

B3

COMMUNICATION TO STAKEHOLDERS

Last updated on: February 2018

BUSINESS STRATEGY

1. How does your exchange define and view the rationale for corporate sustainability and the exchange's role in promoting it?

Conceived by the merger between BM&FBOVESPA and Cetip, **B3** is born as a company greater than the sum of its parts. With a diversified portfolio of products and services, **B3** aims to maximize business opportunities in a dynamic, challenging and competitive market environment on a global scale.

We are committed to Brazil, our clients, innovation, and constant development of the financial and capital markets. This is feasible only if the leadership understands the importance of a truly sustainable development that considers social, environmental and economic factors.



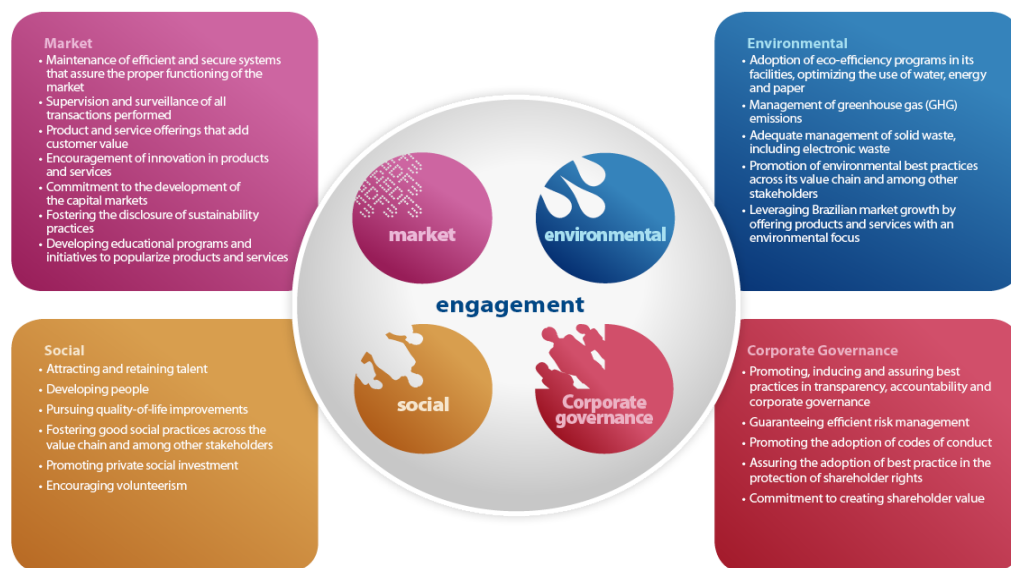
B3 was the first stock exchange in the world to be a signatory to the [Global Compact](#), in 2004, and is now member and vice-president of the Global Compact Brazilian Committee (CBPG). In 2009, the company began a diffusion of sustainability within the organization in a structured manner and so formed a [Sustainability Area](#) linked to the CEO.

In 2016, as part of the UN Global Compact's campaign "Making Global Goals Local Business", the Local SDG Pioneers program recognized people who demonstrate how to turn Sustainable Development Goals into business, thus engendering economic, social and environmental benefits. In this context, the **B3's** Media Relations, Sustainability, Communications and Social Investment Managing Director, Sonia Favaretto, was announced as [one of ten 2016 Local SDG Pioneers](#), during the UN Global Compact Leaders' Summit 2016, in New York. The managing director was recognized for her efforts regarding Sustainable Development Goal (SDG) number 8, concerning Decent Work and Economic Growth. Two key accomplishments in this field were the [Socio-Environmental Investment Exchange](#) (BVSA) and [Corporate Sustainability Index](#) (ISE), which are national and international reference points that positively impact society and companies by promoting best practices and social inclusion and by including sustainability in the mainstream.

Another very important UN-sponsored initiative to which **B3** belongs as a founding signatory is the [Sustainable Stock Exchanges](#) (SSE), which promotes the adoption of a sustainability agenda by exchanges and listed companies worldwide. **B3** is also co-vice-chair of the [Sustainability Working Group](#) (SWG) at the World Federation of Exchanges, WFE. The SWG aims to address evolving concerns specific to ESG topics. The group attempts, through a research-driven dialogue, to build consensus agreement among its members on sensitive issues, and subsequently present those findings to the WFE. Furthermore, **B3** is a member as well of the GRI Brazil Advisory Group and of the Advisory Boards of CDP Latin America and the Ethos Indicators.

