productivity;
- Increased appreciation of the company by the community;
- Obtaining and maintaining the social license to operate;
- Greater identification of stakeholders with the company's objectives.

4. Mitigation of risks

- Reduction of exposure to social and environmental and climate risks (physical and transitional);
- Reduction of labor disputes;
- Reduction of impacts on operational, market and financial risks, etc.

5. Meeting and anticipating legal and regulatory demands

- Ability to influence public policies.

6. Improved reputation and image

- Increase in the company's intangible value.

When socio-environmental issues become business risks

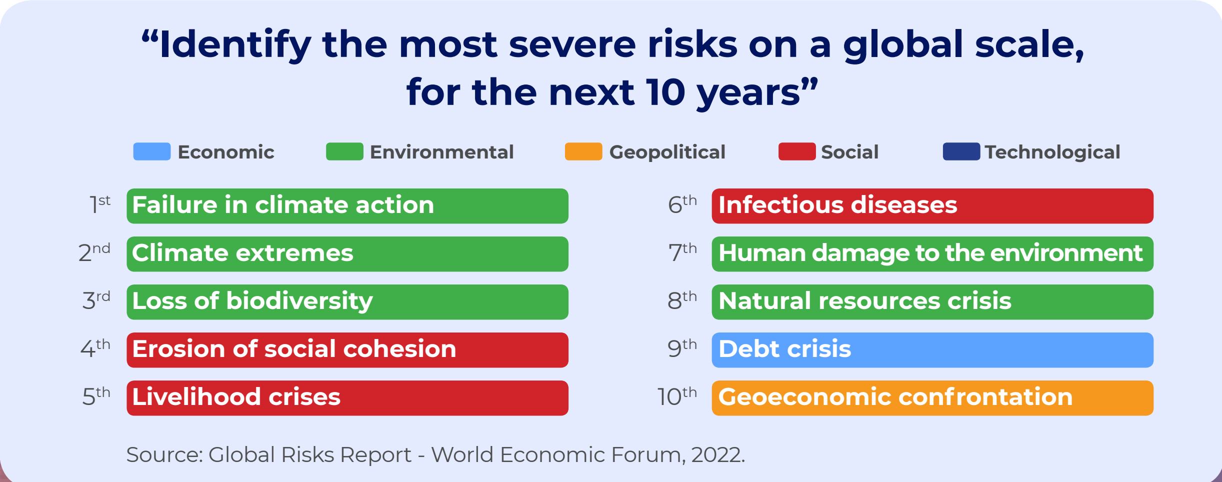
The Global Risks Reports are a series of reports produced by the World Economic Forum and released annually at the Davos Conference. They have been used by companies all over the world, as they provide a way to track the evolution of global risk perceptions among risk experts and leaders in business, government, and civil society. They also point out trends and signal what awaits us ahead.

It was around 2015 that social and environmental aspects began to occupy a relevant place at the executives' table.

In the 2020 edition, for the first time, the top five risks in terms of likelihood were all environmentally related: extreme weather events, climate action failure, natural disasters, biodiversity loss, and man-made environmental disasters.

The following year, new risks related to infectious diseases, livelihood and survival crises, digital inequity, deteriorating mental health, and economic stagnation were presented. These risks set the tone of global expectations about latent social issues such as social inequalities and the eradication of poverty

The figure below presents the most severe risks on a global scale for the next 10 years.

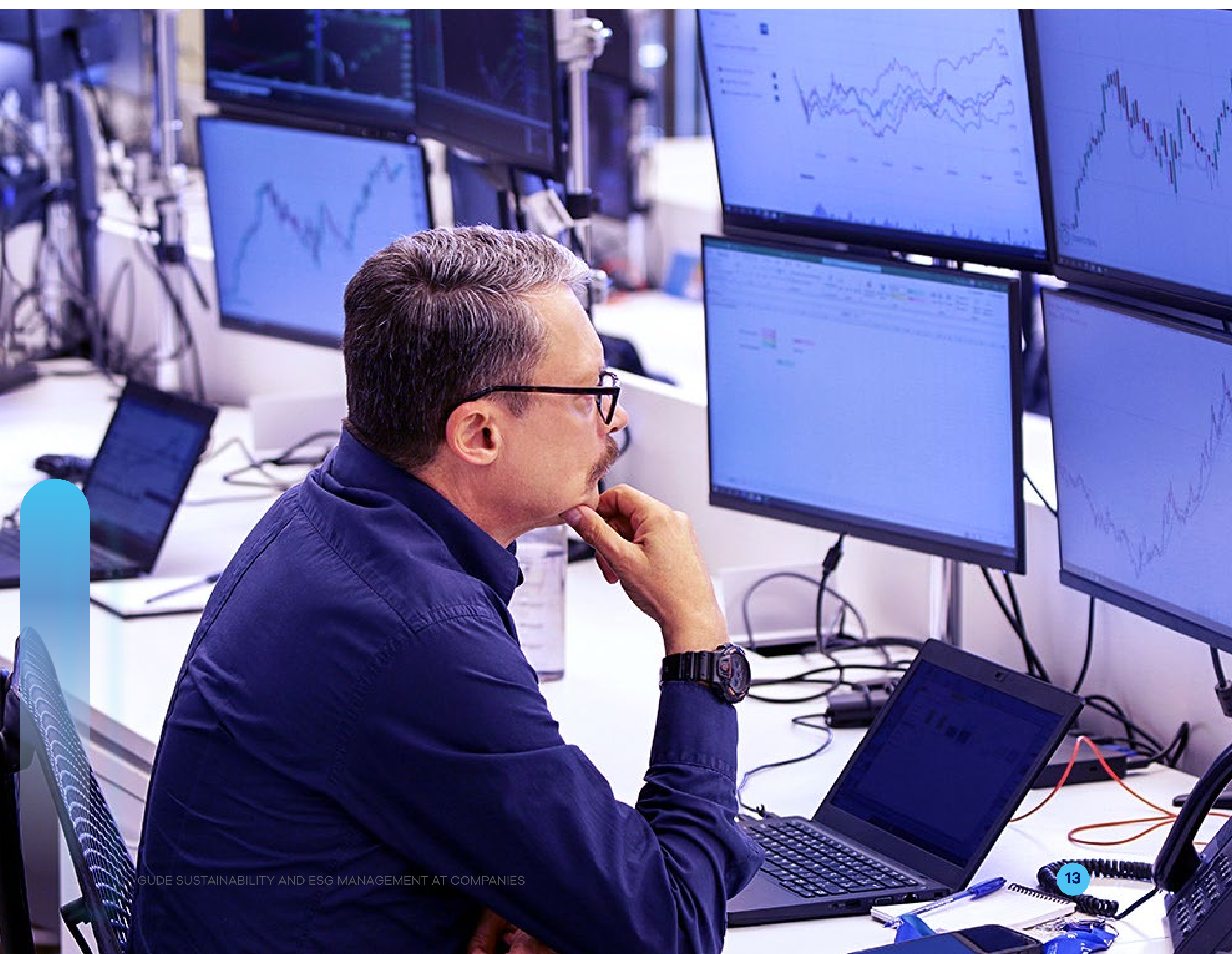


Source: Global Risks Report - World Economic Forum, 2022.

In 2020, researchers at the Stockholm Resilience Center published a study in the journal Science, pointing out that at least four out of nine planetary boundaries have already been crossed as a result of human activity. These are: climate change, loss of biosphere integrity (e.g., biodiversity reduction and species extinction), land use change (e.g., deforestation), and alteration of the biogeochemical cycles of phosphorus and nitrogen.

In 2021, the new report by the UN Intergovernmental Panel on Climate Change (IPCC) indicated that harmful carbon/greenhouse gas emissions from 2010-2019 were the highest in history, and that we are "on a pathway to global warming of more than double the 1.5-degree Celsius limit". However, scientists say it is still possible to halve emissions by 2030 and avoid worst-case scenarios.

All these themes represent trends and pressures present in our society, which strongly affect the business environment. For investors, as shown by the debates in PRI, it is urgent to incorporate ESG factors into business strategies for risk mitigation and value creation, also capturing opportunities related to this context. In fact, this is already happening, as pointed out in the study "Risk Management: the main risk factors disclosed by Brazilian public companies", which analyzes the public data disclosed in their Reference Forms. ESG risks were mentioned by 66% of companies. In the previous edition, released in 2020, this percentage was 56%.



4. ESG, sustainability and capital markets

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What is responsible investment?

As seen, a good financial performance is no longer the only criterion to add value to a company and attract investments. Investors and analysts are increasingly aware of the way companies deal with ESG issues, starting to incorporate criteria of this nature into investment analysis, portfolio management and decision making. This is the basis of what is called responsible investment. As already explained, this approach - also known as "ESG incorporation" - has received a major boost since 2006, with the creation of the Principles for Responsible Investment (PRI), which seeks to bring sustainability issues into the mainstream of the investment industry. According to the organization, responsible investment corresponds to the strategy and practice of incorporating environmental, social and governance (ESG) factors into investment decisions and the exercise of active ownership.

A factor that is also driving responsible investment is the growing supply of products and services that consider social and environmental and corporate governance aspects, such as stock exchange sustainability indexes, exchange-traded funds (ETFs), Sustainability-Linked Bonds (SLBs), Social Bonds and Green Bonds, and special listing segments on stock exchanges. Another growing modality in this field are the operations of blended finance, in which public or philanthropic resources are combined in financial instruments, with the objective of making viable and encouraging the allocation of private capital in investments for sustainable development.

Additionally, there was a significant increase in public information related to ESG aspects in corporate reports. A number of specialist research and rating agencies have emerged or developed ESG products in recent years - such as Sustainalytics, MSCI, Fitch Ratings, S&P Global, Moody´s and Morningstar. They assign grades or scores to ESG aspects of companies and provide other information to meet the growing demand for data and risk profile, serving as a benchmark for investors around the world. However, since there is no single assessment framework to be followed and each agency has its own methodology, different information is produced by analysts when assessing the same ESG parameter, and a company may be rated well in one rating, and poorly in another.

As of June 2022, more than 5,000 institutional investors and asset managers, representing more than US$121 trillion in assets, were signatories to the PRI. Of these, 123 are Brazilian. Another indication of the importance that this perspective is gaining is the volume of US$2 trillion invested in green and social bonds, in the first half of 2022 alone.

The expansion of information availability also promotes the consideration of ESG issues in the analysis and research reports of financial institutions, consultancies and news agencies, aimed at analysts and all types of investors. Another trend is the use of techniques for massive data analysis – Big Data and Artificial Intelligence – from an ESG perspective.

Want to know more about ESG Funds?

In the first half of 2022, the Brazilian Association of Financial and Capital Markets Entities (Anbima) published self-regulation criteria for investment products with ESG criteria. This rule establishes two types of products, which can be identified by managers as having sustainability attributes: those with sustainability as their purpose can use the SI suffix, for Sustainable Investment, in the name.

Other products, which integrate ESG criteria into their management processes, but do not have sustainable investment as their primary objective, cannot use the SI suffix, but can use the phrase "this fund integrates ESG issues into its management" in sales materials. See here for rules and products.

What are sustainable bonds?

Bonds are debt securities, i.e., securities that pay interest and are sold to investors.

Green Bonds are debt securities issued to finance projects with environmental benefits. The allocation of resources is stamped and can only be allocated to the specific project that was declared by the company at the time of issuance. Examples of projects associated with issuing green bonds are: renewable energy, energy efficiency, clean transport, changes in technology to prevent pollution.

Social Bonds follow the same logic as stamped money, but the projects must have defined social benefits, such as access to health and education; affordable housing; relief of unemployment resulting from crises; sustainable food systems, etc.

Sustainability-Linked Bonds **(SLB)** unlike green and social bonds, the money is not stamped, which provides more freedom in the use of resources. But, when issuing an SLB, the company has to commit to objective environmental and/or social goals within a certain period. If it does not meet the targets, it suffers a penalty, in the form of a premium over the interest rate, which makes the cost of credit more expensive for the company issuing the bond. This mechanism is called rate step up. There are issues where the opposite occurs: there is a step down, i.e., the rate drops if the target is met.

There are several ways to invest responsibly.
Approaches often combine two broader areas:

CONSIDERING ESG FACTORS IN FORMING THE PORTFOLIO (known as ESG incorporation)			**IMPROVE THE ESG PERFORMANCEOF INVESTEES** (known as stewardship)	
ESG factors can be incorporated into existing investment practices using a combination of three approaches: interaction, screening, and thematic.			Investors can encourage companies they already invest in to improve their ESG risk management or develop more sustainable business practices.	
Integration	**Filter/ Screening**	**Thematic**	**Engagement**	**Proxy voting**
The explicit and systematic inclusion of ESG factors in investment analysis and decisions to better manage risk and enhance returns.	Apply filters to the list of potential investments to include or exclude companies in competition for investment, based on investor preferences, values or ethics.	Seek to combine attractive risk-return profiles with the intention of contributing to a specific environmental or social outcome. Includes the impact investor.	Discuss ESG factors with companies to improve the way they address ESG factors, including their disclosure. It can be done individually or in collaboration with other investors.	Formally express approval or disapproval by voting on resolutions and proposing agendas for shareholders voting on specific ESG factors.

Definitions of technical terms used in PRI reports are available here.

The universal investor

Large institutional investors have strongly adhered to the responsible investment approach. These investors, considered universal investors, due to their size, have the need to diversify their portfolios, distributing investments across practically all sectors of the economy, with great potential for impacting ESG issues. Additionally, like any asset manager, the universal investor has, in addition to the concern with the return of the assets under their management, a fiduciary duty in the exercise of their functions.

Therefore, for the universal investor, it is crucial to maintain a long-term oriented investment approach that also considers social and environmental issues, consistent with the more modern concept of fiduciary duty. For this reason, regulatory bodies in several countries already explicitly admit that sustainability is part of the responsibility of companies and that, consequently, responsible investment is compatible with the fiduciary duty of professional investors.

In the **Fiduciary Duty in the 21st Century,** report published by the **UN Global Compact**, **Unep Finance Initiative,** Unep Inquiry and PRI in 2015, it is stated that the failure to consider long-term value drivers in investment practices, which include environmental, social and corporate governance issues, is a breach of fiduciary duty. Even though there are still positions that condition this understanding to the consent of investors, it is a present and relevant topic on the agenda of investment managers.

The impact the universal investors can have on ESG issues also depends on how they practice stewardship or active ownership. Stewardship is an approach in which investors, within the scope of their fiduciary obligation, engage with investee companies to improve their sustainable practices. The investor encourages investee companies to improve their ESG performance and risk management, with the belief that, over time, they will combine such improvements with long-term lasting profitability.

Sustainability and ESG practices generate shareholder value

Hundreds of studies conducted over the past two decades demonstrate that the responsible investment approach has not detracted from the performance of investment portfolios compared to traditional benchmarks. On the contrary, in several cases, it provided superior performance. Even though there are also studies with different conclusions, this gives even more strength to the business case that sustainability can generate competitive advantages, higher returns for investors, or at least mitigate risks and improve reputation, producing greater long-term value. An example is the performance of ISE B3, an index that from 11/30/2005 to 12/30/2021 appreciated 267.05%, while the benchmark, Ibovespa, grew 228.42%.

A little history of responsible investment

Anyone who thinks that the application of filters to the resource allocation decision process is recent in the capital market is wrong. For more than a century, religious investors already restricted their investments, not directing resources to economic sectors that contradicted their beliefs. The following shows how we have evolved in this field:

50s and 70s	**The exclusion of sectors by negative filters** – such as weapons, alcoholic beverages and tobacco - is no longer only for religious reasons and is also based on ethical and moral values. North American and European investors, for example, stop allocating resources in companies that have a relationship with the apartheid regime in South Africa.
80s	**The best-in-class approach emerges**, by which filters are applied in order to maintain the sector distribution of the portfolios, with the choice of companies with the best ESG performance in each sector.
90s	**Reflecting advances from the Rio-92 conference**, the Global Reporting Initiative (GRI) was founded in 1997, and three years later publishes the GRI Guidelines (G1): the first global framework for sustainability reports. In 1999, the Dow Jones Sustainability Index (DJSI), was launched by the New York Stock Exchange, the first global index dedicated to selecting companies that incorporate sustainability practices into their businesses.
2000s	**The London Stock Exchange launches the FTSE4Good** (2001) and the Johannesburg Stock Exchange (JSE) launches the **Socially Responsible Investment Index** (SRI Index) (2004). In Brazil, in 2005, **B3** launched the **Corporate Sustainability Index** (ISE B3). In 2006, the Principles for Responsible Investment (PRI) were launched.
2010s	**Responsible investment** already represents more than 20% of assets under professional management in the United States and Europe and continues to grow. In 2012, at the Rio+20 Conference, the Principles for Sustainability in Insurance (PSI) initiative was launched. In 2014, the Central Bank of Brazil publishes guidelines for establishing a Social and Environmental Responsibility Policy by financial institutions in the country.
2015s	**Following the resolution adopted at the Rio+20 Conference**, the **Agenda 2030** and **SDGs** were unanimously approved at the UN. The COP21 of Climate Convention takes place in 2016, resulting in the Paris Accord, which aims to keep global warming below 2°C. In 2017, the Task Force on Climate Related Financial Disclosures (TCFD) is created. In 2019, Unepfi, a UN environment program initiative for the financial sector, launches the Principles for Responsible Banking (PRB).
2020s	**In the context of the Covid-19 pandemic** and of increasingly forceful manifestations about the need for a transformation in capitalism, the acronym **ESG** gains prominence in the business world, leading more and more companies and investors to incorporate these aspects into their activities and analyses. Several other facts have emerged in recent years, as highlighted in the box below.