In March 2017 **B3** became a signatory to the [Women's Empowerment Principles](#) (WEPs), becoming the first stock Exchange in the Americas and the sixth in the world to adhere. It is a joint initiative of UN Women and Global Compact, promoting gender equality in the workplace, in business and in the community.

Sustainability is a strategic priority to **B3** and following these commitments, **B3** seeks to embed the concept of sustainability in its products and services, involving all business areas of the company and being guided by a [Sustainability Policy](#) approved by Board of Directors, in 2013. The Policy applies to all employees, interns and other staff of **B3**, as well as external stakeholders and it is structured in four pillars which group together relevant themes – Market, Environmental, Social, and Corporate Governance.



To fulfill its commitment to the smooth and safe operation of the **market**, **B3** pledges to maintain secure and efficient systems, offer innovative products and services that add customer value, encourage the adoption of sustainable practices by listed companies, and develop educational programs to popularize its products and services.

To minimize the **environmental** impacts associated with its activities, **B3** pledges to adopt eco-efficiency programs in its facilities, optimize water, energy and paper use, and properly manage solid waste, including electronic waste, and greenhouse gas emissions. Furthermore, the Company pledges to promote good environmental practices across its value chain and among other stakeholders, while leveraging Brazilian market growth by offering products and services with an environmental focus.

As a **socially** responsible company that respects its internal and external relationships, **B3** pledges to attract and retain talented people, encourage the pursuit of improvements to the quality of life, and develop its employees. The Company is also committed to fostering good social practices across its value chain and among other stakeholders, to promoting private social investment, and to encouraging volunteerism.

Given its commitment to best **corporate governance** practices and its strong belief that this is a way of creating shareholder value, **B3** is duty-bound to promote, induce and assure good transparency and accountability practices, guarantee efficient risk management, promote the adoption of codes of conduct, and assure the protection of shareholder rights.

In order to educate and engage with issuers and the investment community **B3** provides different initiatives such as sustainability guides and workshops.



Sustainability guides

The “New Value – Sustainability in Companies, How to Start, Who to Involve and What to Prioritize” publication, launched in April 2011, is a **sustainability guide** from the point of view of the capital market, with a preface by the Principles for Responsible Investment (PRI). The book includes a timeline mapping the evolution of the sustainability concept in the business world since 1950, and

suggests “13 steps towards sustainability”. Following this initiative, the Listings and Issuer Development department in partnership with the Sustainability area developed in 2015 and implemented in 2016, an [E-book focused on privately-held companies \(only in Portuguese\)](#). The idea is to support privately held companies on the adoption of sustainability practices in their business, demystifying the idea that sustainability is limited to large enterprises.

In 2016 **B3** has launched the [second edition of the “New Value – Corporate Sustainability: How to begin, who to involve and what to prioritize”](#) Sustainability Guide, in line with international sustainability indicators such as [Sustainable Stock Exchanges](#) (SSE), the [World Federation of Exchanges](#) (WFE), the [Global Reporting Initiative](#) (GRI) and [Corporate Knights Capital](#). The new guide is an evolution of the first edition, published in 2011.

The New Value Guide also has a timeline showing the evolution of the sustainable development concept in the business environment, with a recommendation of 13 steps towards sustainability. In addition, the new edition has a preface written by Fiona Reynolds, the Managing Director of the UN’s Principles for Responsible Investment (PRI) initiative.

The launch of the second edition of the New Value Guide comes in the context of the SSE’s ESG Guidance Campaign, which began earlier of the 2016 to encourage the world’s stock exchanges to create sustainability guides for their listed companies and to promote Environmental, Social and Corporate Governance (ESG) information transparency in their markets.

Furthermore, in 2017 **B3** has launched the guide [Sustainability: Business Opportunity in the Intermediation Industry](#) with the support of the Laboratory of Financial Innovation (CVM, IDB, ABDE). The publication is intended to stimulate reflection and the adoption of best practices in sustainability, as well as, contribute to integrate ESG-related issues into the organizational structure and into business processes and controls in the intermediation sector.

The first of its kind, the guide was launched during the 2017 [World Investor Week](#) promoted by the [International Organization of Securities Commissions](#) (IOSCO). The main focus of the document is to help in the dissemination of [the Central Bank of Brazil](#) (BACEN) [Resolution 4,327/2014 \(Only in Portuguese\)](#), which

establishes guidelines for the implementation of a Social and Environmental Responsibility Policy by Brazilian financial institutions under the supervision of the BACEN, create an experience sharing environment and forum, and present new business opportunities.

In addition, the guide includes a timeline containing the evolution of sustainability in the corporate environment and is divided into two key sections: opportunities for new business development and business structuring as per BACEN [Resolution 4.327 \(Only in Portuguese\)](#).



From left to right: Gilson Finkelsztain (B3), Marcelo Barbosa (CVM), Maria Netto, (BID) e Milton Santos (ABDE)

Workshops

Report or Explain to the Sustainable Development Objectives (SDGs) initiative

Through [Report or Explain for Sustainability or Integrated Reporting](#) (see question 4 for Report or Explain details), and in partnership with GRI, B3 promoted training workshops to listed companies interested in pursuing sustainability or integrated reports.

In 2012, the Exchange started recommending all listed companies to inform if they published sustainability or integrated reporting. If not, they should explain the reason for not publishing. In 2015 was the last year of the Report or Explain in its original format. And for a very good reason. Upon a review of its Reference

Form, CVM determined that item 7.8 should be exclusive for social and environmental data as of 2016. In an evolution of what was traditionally practiced, CVM started to ask if companies whether they disclose social and environmental information, what methodology they use, whether the information is audited or reviewed by an independent body, and where it can be found. Thus, the listed companies' obligations now are directly with the regulator.

Therefore, this initiative poses a Brazilian success case. Bearing this consideration in mind, **B3** launched, in 2017, the "[Report or Explain to the Sustainable Development Objectives \(SDGs\) initiative](#)", which aims to stimulate the transparency of the listed companies' strategies and actions in relation to the [17 UN-established SDGs](#).

Corporate Sustainability Index – ISE

Furthermore, within the scope of the [Corporate Sustainability Index – ISE](#), workshops are organized to discuss the seven dimensions of the questionnaire, namely, Nature of the Product, General, Corporate Governance, Social, Economic and Financial, Environmental and Climate Change. Besides the workshops, to promote and stimulate the index **B3** also offers an [ETF – Exchange Traded Fund](#).

Carbon Efficiency Index – ICO2

Aiming to promote a transition to a low carbon economy **B3** has launched in 2010 in partnership with the [Brazilian Development Bank](#) (BNDES) the [Carbon Efficiency Index – ICO2](#). The stock Index weighted by companies' greenhouse gas emissions (GHG) and by the companies' liquidity. It is important to highlight the voluntary adherence, inclusive process and the only prerequisite is the execution of the GHG report and make it available to the public. To promote and stimulate the index **B3** also offers an [ETF – Exchange Traded Fund](#).

State Owned Enterprise (SOE) Governance Program

Also, **B3** launched in 2015 the [State-Owned Enterprise \(SOE\) Governance Program](#), aiming to enhance practices regarding corporate governance structures of SOE's. It was revised in May 2017 and covers SOE's (listed or not) with open capital or in the process of opening capital and includes a specific item regarding Integrated or Sustainability reporting (see question 3 for more details).

B3 website

Finally, to communicate all these projects, **B3** has a [website](#) where it is possible to track the progress and dissemination of the initiatives of the Exchange. There, is it also possible to see [B3's Annual Report](#) published in accordance with GRI G4 guidelines. The Annual Report has an internal governance which includes two departments: Investor Relations Department and Media Relations, Sustainability, Communications and Social Investment Department. Finally, it includes also a materiality matrix, which highlights the relevant drivers for **B3's** Management and its main stakeholders considering the sustainability of business.

2. How does your exchange's senior leadership and organizational structure support the promotion of corporate sustainability in its market(s)?

The company's organizational structure includes the Media Relations, Sustainability, Communications and Social Investment Managing Director which reports directly to the CEO and is responsible for matters pertaining to this agenda. [Two multidisciplinary spheres of governance](#) back it up: The Sustainability Committee (chaired by the Chief Executive Officer of **B3** and composed of executive officers, directors and external members) and the Sustainability Working Group (chaired by the Media Relations, Sustainability, Communications and Social Investment Managing Director and composed of associate directors), responsible for strategic management and for the agenda's proposals and everyday running.

As mentioned before, **B3** seeks to embed the concept of sustainability in its products and services, involving all business areas of the company and being guided by a [Sustainability Policy](#) approved by Board of Directors, in 2013.

3. What goals/objectives does your exchange have in regard to advancing sustainability in your market?

Based on the company's Sustainability Policy, which is aligned with its strategic principles and aims to formalize and orient guidelines for action on the theme, there was an extensive work of spreading and internalizing sustainability throughout the company. Within this effort, forty-six meetings were held with

executive officers and teams in 17 areas. The result of it was 87 mapped actions and 61 proposed actions to the areas. Up today, 137 actions have been implemented at B3.