In 2020, othe Swiss-based Bank for International Settlements (BIS) releases a publication called "*The Green Swan*" referring to the prospect of a global financial crisis caused by climate change and the opportunities that emerge in the effort to avoid it. It is a reference to the logic of black swans in the business world, proposing that green swans are catalysts for sustainable change.

Em 2020, a **The Global Sustainable Investment Alliance** (**GSIA**) maps the state of sustainable and responsible investment in the main financial markets globally, and discloses the volume of US$35.3 trillion under management, a growth of 15% in two years.

In Brasil, a **Anbima - Brazilian Association of Financial and Capital Markets Entities** – launches the ESG Guide: Incorporation of ESG aspects into investment analyses.

In April 2021, in line with the European Green Deal, the European Commission announced a package of measures for sustainable finance, such as the EU Taxonomy, which sets out objective criteria for identifying businesses that contribute for the bloc's sustainability objectives.

During COP-26, the **Glasgow Financial Alliance for Net-Zero** (**GFANZ**) is launched, representing 160 institutions responsible for managing US$70 trillion in assets, with the aim of leading initiatives in the market that accelerate the transition to carbon neutrality by 2050.

Also in 2021, the Central Bank of Brazil publishes two new resolutions for the institutions of the National Financial System (SFN) to prepare a Social, Environmental and Climate Responsibility Policy (PRSAC) and strengthen their ESG risk management structures by releasing the Social, Environmental and Climate Risks and Opportunities Report (GRSAC Report).

In the same year, the **Brazilian Securities Commission** (**CVM**) publishes CVM Resolution Nº 59 that amends the rules of the Reference Form, expanding the requirements for disclosure of information on environmental, social and governance aspects.

In 2022, the US Securities and Exchange Commission (SEC) proposes rules to improve and standardize climate-related disclosures for investors.

In the same year, , the IFRS Foundation created the **International Sustainability Standards Board** (**ISSB**), in order to establish international standards for sustainability reporting for investors. (*see more in the box in step 14*)

In Brazil, Anbima launches a new version of the ESG Guide to help managers understand the rules for identifying sustainable investment funds and publishes the first list of financial products classified with these criteria.

The role of stock exchanges

Any fluctuation in the economy is enough for all attention to turn to the stock exchanges. This doesn't happen by accident. After all, with the integration and growth of capital markets, stock exchanges are now considered a thermometer of the world economy. One could even say that they have become synonymous with the market. But along with this great influence came new responsibilities, demanding new positions.

Over the past two decades, stock exchanges in developed and emerging countries have led, for example, to improved corporate governance of listed companies, which has stimulated investor confidence and significantly increased financial volume, attracting more companies to the market: a true virtuous circle, which underscores the importance of transparency and accountability.

The next step was the incorporation of social and environmental issues into the capital market, definitively placing the stock exchanges on the sustainability agenda. This agenda is encouraged by important institutional actors, such as the **World Federation of Exchanges** (**WFE**), the **Sustainable Stock Exchanges** (**SSE**), the **Principles for Responsible Investment** (**PRI**) and the **Global Compact**.

Behind this movement is the conviction that strong stock markets are essential for sustaining the markets. And sustainable markets are essential for the sustainability of exchanges.

The various initiatives of exchanges to bring the sustainability agenda into the market can be divided into two broad categories:

1. **Encouraging transparency and ESG performance by listed companies. Examples:**

   - Guidelines and recommendations for responsible management and accountability
   - Engagement and training of companies
   - Forums for networking and exchanging experiences
   - Minimum listing criteria

2. **Products and services that help investors make decisions. Examples:**

   - Broad and/or sectorial sustainability indices
   - Special listing segments
   - Markets for companies in clean technologies, carbon credits and other environmental goods and services
   - Investment funds linked to sustainability indices

At B3

As an organization at the heart of the financial and capital markets, B3 has the role of inducing the best ESG practices among its stakeholders, offering products and services that support clients in the transition to a resilient, low-carbon economy, and at the same time adopting practices to conduct its activities through responsible internal management.

To leverage the company's strategic objectives and promote a business environment in line with the best environmental, social and corporate governance practices, B3 has a Sustainability Strategy based on three pillars:

Considering the relevance of the agenda, B3 has deployed its **Socio-Environmental Responsibility Policy**, approved by the Board of Directors, in line with the company's strategic principles and which aims to formalize and guide action guidelines on the subject.

ESG goals, which also cover diversity, equity and inclusion, are part of the variable remuneration of the CEO and teams.

One of the pillars of the sustainability strategy is to strengthen the portfolio and open up new ESG fronts in the market. In recent years, B3 has continued to make progress in this regard. In both the Listed and Over-the-Counter markets, the

1	2	3
TO BE A COMPANY ALIGNED WITH THE BEST SUSTAINABILITY PRACTICES	TO INDUCE GOOD ESG PRACTICES IN THE BRAZILIAN MARKET	TO STRENGTHEN THE PRODUCT PORTFOLIO AND OPEN NEW ESG MARKET FRONTS

company has made its set of products and services more robust and diversified.

One of the incentive mechanisms for good practices are the indexes that bring together in a portfolio the issuing companies considering ESG aspects. These indexes, which can be replicated by funds or ETFs, also reach investors interested in bringing the topic into their investment portfolio. An example is the Corporate Sustainability Index (ISE B3), launched in 2005, being the fourth corporate sustainability index on stock exchanges created in the world.

Being aware that building a more sustainable world is a challenge to be overcome with the involvement of all layers of society, B3 takes part in commitments and movements for sustainability, strengthening this cause and motivating other players to participate. In this sense, for example, it was the first exchange in the world to become a signatory to the UN Global Compact, in 2005, and the first exchange in an emerging country to commit to the Principles for Responsible Investment (PRI), in 2010. In 2012, it became a founding signatory to the Sustainable Stock Exchanges (SSE) initiative within the UN framework.

Consistent with its principles and commitments, B3 implements policies and practices that transform these intentions into concrete achievements. These results and other relevant information for stakeholders are reported in the Annual Report, which contains material information related to B3's strategy, business and performance from the economic-financial, environmental, social and corporate governance standpoints.

In preparing this document, B3 follows the most recognized market guidelines: it was the second exchange in the world and the first in the Americas to produce the Annual Report based on the GRI guidelines. Since 2020, the report has been externally audited and has also adopted SASB (Sustainability Accounting Standards Board) indicators and some IIRC (International Integrated Reporting Council) elements. The report also presents the correlation of the UN's Sustainable Development Goals (SDGs) that are most relevant to the business and connected with B3's materiality and Sustainability Strategy. As of 2021, the document also incorporates guidelines from the **TCFD** (**Task Force on Climate-Related Financial Disclosures**).

To learn more about ESG practices, products and services, visit the **Annual Report** page on B3's Investor Relations website.

5. Strategy and Management: 14 steps towards sustainability

B3

Strategy and Management: 14 steps towards sustainability

When deciding to incorporate the sustainability agenda into their business, companies soon realize that this is a race with no finish line. Every day, new demands arise, leading to a process of permanent evolution.