Among the proposals with more potential to influence the market, we have:

- **Central Bank of Brazil:** On 25 April 2014, as a result of long-term efforts and pressure from supranational and non-governmental organizations, was implemented the [Resolution 4327 \(Only in Portuguese\)](#) which regulates the need for financial institutions to implement social and environmental responsibility policies in their activities. B3 bank is already included in the Exchange's Sustainability Policy as associate. Besides being compliant with the regulation, **B3** plays an important role in supporting banks listed in the Exchange to be compliant with the new Central Bank of Brazil's rules;
- **Brokerage Houses and Banks:** This work seeks to stimulate and foster the adoption of this agenda among all intermediation sector participants. Another result of this work will be the inclusion of sustainability criteria in [B3's Operational Qualification Program](#) (PQO). PQO certifies the quality of services offered by the brokerage houses, enabling and strengthening these institutions both as institutions/companies and as intermediation industry participants. The institutions certified by the PQO receive the right to use Qualification Seals, which are a declaration to investors and the general public of the high standard of institutions' intermediation products and services. This work will be preceded by training and educational actions, along with a publication of a guide for this audience to understand and incorporate social and environmental concerns in their business.
- **Regulator:** **B3** seeks to maintain a permanent dialogue with the regulator. As mentioned before, as from 2016, the Brazilian Regulator (CVM), upon a review of its Reference Form, determined that item 7.8 should be exclusive for social and environmental data. During this process, **B3** gave its recommendations and opinions through Public Audience and some meetings.
- **Development of Latin America Markets:** As part of its intention to contribute to the development of LATAM markets, **B3** has a new Directory focus to on these markets (2016 B3's acquisition of LATAM markets: 9.9% stake in Bolsa de

Valores de Colombia (BVC), investing R\$44 million, and increased its holding in Bolsa de Comercio de Santiago (BSC) to 10.4%, totaling R\$52 million. It also has a 4.1% share in Bolsa Mexicana de Valores (BMV), in which it has invested R\$136 million. The main objective is to contribute to the development of the region's markets, help on the creation of new products, and ease reciprocal access by issuers and investors. Regarding sustainability, the efforts of this work are mainly done through [Ibero American Federation of Exchanges](#) (FIAB), where **B3** is leading the ESG theme promoting best practices among Latin American exchanges.

- **Special Corporate Governance Segment:** **B3** has created the special segments suited to different company profiles – [Bovespa Mais](#), [Bovespa Mais Nivel 2](#), [Nível 1](#), [Nível 2](#) and [Novo Mercado](#) – in order to develop the Brazilian capital market. All these segments are bound by rigid rules of corporate governance, which go beyond the obligations that the companies have according to the [Brazilian Law of Corporations](#) (Lei das SAs) and are intended to improve the assessment of those who decide to join one of these segments voluntarily.
- **State-Owned Enterprise (SOE) Governance Program:** Launched in September 2015, the [State-Owned Enterprise Governance Program](#) was drawn up by the Exchange's regulation team and focuses on SOEs (listed or not) that are publicly traded or in the process of becoming so. It aims to enhance practices regarding the provision of information and corporate governance structures of state-owned enterprises, seeking to restore investors' confidence and reduce state-owned enterprises' fundraising costs. It is a voluntary program that fits into the Exchange's objective of promoting the best practices in the market, especially in what it regards sustainability and transparency (see question 4 for more details).
- **Investor Briefing ESG:** In 2016, B3 held its first [Investor Briefing ESG](#) Event: a presentation of **B3's** Annual Report (GRI G4), with a detailed focus on Company's sustainability programs, reporting and materiality analysis. The event addressed the agenda of integrated initiatives promoted by the company on the economic, environmental, social and corporate governance fronts and was intended for investors and market analyst.