On the other hand, although certain topics may have more visibility in certain sectors of the economy, causing greater or lesser impact on business, there is a range of basic guidelines that apply to everyone. The purpose of this section is to identify them, helping companies regardless of sector, size or stage in the process of incorporating sustainability. The steps below should not necessarily be implemented or observed as a linear sequence of steps, but as mutually reinforcing phases that in some realities find more or less adherence. Let's see:

1) **Engage the company's senior management**
2) **Establish sustainability governance**
3) **Develop a sustainability policy**
4) **Engage stakeholders**
5) **Understand the context of your organization**
6) **Establish your priorities and sustainability strategy**
7) **Define indicators and metrics related to priority topics**
8) **Set goals**
9) **Review your organizational policies and processes**
10) **Manage your value chain**
11) **Adopt a Corporate Social Investment agenda**
12) **Spread the new culture in the company**
13) **Make public commitments**
14) **Report your results and challenges**

1) Engage the company's senior management

To be effective and generate value for the company, the sustainability agenda must start from a decision made by senior management. The adoption of sustainability in the business strategy often presupposes a change in culture. Therefore, the "tone of the top" or the "example that comes from above" is essential, when the company's leadership assumes the role of sponsor of the cause, showing the value of sustainability and its support on an ongoing basis. Ideally, this change should be initiated by the company's partners or shareholders, with support from bodies such as the Board of Directors.

Derived from a set of motivations, ESG and sustainability factors are increasingly being incorporated into companies' strategic decision-making processes. According to the survey *Leadership for the Decade of Action*, conducted in 2022 by the Global Compact in collaboration with Russell Reynolds Associates, among Brazilian executives, 50% expect sustainability to be incorporated into the entire business strategy within the next five years. The average for other countries is 39%, which places Brazil among the leaders in the transition to sustainable business. In its findings, the survey reveals an urgent need for transformational business leaders who consider profits beyond the short term and embrace sustainability and resilience as priorities in business.

Studies also indicate that directors and decision-makers continue to be required in relation to new competencies and attributions, in the sense of directing greater efforts to the demands and realities that surround their respective companies. Some of the priorities for business leaders include:

- **Overseeing the strategy for long-term value creation**
- **Promoting risk management and corporate resilience in the face of uncertainty**
- **Focusing on team transformation and new ways of working**
- **Leading in diversity, equity and inclusion**
- **Guiding an ESG strategy that encourages stakeholder engagement and added value**

Source: EY Center for Boards Matters

Being aware of these new dynamics and market demands around greater professionalization, and its role in disseminating good corporate governance practices, Instituto Brasileiro de Governança Corporativa (IBGC) [Brazilian Institute of Corporate Governance] proposes a **Positive Governance Agenda**. This agenda suggests actions to be taken by leaders, supported by six pillars: (i) ethics and integrity; (ii) diversity and inclusion; (iii) environmental and social; (iv) innovation and transformation; (v) transparency and accountability; and (vi) future advices.

THINK:

Is your company's leadership truly committed to the sustainability agenda? Has your company's leadership adopted a strategy that encourages engagement with your stakeholders?

2) Establish sustainability governance

The Board of Directors is the collective body in charge of the decision-making process of a company in relation to its strategic direction, and has the role of guardian of the principles, values, corporate purpose and governance system. Its main objectives include business continuity, risk mitigation and value creation.

As we saw in the first step, it is advisable to assign strategic responsibilities for the topic of sustainability to the Board of Directors. Investors began to demand that companies have advisors with knowledge of the ESG perspective so that they can make these issues gain space among the leadership.

But balancing economic, social, and environmental results involves facing strategic, tactical, and operational dilemmas, and making short-, medium-, and long-term decisions. Therefore, for sustainability to become a value and a consistent practice in business, the company must also create and formalize a governance structure for sustainability, which must encompass and permeate the various organizational levels.

The number of levels to be established for sustainability to be effectively integrated and managed - enabling the development of new initiatives, the improvement of practices, and the alignment of the entire organization - will depend on the size of the company and the way it is structured.

See below suggestions of levels of a governance structure for sustainability:

- **Sustainability Committee** – Functions as an advisory body, whose purpose is to support the Board of Directors (BoD) or other internal bodies, such as the statutory executive board, on topics related to sustainability. It can consist of one or more members of the BoD, as well as the CEO or chief executive, C-level officers, business unit officers, external members, and also other executives. In many companies, it is the body responsible for implementing sustainability strategy and guidelines.
- **Sustainability Commission or Working Group** – It usually brings together superintendents and managers and has the role of ensuring the coordinated execution of the actions defined in the company's strategy on the theme. It also has the function of providing the exchange of experiences between the different areas and business units.
- **Sustainability Squads or ESG Squads** – It involves several professionals with complementary skills, who come together to solve challenges on the company's ESG agenda and act in coordination with the Commission or Working Group.

It is advisable that there be a facilitator or leader responsible for coordinating the agenda and the interaction between the different instances of sustainability governance. With access to senior management, such a professional, or area of the company, will have the role of disseminating the subject, spreading it within the organization, and engaging and supporting the work of the other areas.

Also in the context of sustainability governance, one of the agendas that has been gaining more and more strength is the diversity of the members that make up each board, in order for it to be a collective body that counts on different expertise and competencies, and also greater representation of women, black people, and members of other minority groups.

THINK:
Does your company have a formal structure responsible for its sustainability governance? Is sustainability integrated into the company's strategic decision-making processes?

LEARN MORE:
GRI has prepared a Guide on Sustainability Committees, positioning these committees as instances capable of facilitating the integration of ESG aspects into business strategy. IBGC also prepared a study on this topic: "Sustainability in the Boards of Directors: Practices of some Brazilian listed companies".

3) Develop a sustainability policy

Developing a sustainability policy is a key step towards translating strategies and commitments into management goals and guidelines and having a set of practices formally in place. It should contain basic instructions on sustainability management at the company, for ease of planning and executing actions on different teams or business units, and requires approval by the senior management or the board of directors.

There are certain methods that will drive you through drafting a policy and organizing its guidelines:

- **By topic:** List material topics and the relevant guideline on addressing them. Consider investors and shareholders. Consider legal requirements.
- **Por unidade de negócio:** For companies engaged in relatively distinct lines of business or having units in different regions of Brazil or in other countries, it may be helpful to prepare guidelines that reflect the specific contexts, impacts, risks and challenges of those different units or lines of business.
- **By functional area:** Guidelines can be organized according to the different functions, such as corporate communication, corporate risks, internal audit, human resources, operations, finance, investor relations, supplier management, community relations, etc.

A good policy must be short and objective and be spread among all stakeholders, beginning with internal audiences. Different companies can use different formats for their sustainability policies, such as sustainability guidelines, a sustainability manifesto, and commitments to sustainability, among others.

THINK:
Are your company's ESG practices documented in corporate policies?

4) Engage stakeholders

In order for any corporate strategy to succeed, it is indispensable that the entire organization be in line, understanding the importance of that strategy and working toward a same purpose. When it comes to implementing a sustainability agenda, that logic applies to both insiders, who are connected to the company, and outsiders.

Communicating with stakeholders enables a company to better understand the impacts of its activities and outline a sustainability strategy. Governance issues usually involve specific stakeholders, such as investors, regulators and employees, whereas on environmental and social issues, communicating with broader, more diverse groups is key to identifying impacts and finding ways to mitigate and manage them. These communications need to be constant and are just as essential to determining material issues. They should take place at both the corporate and the business unit levels.

At the corporate level, stakeholders include employees and their representatives (internal audiences), investors, governmental entities and regulatory agencies, industry associations, strategic suppliers, major customers and partners, civil society, etc. At the business unit level, stakeholders usually include local governments, neighboring community members, small suppliers, local customers and consumers, local NGOs and other regional players.

For the most part, companies have regular interactions with their stakeholders through different channels and approaches, such as surveys, one-on-one meetings, conferences, workshops, public hearings, boards and committees, collective bargaining, meetings with investors, call centers, whistleblower and ombudsman channels, and even social media. Whatever the channel, the important thing is to optimize and take full advantage of them, setting up a structured way of listening to the expectations and feedback of shareholders and incorporating them into managing.

The ***AA1000 Stakeholder Engagement Standard***, was created by AccountAbility to provide companies with a structured tool for use in management processes to identify priority issues, determine performance indicators and targets, and contribute to the reporting process.

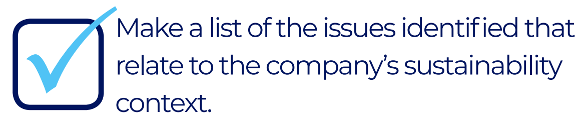
THINK:
Who are your stakeholders and what are their primary demands, complaints and points of view concerning your company's performance?

LEARN MORE:
The Brazilian Association for Corporate Communication (Aberje), through its ESG Communication and Strategy Committee, has come up with a blog to help companies with stakeholder engagement strategies for sustainability. In this article, the entity shares a reflection and gives tips on how to engage your internal audience in the ESG Agenda.

5) Understand the context of your organization

Companies increasingly need to prioritize and integrate into their strategies sustainability issues and their positive and negative impacts, risks, challenges and opportunities. Accordingly, it is fundamental for a company to understand its own context on at least three levels: **sustainability**, **industry** and **internal**.

Sustainability context: Identify global topics, mapping regulatory requirements and trends, risks affecting society and business as a whole, recommendations of initiatives widely recognized in the field of sustainability, such as the UN Global Compact and Sustainable Development Goals (SDGs). You should also consider critical topics at the national level, such as actions against deforestation, pollution of ecosystems, poverty and social inequities, and a diversity and inclusion agenda. Also, understand the specificities of the local context, such as the challenges facing areas in the vicinities of your operations.



Make a list of the issues identified that relate to the company's sustainability context.

The United Nations (UN) approved in 2015 the 17 Sustainable Development Goals (SDGs), as specified in the document entitled [Transforming Our World: the 2030 Agenda for Sustainable Development](). The Agenda consists of a declaration, the 17 SDGs and 169 targets, a section on means of implementation and global partnerships, and a monitoring and review framework. The SDGs demonstrate the scale and the ambition of this new universal agenda. They are integrated and indivisible and they evenly blend the three dimensions of sustainable development: economic, social, and environmental. Each company can list the SDGs that best fit its business, using the materiality study mentioned in step 6. The indicators selected to measure performance can also show the extent to which the company has contributed to the SDGs.

Industry context: Consider the sustainability standards specific to your industry, for example, those issued by the Sustainability Accounting Standards Board (SASB) and, as soon as available, the International Sustainability Standards Board (ISSB/IFRS). Using these two benchmarks is important because they complement each other and represent the idea of double materiality: on the one hand, the SASB and the ISSB/IFRS focus on ESG issues that impact the financial materiality of businesses, while the GRI, on the other hand, focuses on topics related to the key impacts (positive or negative) that an organization have on the economy, the environment and/or society.

To understand the key aspects of sustainability, also refer to other standards, initiatives or certifications specific to your industry. Examples: for the chemical industry, there's Responsible Care; for soy production, there's the Round Table for Sustainable Soy (RTRS); the fashion industry has the transparency indicators of the Fashion Transparency Index (FTI); companies in the hydropower generation sector have the Hydropower Sustainability Assessment Protocol; and, for the mining industry, there is the Mining Responsible Index (MRI).

Also helpful is referring to benchmark analysis and sustainability reports of industry peers for a mapping of best practices. In addition, financial institutions, too, can have their own ESG standards that apply to the different industries they finance, and those standards can be used as industry benchmarks.

Make a list of the issues identified that relate to the company's industry context.

Internal context: Begin with an assessment of the moment at the company (main challenges, risks, issues related to the market served). Assess corporate documents and internal management systems. Make a sustainability diagnosis, so you can find any existing gaps at the company and identify opportunities for short, medium and long-term action. It is also essential that you capture more tacit and cultural aspects of the organization by interviewing the leadership and management of different teams and the relevant stakeholders.

The company can also make assessments and diagnosis of its own performance in ESG practices by taking part in selection processes for sustainability indices, such as the ISE B3 and the Dow Jones Sustainability Index. For the ISE B3, there is a "Simulation" mode, available even to privately-held companies, that enables them to run a self-assessment of their management in terms of sustainability. Another tool available on the market for this purpose is the B Impact Assessment, provided by the B System for companies seeking to be certified as B companies. This effort can also support the company in identifying its existing improve opportunities and creating a short, medium and long-term action plan.

Also helpful is doing a media analysis to identify what issues have positive or negative repercussions on the company or its line of business.

Make a list of the issues identified that relate to the company's internal context.

THINK:

How are social and environmental topics integrated into the company's management? Does your company know what the key ESG topics are for its industry? Has your company ever used self-assessment tools to find what its strengths are and identify changes that need to be prioritized in its action plans?

LEARN MORE:

By applying the ISE B3 Simulation, the company instantly receives a detailed report, showing its performance based on its answers to the ISE B3 Questionnaire, as well as a comparison to the performance of companies that are part of the current portfolio of the Corporate Sustainability Index (ISE B3). Click here to learn about this initiative.

6) Establish your priorities and sustainability strategy

As shown in the previous step, when you look into the company's context, you identify a series of relevant topics, and more issues come up than a company could possibly manage. Therefore, the next step is about determining the priority level of each of those issues for the company.

Priority levels are set based on the stakeholders' perception (from specific inquiries or through the company's communication and engagement routines), as well as the priorities of the business (which can be identified through interviews with the senior management and alignment with the business strategy, for example). That's what we call materiality assessment: finding what really matters, so attention and efforts can focus on material topics.

Originally applied to law and accounting, the materiality concept can also be used to indicate what needs to be reported by the company in terms of sustainability. The determination of materiality has to be a robust process firmly underpinned by knowledge of the company's business and impacts. The materiality assessment is suggested for that reason, while being the foundation for the company's sustainability management, having multiple applications, and creating productive connections to other processes, such as risk management, compliance and strategic planning.

Material ESG topics are determined based on positive and negative impacts arising in connection with the company's business. By the double materiality concept, there can be two kinds of impacts: those the organization's activities have on people, the economy, society and the environment (impact materiality), and those related to the risks and opportunities that these factors present to the company, affecting its ability to create value (*financial materiality*).

In other words, materiality can be related to both the impact **of** the organization on the world and the impact of the world **on** the organization.

Also important to remember is that materiality is dynamic, topics can be or cease to be material from one perspective or another, according to the context of each company. That context can change both over time and according to the location from which the company operates.

As to the extent of its impact, a topic is deemed material when knowing it (or ignoring it) could lead the stakeholders to change their decisions and attitudes towards the company

It's worth reinforcing that the communication with stakeholders must be kept up continuously and that the prioritization of material topics must be reviewed whenever necessary, but at least with a predetermined frequency, annual, biannual or at least every three years.

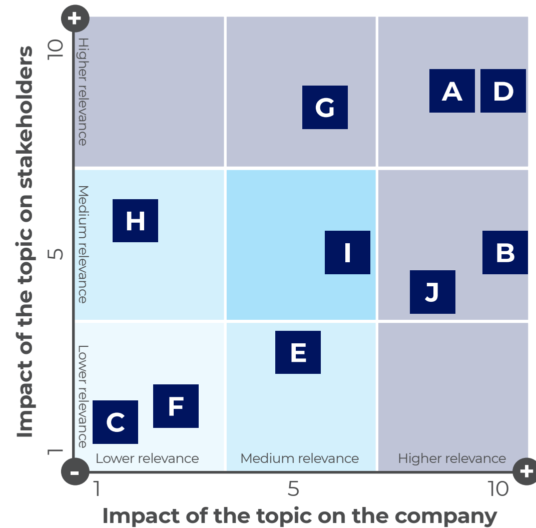
It's also important that the material topics be approved with the company's senior leadership.

In practice, there are several ways of conducting a materiality assessment and prioritizing topics to be worked on. One usual way is by preparing a materiality matrix with two axes combined: the importance of a topic to stakeholders versus the impact of the topic on the company. By this method, the

combination of those two perspectives determines material topics through a structured categorization, indicating as priority topics those rating high on both axes, as illustrated below.

Whatever the method used in its materiality assessment, it's important for the company to give visibility to the criteria used and its end result.

Topics identified by organization context study	Importance of the topic to stakeholders	Impact of the topic on the company
A	8	8
B	5	10
C	0	0
D	8	10
E	5	3
F	2	3
G	9	6
H	7	2
I	5	7
J	4	8



Upon recapping the previous steps, the company would now be at a point where it has its leadership and other stakeholders engaged, is backed by a sustainability governance framework, and has its topics determined and prioritized. At this point, the company will need to use those elements and devise a sustainability strategy aimed at translating the aspirations and perspectives determined by its leadership, governance and stakeholder interests into practical actions. An additional challenge in that process is integrating that strategy into the core strategy of its business. For this reason, the method used to determine the sustainability strategy doesn't need to be different from the method the company uses in the ordinary course of its business. What makes the difference are the purpose, assumptions, factors and objectives considered in the process.

THINK:
Are the material issues reflected in your company's sustainability strategy? Does company's materiality have a robust approach, considering topics (impacts and challenges) from a set of internal and external stakeholders?