- **Corporate Sustainability Index – ISE:** 2015 marked the ISE 10th anniversary and so several significant initiatives were launched, such as [ISE Indicators Platform](#) (only in Portuguese), which contains more than ten years' worth (2005 - 2017) of data, with the joint performance of companies, year by year, in percentage points in all dimensions, criteria and indicators. For every piece of data there is a publication of the average value of the portfolio and the best and worst performers; also, in 2015 was launched the [ISE's World](#) (only in Portuguese), an on-line map illustrated and interactive, representing the ISE's set of issues and their interrelationships, gradually leading the user to the questionnaire questions and the [Wiki Timeline \(Only in Portuguese\)](#), available in the hotsite of the initiative, brings ISE's major milestones for its 10 years of existence, highlighting facts and curiosities of the period. Users arriving at the website have access to several areas (library, timeline, educational interface, communication pieces about the construction of ISE etc). In 2016, the ISE's strategic goals 2016 – 2020 was launched. These new objectives are focused on investors, companies and society (see below):

1. Increase ISE's relevance for **INVESTORS:**

- Demonstrate the relationship between corporate sustainability and financial performance.
- Identify and motivate ISE use by financial market trendsetters.
- Expand the purposes that it serves for market participants (direct investors, investment managers, information services, rating agencies, analysts and traders).

2. Strengthen ISE's role towards a culture of sustainability in **COMPANIES:**

- Highlight ISE as a source of increased competitiveness for attracting capital;
- Facilitate and encourage ISE's use as a diagnostic and transparency tool.

3. Expand ISE's recognition by **SOCIETY:**

- Grant visibility to ISE's contribution to various publics through communication and engagement.

TRANSPARENCY AND ISSUER REPORTING

4. Describe your exchange's approach to promoting sustainability disclosure by companies.

The promotion of transparency is a fundamental concept for all stock exchanges and this principle extends to Sustainability. Overall, Brazil has been very successful in its transparency initiatives and in the voluntary disclosure of non-financial information. In the case of the Brazilian capital markets, there is no doubt that voluntary initiatives are effective. The three best examples are the Report or Explain for Sustainability or Integrated Reports, the Corporate Sustainability Index (ISE) - as regards the disclosure of the questionnaire's answers and the State-Owned Enterprise Governance Program.

Report or Explain for Sustainability or Integrated Reports: A Brazilian Success Story

A recurrent discussion in the field of sustainability is whether the initiatives to encourage the adoption of good practices should be voluntary or mandatory. Each point poses certain pros and cons. The final word depends on the context, local culture and reality, as well as the business environment and regulatory frameworks.

In the case of the Brazilian capital markets, there is no doubt that voluntary initiatives are effective. [Report or Explain for Integrated or Sustainability Reporting](#) was born as a recommendation for voluntary adherence by listed companies on our Exchange to encourage disclosure of ESG (Environmental, Social and Governance) related information, which was increasingly demanded by investors. Listed companies were requested to inform annually if and where they disclosed ESG information. In the case in which reporting was not available, the company was required to provide an explanation. To avoid creating a new document, information was to be stated in a Reference Form issued by the Brazilian Securities Commission (CVM), Brazil's capital markets regulator, under a generic item – "Item 7.8: Description of other material long-term information".

The voluntary character of the Report or Explain was in line with similar successful initiatives previously undertaken by the Exchange, such as the Novo

Mercado, a special corporate governance listing segment, which was launched in 2000 and became a global benchmark. The decision to launch the Report or Explain initiative was taken by the B3 Sustainability Committee chaired by the Chief Executive Officer.

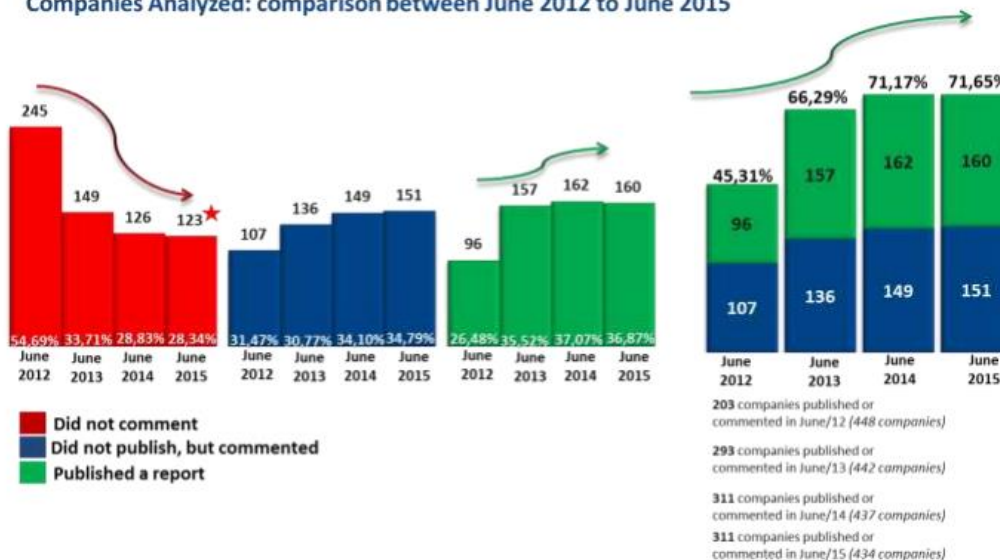
The first results were announced at the Rio+20 Summit held in June 2012 in Rio de Janeiro during the GRI - Global Reporting Initiative discussion panel. The GRI was a great motivator for **B3** to create the Report or Explain initiative. In its first announcement, **45.31%** of listed companies issued the report or explained why the report was unavailable. One year later in June 2013, the percentage of companies had grown significantly to **66.29%**.

Since the beginning of the Report or Explain initiative, the Exchange concluded making recommendations was not enough, and that complementary actions were needed to help companies along the way. For this, we offered two Report or Explain workshops annually. In the first half of the year, a workshop was held in partnership with the GRI and was aimed at training companies to adhere to the practice of reporting during that year. In the second half, the workshop was intended for those companies which had not adhered or which, for their explanation given, showed that they did not include sustainability in their business strategy.

The third edition of the Report or Explain was launched in June 2014 and adherence rose from **66.29%** to **71.17%**. In that year, the initiative was renamed, following the evolution of the global reporting agenda and in line with the **B3** support to Integrated Reporting and to the IIRC. The name "Report or Explain for Sustainability or Similar Reports" was changed to "Report or Explain for Sustainability or Integrated Reporting". In addition, a new feature introduced by the third edition was the disclosure of why companies did not publish the report. This became a key material to be explored in the workshops

In June 2015, the results showed a slight increase in adherence: from **71.17%** to **71.65%** of listed companies. In that year, **B3** also published the most used reporting methodologies and the titles that companies gave to their reports.

Companies Analyzed: comparison between June 2012 to June 2015



Link to database:

<http://www.bmfbovespa.com.br/lumis/portal/file/fileDownload.jsp?fileId=8AA8D09756580CC30156756DECDB029C>

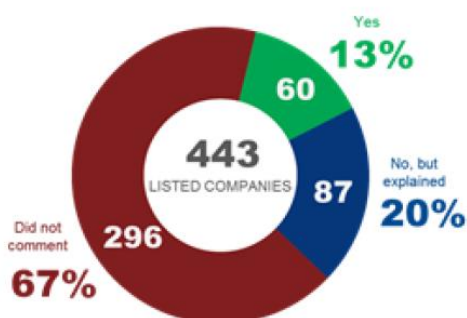
2015 was the last year of the Report or Explain in its original format. And for a very good reason. Upon a review of its Reference Form, CVM determined that item 7.8 should be exclusive for social and environmental data as of 2016. In an evolution of what was traditionally practiced, CVM started to ask companies whether they disclose social and environmental information, what methodology they use, whether the information is audited or reviewed by an independent body, and where it can be found. Therefore, companies started to committed to responding directly to Regulator. Nonetheless, **B3** continues to compile and disclose new data in an aggregate manner.

In 2017, **B3** launched the "[Report or Explain to the Sustainable Development Objectives \(SDGs\) initiative](#)", which aims to stimulate the transparency of the listed companies' strategies and actions in relation to the 17 UN-established [SDGs](#). Through this initiative, the company recommends, from 2017, that listed companies annually state whether they publish a sustainability or integrated report taking the SDGs into account. Along similar lines with the previous initiative, if they do not, B3 requests they explain why by choosing one of the options supplied.

Among the companies consulted by **B3**, 147 responded the survey, the equivalent to 33% of the total companies listed on the Exchange. Of these 147 companies, 40% disclose their reports considering the SDGs, are preparing the

reports, intend to, or are considering the possibility of including the SDGs in their reports. Sixty companies take the SDGs into account in their reports, 7 are preparing their reports to include the SDGs, and 36 companies intend or are considering the possibility of including the SDGs in their sustainability or integrated reports.

Does your company elaborate Sustainability or Integrated Reports taking into account the Sustainable Development Goals (SDGs)?



Breakdown of explanations



We have learned from the Report or Explain experience that voluntary measures through sustainability self-regulation in the Brazilian capital markets do work. On the other hand, such measures should have a "shelf life" or they may risk losing their transformative effect. We have reached this conclusion based on the past two years of the Report or Explain practice where the evolution of adherence was much slower. We understand that this was due to the fact that companies which did not report or explain realized that there would be no major consequences and carried on with their decision of not reporting. This also validates the need for a more rapid assimilation and incorporation of good practices, and they should occur in a tangible and visible manner.