LEARN MORE:
The new standard of the Global Reporting Initiative GRI 3 – *Material Topics* – of 2021, effective as of January 2023, takes a detailed approach, with step-by-step instructions on how to determine material topics.

The SASB provides an online tool – *Materiality Finder* – featuring lists of material topics for different areas of operation and their respective reporting standards.

The ISE B3 questionnaire which has industry-specific variations, can also provide a benchmark for identifying potential material topics.

7) Define indicators and metrics related to priority topics

Having identified and prioritized material topics, the organization will then define sustainability indicators to be managed and monitored and bring the results to the attention of both internal (as defined in step 2 on sustainability governance) and external audiences.

All companies have an array of process and result indicators. In this respect, it's helpful to map the management systems (software tools) used and the indicators monitored. Examples of frequently used systems include ERM, ERP, CRM, time sheets, salaries, benefits, greenhouse gas (GHG) management systems, logistics systems, fuel consumption, etc. The appropriateness (collection methods, metrics, etc.) of material indicators needs to be considered vis-a-vis what is required by market standards. Also, for material topics not previously managed, new processes and indictors will need to be implemented to monitor them.

There are different categories of indicators that can contribute to the measurement of sustainability issues or topics, such as quantitative and qualitative indicators. These indicators are related to various topics, such as management of natural resources, GHGs, labor and salary practices, relationship with suppliers and society, and corporate governance best practices. Additionally, you should remember that the performance of indicators reflects how the sustainability strategy is working in practice.

The market already counts on a body of benchmarks to help companies choose what they measure and monitor, like the Global Reporting Initiative (GRI) standards, for example. The tables below provide examples of indicators selected based on the standards most frequently used and generally applicable to companies of different sizes and sectors. These tables should be taken only as an initial benchmark, as it is important that each company determine the indicators it will use based on its materiality.

THINK:
Does your company determine and monitor sustainability indicators as often as it does financial indicators? Does the company have automated information systems for greater credibility, quality and traceability of information?

LEARN MORE:
At the World Economic Forum, the international consultancy firms Deloitte, EY, KPMG and PwC jointly took on the task of harmonizing common metrics for consistent reporting of sustainable value creation. View their publication: *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*.

The IFRS Foundation, responsible for the foremost international accounting standards, created in 2022 the International Sustainability Standards Board (ISSB). This entity is developing international ESG reporting standards, and is making available through this link various materials for viewing.

ENVIRONMENTAL INDICATORS	
Natural Resources	
DESCRIPTION	UNIT
Energy	
Management of energy resources	Qualitative (Ex.: SGA, alternative sources, co-generation, certifications)
Electricity consumption	mWh per source
Water	
Water usage	m^3
Gases, waste and effluents	
DESCRIPTION	UNIT
Emissions (GHG and other polluting gases)	
Emissions management	Qualitative (e.g. reduction targets, regulatory and physical risks)
Direct and indirect GHG emissions	Ton
Solid waste	
Waste recycling	%
SOCIAL INDICATORS	
Control of general corporate affairs	
DESCRIPTION	UNIT
Workforce, human rights and society	Qualitative (Standards, policies and guidelines; involvement in cases of violation of human rights; voluntary commitments)
Labor practices	
DESCRIPTION	UNIT
Benefits and fair labor practices	
Employee engagement level	% (satisfaction survey)
People development	Hours of training/employee
Turnover rate	% per annum
Diversity	
Diversity of gender, sexual orientation, ethnicity, people with disabilities, refugees and age groups; non-discriminatory practices	Qualitative (e.g. voluntary commitments, awareness programs, theme committees, disciplinary actions)
Gender diversity	%
Health and safety	
Accident and injury rate	Hours/employee
Rate of accidents with leave of absence	Hours/employee
Relationship with suppliers	
DESCRIPTION	UNIT
Supplier training in social and environmental issues and human rights	% contract amount
Relationship with society	
Investments in community development projects	$/revenues

CORPORATE GOVERNANCE INDICATORS	
Board of Directors	
DESCRIPTION	UNIT
Independence	% independent directors
Gender profile	% women as incumbent members
Ethnic-racial profile	% black people as incumbent members
Executive compensation	
Compensation criteria	Qualitative (e.g. performance management and recognition, relation between variable compensation and the company's social and environmental performance targets)
Corruption and conflicts of interest	
Prevention/handling mechanisms	Qualitative (e.g. ethics or conduct committee, whistleblower channels)

8) Set goals

Any company looking to advance consistently on the sustainability agenda and on ESG management needs to set clear and objective goals for the indicators it uses. Ideally, both goals and indicators should be publicly known and easily to monitor internally and externally, materializing the company's commitment to its objectives and making them transparent.

Traditionally, companies set goals considering scenarios in their competitive environment, how likely they are to be realized, and the expectations of their stakeholders, particularly shareholders, managers and employees.

From a sustainability standpoint, and considering today's social and environmental emergencies, a good benchmark for setting goals would be based on the SMART (Specific, Measurable, Achievable, Realistic and Time-bound) tool, which can contribute to the goal-setting process.

S - Specific	Reducing absolute greenhouse gas emissions relative to a base year
M - Measurable	Using the **GHG Protocol** methodology to calculate emissions
A - Achievable	5% reduction
R - Realistic	GHG emissions are a material issue to the industry
T - Time-bound	2024, for example

Ambitious and relevant sustainability goals are also those for which companies take mega-trends into account and where progress demonstrates their actual contribution to sustainable development, increasing their value for society and their internal and external credibility. That calls for a change of perspective: the question behind the goals is no longer "*how much is possible*", *but rather "how much is needed?*".

That way, formally setting goals and determining the actions, timetables and resources needed to achieve them can be considered to provide the company with an action plan to materialize its sustainability strategy.

Effective actions that contribute to that integration would be preparing and reviewing the company's policies and processes, engaging its value chain, and advertising that change of organizational culture. These are important parts of the job and will be introduced in the following steps.

THINK:
Does your company incorporate its commitment to sustainability topics into its strategic targets and goals?

LEARN MORE:
In the spirit of the Decade of Action, the Global Compact released in 2020 the publication "SDG Ambition: Ambition Guide – Setting Goals for the Decade of Action".

Another key source of information on sustainability challenges and goals is SBTi - Science Based Target Initiative, which brings different calculation methods for setting GHG emission targets based on scientific data.

9) Review your organizational policies and processes

As a company incorporates sustainability into its business strategy and puts indicators, targets and policies in place for that, the need will arise to adapt its management tools and processes.

Accordingly, a necessary step is about writing (or reviewing) and publishing new corporate policies, as well as a sustainability policy. Remember that policies don't always need to have the same names and that, depending on the company, a policy can address more than one topic.

Policies often require management systems for monitoring their implementation and introducing new processes and procedures, as well as selecting and measuring indictors.

Processes and procedures are significant at this step of the strategy deployment, as they ensure commitments made are integrated into the company's day-to-day business, or even that of third parties, where so determined. They tend to institutionalize compliance with corporate policy, bolstering the company's pro-sustainability culture and reducing potential compliance, regulatory and/or reputational risks.

THINK:
Are the development and revision of your company's ESG policies subject to approval by senior management?

10) Manage your value chain

The sustainability approach should not be taken only inside the company, but also across its supply chain. For companies in different sectors, the most probable source of risks and negative social and environmental impacts in its operations lies in their supply chains, especially at production-related links. Negative developments and incidents occurring in the supply chain can adversely impact the company receiving the goods and services from a reputational perspective as well as a business, operational, financial and legal viewpoint

Accordingly, supplier management is particularly relevant for companies in industries whose supply chains are long and involve activities with a high potential for negative impacts. According to the conditions and the work done in different value chains and to the natural and social environment in which they operate, events related to environmental management, human rights, labor practices, ethics and corruption, among other things, can be named as examples of negative impacts.

Due to its position as a purchaser of goods and services, a company has considerable power to influence suppliers that are part of its value chain. As such, the company has favorable conditions to encourage those suppliers to adhere to best practices and incorporate ESG parameters into their management. It's become increasingly common for companies to mobilize their suppliers to cooperate to achieve their sustainability targets. In exerting that influence over the supply chain, it is important that the company consider ways of supporting the development of all those involved, so the process is not about imposition and confrontation, but a collaborative and constructive exercise in mutual development.

Managing a supply chain in terms of sustainability practices can involve all supplies governance steps, such as searching for suppliers, publishing call notices and conducting bidding processes, managing contracts, and assessing performance and qualifications to minimize potential risks and negative impacts. It can also be a time to reap opportunities in connection with the supplier engagement process, boosting innovation and resilience for the business model.