Link to the database of both initiatives:

- [Report or Explain for Sustainability or Integrated Reporting](#)
- [Report or Explain to the Sustainable Development Goals \(SDGs\) initiative](#)

Corporate Sustainability Index (ISE)

Since 2012, the ISE's questionnaire has included a question asking companies to allow the voluntary publication of its questionnaire answers.

Considering the [results of 2015](#), when 94% of the portfolio was adherent to the initiative, the ISE's Board approved the proposal for the mandatory publication of the questions. The proposal was accepted by the society after the public consultation in the beginning of the year.

Since 2016, 2017 portfolio, the publication of the answers of the questionnaire are a prerequisite to be part of ISE.



The companies' answers are available to all stakeholders and it is possible to compare companies' answers through a platform and it can be found at: <http://isebvmf.com.br/respostas?locale=pt-br> (Only in Portuguese).

State-Owned Enterprise Governance Program

Launched in September 2015 after a broad discussion with specialists in corporate governance, governmental bodies, mixed-economy societies, scholars, lawyers and market professionals. The [State-Owned Enterprise Governance Program](#) was drawn up by the Exchange's regulation team and focuses on SOEs (listed or not) that are publicly traded or in the process of becoming so. It was revised in May 2017, in alignment with the [Brazilian legislation nº 1,3303/2016 \(Only in Portuguese\)](#), and aims to enhance practices regarding the provision of information and corporate governance structures of state-owned enterprises, seeking to restore investors' confidence and reduce state-owned enterprises' fundraising costs. It is important to highlight that one of its four courses of action is "transparency", in which there is a specific item for Integrated or Sustainability Reporting. The program is voluntary and the certification occurs at the moment of the adhesion. In this case, the company has three years to fully adopt the measures of the program under the pain of losing the certificate. This an initiative that specifically focuses on promoting more robust and more transparent structures of governance in SOEs.

5. What is your exchange's process for reviewing listing standards in general? Are there opportunities for stakeholders to comment during this process?

B3 might review listing standards whenever identifies opportunities for updating, arranging with regulatory innovations and international practices in order to maintain and increase the integrity and health of the Brazilian securities market.

The experts. Assessed the revision points, discussions are held with companies and investment banks representative organizations (ABRASCA and ANBIMA respectively), and also with the Listing Advisory Committee, a **B3's** body which aims to discuss and propose specific reforms of **B3** roles related, among others, the listing rules improvement. The Committee consists of experts representing the listed companies, intermediaries, institutional investors, private equity and venture capital, lawyers, accountants and academics experts.

6. How do you track sustainability reporting of your listed companies?

As mentioned in the question 4, **B3** has three main transparency initiatives for the market: The Report or Explain for Sustainability or Integrated Reporting, the Corporate Sustainability Index (ISE) – as regards the disclosure of the questionnaire’s answers, and the State-Owned Enterprise Governance Program.

The promotion of transparency is a fundamental concept for all stock exchanges and this principle extends to sustainability. Overall, Brazil has been very successful in its transparency initiatives and in the voluntary disclosure of non-financial information. In general, Brazilian listed companies report financial and non-financial information in one document.

7. What incentives (i.e. public recognition/awards) and sanctions do you have in place to encourage disclosure and discourage non-compliance/lower levels of transparency?

In order to encourage and recognize listed companies that are publishing their ESG information, **B3** gives wide visibility to them, through many channels as websites, press releases and communication with investors. Besides that, **B3** usually invites these companies to participate as panelists in events hosted by the Exchange to present their practices.

One example to encourage disclosure of ESG information is in the context of ISE: as from 2016, the [publication of ISE’s questionnaire is prerequisite](#). In other words, to be part of the portfolio the companies must disclose their answers.

In what concerns awarding disclosure, a good example are the trophies that were delivered, at the launch of the [10th ISE portfolio](#), in 2015, to eleven companies that have been the ISE portfolio since its foundation in recognition for their participation in the index. Symbolically, the Exchange held a ring the bell ceremony (see figure below).



Symbolic ringing the bell ceremony at **B3** with the representatives of the 11 companies that have been part of ISE since its first portfolio: AES Eletropaulo, Banco do Brasil, Bradesco, Braskem, BRF, Cemig, CPFL Energia, Fibria, Itaú Unibanco, Natura and Engie.

8. What connections have you made between national sustainable development frameworks and goals, and your exchange's existing standards and norms?