Lastly, you need to remember that the value chain also involves the consumer and post-consumer stages, which include, among other actions, managing impacts over the lifecycle of the company's products or services. Those would be the impacts related to packaging materials, distribution, the amount of resources spent while a product is in use, and other environmental and social externalities that may arise during the product or service utilization phase, until the end of its useful life. Accordingly, a series of practices should also be contemplated by the company its sustainability strategy according to the specificities of its business model.

THINK:

Does your company have supplier management practices in place that consider aspects beyond the availability, pricing and quality of the products or services it purchases? Does your company provide customers and consumers with post-sale services aiming at customer satisfaction and quality assurance?

LEARN MORE:

ISO 20400: Sustainable Procurement – is an international standard providing guidance to public and private-sector organizations on integrating sustainability into their procurement practices, whatever their business or size.

Associação Brasileira de Ciclo de Vida (Brazilian Lifecycle Association - ABCV) is engaged in activities that stimulate education, research, development and application of the product and service lifecycle assessment technique.

11) Adopt a corporate social investment agenda

While the notion of Corporate Social Responsibility (CSR) has been well known for decades, it has gained new momentum in the past few years. Firstly, that has happened as advancements have been made in sustainability discussions inside companies and, secondly as the ESG agenda is embraced. That's no surprise, given the close proximity between these fields, as you can clearly see when you look at how the international social responsibility standard, published in 2010, defines the term:

> ***"Social responsibility—for business or other organizations—is a management style defined by an organization's ethical and transparent relationship with all of its stakeholders and the setting of business targets consistent with the sustainable development of society, preserving environmental and cultural resources for future generations, respecting diversity and fostering a decrease in social inequalities."***
>
> Source: ISO 26000/ ABNT NBR 26000:2010

Whether placed under the purview of sustainability areas or managed by other specific departments, social action practices (philanthropy, corporate social investment and volunteering) have evolved in various companies from some occasional work on community relationships to a professionalized, systematic, medium and long-term action.

Due to that shared history, having trouble naming those areas or otherwise telling one from another is not unusual. In certain cases, the areas focused on social action retain the CSR name, despite the broader scope attributed to the term. In other instances, that name has been changed to reflect the focus and specificities of social action.

Whatever the name, the fact is this evolution has brought about major benefits: it has added efficiency to the social action of businesses, increased the creation of value for society, and contributed to having companies respond more assertively to the demands made by their stakeholders.

There are numerous paths for companies to achieve their goals on the social front. However, two strategies currently stand out as preferred by organizations: Corporate Social Investment (CSI), and Corporate Volunteering programs.

One of the most widespread definitions of CSI is that offered by GIFE (Group of Institutes, Foundations and Enterprises), dealing with the voluntary transfer of private funds, in a planned, monitored and systematic way, to social, environmental and cultural project of public interest. In this context, Venture Philanthropy proves a good business model.

Likewise, Corporate Volunteering programs have evolved from occasional, unstructured practices to comprehensive strategic planning. Actions can include simple contributions, like donating to fund-raisers, participating in one-off actions, like giving blood, and even more complex, recurrent activities, such as mentorship programs.

In face of increased relevance of corporate sustainability and CSR, more and more companies are looking to either start acting or broaden their action on CSI and Volunteering. Today, the path toward making progress in tackling this challenge

is safer and faster, as a body of knowledge has been amassed from the experiences of pioneering organizations.

You will find below the steps and key issues to be taken into consideration by companies in the process of structuring or restructuring their CSI agenda.

1. KEY CONCEPTS

Before starting to allocate funds and undertake efforts, you need to know key concepts in the realm of CSI. Four topics stand out:

Legal nature:
internal X external structure

You can either add a CSI area to your organizational chart or set up a separate legal entity, creating a business association or institute.

Your internal structure is right there and can expedite the creation of the area and its communication with the company's other areas, policies and regulations.
An external structure, in turn, has the advantage of being more focused and specializing in CSI goals, while occasionally having more favorable conditions to connect with other companies and organizations and raise funds. Figuring out which is the best option calls for an assessment taking into account legal, corporate, budgetary, tax and hiring criteria.

However, two chief criteria are the scale and the amount of funds the initiative involves. Because an external organization will usually need a higher fixed cost to be maintained, opting for this path is only justified for sizeable projects. Otherwise, there's a risk of using more funds to cover maintenance expenses than used in a social investment.

Business model: financiers, operators and hybrids

In the CSI world, companies can position themselves as financiers, operators or hybrids.

- **Financiers** are those allocating resources (financial, human, technical and/or managerial) to third-party projects. Therefore, they have more of an indirect impact on end beneficiaries, through an intermediary social organization. The concept embedded in this model is that there already are many ongoing social projects in Brazil, which makes it more effective to boost the results of those already working on them than to start an action that will involve a learning curve..

- **Operators** are those creating and implementing social projects that directly benefit the desired public. This model has the advantage of mobilizing teams and enhancing their engagement and experience, making them prouder and more emotional.

- **Hybrid** operations, as the name suggests, combined the two strategies. At the same time as they benefit from the advantages of this model, hybrid organizations can scale up results while financing third parties.

Operating focus: keeping an eye on materiality

A company's CSI agenda will usually be directly linked to its core business and its values, addressing the most relevant issues in the eyes of its stakeholders. One of the ways of ensuring that alignment is setting the operating focus of the CSI team on the basis of the materiality matrix, as set out in step 6.

The alignment between the CSI effort and material topics makes the company's action more focused, efficient and meaningful.

It's also worth considering emerging social challenges in the local community where the company operates or challenges that are very relevant to society as a whole. That way, the social action becomes even more encompassing.

Funding sources: share of the earnings, dedicated budget and other models

Like any project, creating a CSI structure requires finding sources to ensure its feasibility and sustainability.

One of the best-known models consists of setting aside a fixed percentage of the company's earnings towards capitalizing the CSI team. In addition to ensuring security and predictability to the operation, this is a simple way to signal how import the social contribution is in relation to other items in your corporate agenda.

Other organizations opt for setting up a dedicated budget for the issue year after year, using the same process as do the other strictures in the corporate organizational chart. One other option is to pick one or more products or services offered by the company and allocate the profit they made to the CSI team.

Finally, there are fund backing social investments under tax incentive laws. Various laws (federal, state and local) are currently in force that allow companies to allocate to social projects part of the taxes it has to pay.

Each company makes its choice in light of its own reality and objectives. The most important thing is to secure a funding source that gives security and longevity to the efforts.

2. IMPLEMENTATION

Once the structuring decisions have been made, it's time to start shaping the initiative. Structing a CSI team or institute needs advancements on five key topics:

Creating Governance:

Ideally, CSI should be a part of the company's structure. For that to happen, it is important to create a governance framework that can connect the different units and teams making up the organization.

Companies usually do that by either appointing a committee dedicated to the topic or utilizing existing governance structures that connect with CSI goals, such as sustainability, as mentioned in step 2. The mission of that body includes approving a CSI strategic plan, updating the executive board on progress, implementing actions and sensitizing the rest of the organization.

Making a diagnosis:

Before plotting a CSI plan, we recommend assessing internally how the company has been relating with the communities and what the leadership's ideas are as to how to move forward from that.

The effort may involve a qualitative front, consisting of an interview with the executive board, and a quantitative front, seeking to map all funds from the company or funds raised from donations to social causes in recent times.

The Institute for the Development of Social Investment (IDIS) recommends using a ten-question script for the qualitative interview, which you can view here.

3. MONITORING RESULTS:

Measuring the results of CSI initiatives allows the company to evaluate the social return on investments made, correct course, be accountable to society, and keep up the engagement of those involved.

As difficult and sometimes subjective the assessment of social action indicators can be, there are paths and methodologies that help organizations understand the impact their actions are having. One example is the Social Return on Investment (SROI) metric, an assessment comparing the amount invested in a project to social value estimated for society. Another option is the Theory of Change, which stems from a social goal and maps the logical sequence of activities and results for making a social impact.

LEARN MORE:

IDIS has a publication entitled Social Impact Assessment: Methodologies and Reflections, which describes performance measurement methods.

12) Spread the new culture in the company

Once the sustainability strategy is developed and implemented at the company, it is important that it be spread among all its stakeholders. Its dissemination should focus on creating a new corporate culture that reflects the pro-sustainability commitments made.

A variety of initiatives can be taken aiming at that goal. Examples include developing and improving training programs that address social and environmental issues, creating work groups tasked with engaging stakeholders, launching internal awareness campaigns, holding theme events, creating stakeholder groups, and holding rounds of talks, among other actions.

One important path to signaling the importance of the topic is linking sustainability targets to the variable compensation for executives and other employees, a practice that has been in place for years now at many large Brazilian companies. Under pressure from investors and boards of directors, more and more companies started setting corporate targets related to social and environmental issues.

THINK:
Does your company usually carry out awareness campaigns or training programs concerning topics other than directly related to the specific activities performed by its employees? Does your company invest in sustainability learning processes?

13) Make public commitments

As you get to this step, you will be able to tell that the company is not what it used to be back when the journey began. The incorporation of sustainability into the business strategy and management will be influencing the company's goals and the way it relates with its stakeholders.

Now it's time to check whether the company's identity, mission, vision and values are reflected in the new commitments it has made or some adaptation can and need to be proposed. It's also advisable that the company seek to engage and make public commitments and arrangement pertaining to sustainability issues.

There are various collective corporate agendas, both general and industry-specific, that can also help a company hatch its strategy, while becoming part of a leaning and interaction network with various stakeholders. Such commitments also aim to influence the process of improving the company's ethical conduct and commitments to society.

Examples of commitments and arrangements your company can adhere to include:

UN Global Compact: Launched in 2000, the Global Compact is a call for all companies to align their strategy to the universal Ten Principles related to Human Rights, Labor, Environment and Anticorruption and take action to contribute to society in taking on its challenges.

UN Sustainable Development Goals (SDGs): As described in step 5, this set of goals translates the broader context of sustainability, comprising all business activities. By connecting with this context and seeking to effectively contribute to achieving these major goals, each company can list the SDGs that are most connected with its business, using the materiality assessment addressed in step 6. Indicators selected to measure performance can also show the extent to which the company has contributed to the SDGs. To support companies in aligning with such an agenda, the Global Compact launched in 2020 the SDG Ambition initiative.

Pact for the Promotion of Racial Equity: An initiative proposing the implementation of a Racial ESG Protocol for Brazil, so as to bring the question of race to the center of economic discussions in the country and draw attention from businesses and civil society. The goal is to create an indicator of race representation in Brazilian businesses and make it a benchmark pointing the way for them to evolve.

Women's Empowerment Principles is a joint UN Women and Global Compact initiative that assists the private sector in bringing about gender equality at the workplace, in the market and in community. This set of principles encourages and advises companies to incorporate into their business values and practices aimed at gender equity and women's empowerment.

An example of environmental initiative is the **Business Movement for the Amazon,** which brings together large companies based in Brazil and has them express their concern about the negative perception of the country's image abroad in connection with social and environmental issues in the Amazon and other Brazilian biomes and bolster the support and participation of the country's business community in taking positive actions.

Again, these are only a few examples. The important point is for each company to seek public, industry-specific or theme-based commitments that make more sense to its business and corelate to its materiality.

Certifications

Certifications are an effective way of publicly demonstrating a company's performance or integration of sustainability issues into its management. There are many sustainability-related certifications in Brazil and around the world. They are tools that certify that a certain company follows and complies with specified standards, imparting credibility to processes and products.

Examples of certifications most commonly used by companies include:

- **Management and process certifications.** The best-known standards are known as ISO 9000, for quality, ISO 14000, for the environment, ISO 20400, for sustainable procurement, and ISO 26000, for social responsibility.

- **Product certifications.** Also known as "seals," they are usually displayed on packaging materials. One of the most renowned seals is about fair trade, seeking to demonstrate that the products certified involved manufacturing best practices and benefitted local populations.

- **Industry certifications.** They've become increasingly more frequent in areas whose impacts are most combatted by civil society, to the point of serving as market protection from potential non-trade barriers. In Brazil, the packaging and the pulp and paper industries make extensive use of the Forestry Stewardship Council (**FSC**), or its Brazilian version, the Brazilian Forest Certification Program (**Cerflor**), whereas the chemical industry bases its actions on the Responsible Care program to ensure its products are handled safely over the course of their life.

THINK:
Does your company mission, vision and values reflect its commitment to sustainability? Does your company seek to stay updated on and determine which corporate commitments and certifications best fit its industry or business model?

LEARN MORE:
The B Lab proposes that companies change their corporate purpose, including their economic, social and environmental commitments, in their bylaws or articles of association. Guidance for organizations on how to make that change is provided through this link.

Check the ITC Standards Map website. Connected to the UN's trade arm, the International Trade Centre (ITC) is the world's largest database for sustainability standards, providing information free of charge on more than 300 environmental protection, labor and consumer rights, economic development, food quality and security, and corporate ethics standards.

14) Report your results and challenges

To win the trust of stakeholders, you need to be transparent. In addition to continuously providing information on the company's communication channels, an important accountability method is publishing reports or statements.

Publicly-held companies already are required to publish in a newspaper and send to the CVM at the beginning of every year their management reports, disclosing especially their financial results for the previous year. At the same time, incorporating ESG issues in these documents and publishing those known as annual or sustainability reports have been a growing practice.

In the process of publishing business information, growing importance is attached to integrated reports (or statements), whereby companies present in a unified way their economic, financial and ESG results, preferably based on a strategy that is unified and integrated as well.

As explained in this Guide, there are standards for this type of report (as well as standards being created or improved) that are currently not mandatory, but tend to become, as required by either the law or the market, particularly by investors. (*see box*)

- **Global Reporting Initiative (GRI):** Created in 1997 by U.S.-based NGO Ceres and the United Nations Environment Program (UNEP), the GRI is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. Its key goal is to extend the analytic and quantitative rigor of economic and financial reports to non-financial reports. Currently, it is contributing to the creation of the **European Sustainability Reporting Standards** (**ESRS**), which will give rise to a future European Union standard for sustainability reporting.
- The **International Integrated Reporting Council** (**IIRC**), responsible for the Integrated Reporting framework, and the **Sustainability Accounting Standards Board** (**SASB**), which has issued ESG reporting guidelines for 77 different industries, with a focus on financial materiality, announced in November 2020 that they were merging into a unified organization, the **Value Reporting Foundation** (**VRF**). Its goal is to provide investors and companies with a comprehensive corporate reporting framework, combining the integrated reporting framework and the SASB industry standards.
- Later on, in 2022, the IFRS (International Financial Reporting Standards) Foundation, responsible for developing global financial reporting standards, completed the consolidation of VRF, as well as the Climate Disclosure Standards Board (CDSB). In that same process the IFRS formed a new body, the **International Sustainability Standards Board** (**ISSB**), to develop a global database of sustainability reporting standards with a view to understanding the information requirements of investors. This consolidation signals rapid advancement in the determination of global standards for ESG reporting originating in the U.S.
- **GHG Protocol**: The international greenhouse gas (GHG) emission reporting standard most used by countries and companies. It was developed in partnership with the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). By providing a globally standardized model, the GHG Protocol enables public and private players to reliably measure and report the climatic impact of their activities in terms of GHG emissions, while planning mitigation actions.

More than pieces of communication or compliance with obligations, business reports can be used as management tools, helping companies monitor and publish their indicators and steer their strategies, governance and sustainability management in a consistent manner.

ESG Disclosures in Ibovespa, a PwC study, looks into the ESG pillars of non-financial reports issued in 2021 by companies integrating Ibovespa, having found that, out of 67 Ibovespa-listed companies that did some ESG reporting at any level, 97% adopted the framework proposed by the GRI. In addition, 54% of them included the CDP framework in their reports, 52% used concepts of the IIRC for integrated reporting, 49% used the SASB framework, and 24% use the TCFD.

It's a good thing that 85% of all companies provide information in reports available to the public, even without being required to do so. That shows they are responding to the demands of society and demonstrates their level of commitment to disclosing information that is increasingly critical for investors and other stakeholders in their investment analyses. The challenge now is to make that information credible, comparable and verifiable.

While there are "plenty of initiatives" that sometimes confuse companies more than they help them, the good news is that the reporting landscape is evolving, with a rapid movement towards unification, standardization and even disclosure and transparency regulations of sustainability results.

THINK:

Does the company provide both absolute and relative indicators in its report? Is performance, whether positive or negative, explained and justified in terms of targets? How does that performance compare to indicators of the industry or direct competitors? What are the short and long-term targets for key indicators? Have the quantitative data been audited by third parties for accuracy and consistency? Does the report make room for stakeholders' opinions in its quality?

6. CREDITS

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