B3 seeks to be in line with national and international frameworks, and be part of global initiatives in order to be aligned and influence market trends. See below some examples of institutional representation in which **B3** make these correlations:

- Member of the [GRI Brazil](#) Advisory Committee and of the [Consultive Committee of CDP Latin America \(Only in Portuguese\)](#);
- The Corporate Sustainability Index - ISE makes connections with [GRI](#), [CDP](#) (international frameworks), [SDGs](#) and follows the premise of the [Ethos indicators](#) (national framework);
- [The Carbon Efficient Index](#) (ICO2) recommends the guidelines of [the GHG Protocol](#) to companies so they can respond the form;

- [Report or Explain for Sustainable Development Goals](#) (SDGs) are directly aligned with [Integrated Reporting](#) and [GRI](#).

Other representations:

- Recognized as one of the ten "[2016 Local SDG Pioneers](#)" by the [UN Global Compact](#);
- Member of the World Federation of Exchanges (WFE) [Sustainability Working Group](#) (SWG) since its creation in 2014, and co-vice-president since 2016.
- Founding Signatory to [Sustainable Stock Exchanges \(SSE\) initiative](#) / UN
- First exchange in the world to be signatory to the Global Compact / UN;
- Member and board vice-president of the [Brazilian Global Compact Committee](#) (CBPG);
- The first exchange from an emerging country to be signatory to the [Principles for Responsible Investment](#) (PRI), 2010;
- Member of the [PRI SDG Advisory Committee](#);
- Member of the [IBGC Sustainability Study Group](#);
- Member of the [Empresa Pró-Ética/CGU Committee](#); (Only in Portuguese)
- Member of the [Brazilian Women Leaders for Sustainability](#) / [Brazilian Ministry of Environment](#); (Only in Portuguese)
- The first stock exchange in the Americas and the sixth in the world to adhere to [the Women Empowerment Principles](#) (WEPs), 2017.

ISSUER CAPACITY BUILDING

9. If your exchange offers sustainability guidance for companies, please provide a description of the process for its creation.

B3 launched in 2011 the "[New Value – Sustainability in Companies, How to Start, Who to Involve and What to Prioritize](#)". It is a sustainability guide from the point of view of the capital market, with a preface by the Principles for Responsible Investment (PRI). The technical content was drawn up by Fundação Brasileira para o Desenvolvimento Sustentável - FBDS (the Brazilian Foundation for Sustainable Development).

This guide explains the concept of sustainability and how you can take up the cause by placing it at the center of your business strategy. With it **B3** aims to

share and disseminate knowledge, ideas and best practices that in the view of the capital markets should be adopted by companies of all sizes if they wish to stand out from the crowd. It also includes a timeline mapping the evolution of the sustainability concept in the business world since 1950, and suggests “13 steps towards sustainability”.

Following this initiative, the Listings and Issuer Development department in partnership with the Sustainability area developed in 2015 and implemented in 2016, an e-book ["Sustainability in Business: How to start, who to involve and to prioritize" \(Only in Portuguese\)](#) focus on privately-held companies. The idea is to support privately held companies on the adoption of sustainability practices in their business, demystifying the idea that sustainability is limited to large enterprises. In 2016, following the SSE's Model Guidance Recommendations and the SWG-WFE's Material ESG Metrics, **B3** updated its guide and launched it officially during the [SSE Global Dialogue in September 2016](#), in Singapore. In this event, the SSE released a [Model Guidance on Reporting ESG information to investors](#), which **B3** was part of the Advisory Group during the guidance creation process with other exchanges around the world.

Furthermore, in 2017 **B3** has launched the guide [Sustainability: Business Opportunity in the Intermediation Industry](#) with the support of the Laboratory of Financial Innovation (CVM, IDB, ABDE). The publication is intended to stimulate reflection and the adoption of best practices in sustainability, as well as, contribute to integrate ESG-related issues into the organizational structure and into business processes and controls in the intermediation sector.

The first of its kind, the guide was launched during the 2017 [World Investor Week](#) promoted by the [International Organization of Securities Commissions](#) (IOSCO). The main focus of the document is to help in the dissemination of [the Central Bank of Brazil](#) (BACEN) [Resolution 4,327/2014 \(Only in Portuguese\)](#), which establishes guidelines for the implementation of a Social and Environmental Responsibility Policy by Brazilian financial institutions under the supervision of the BACEN, create an experience sharing environment and forum, and present new business opportunities.

In addition, the guide includes a timeline containing the evolution of sustainability in the corporate environment and is divided into two key sections: opportunities

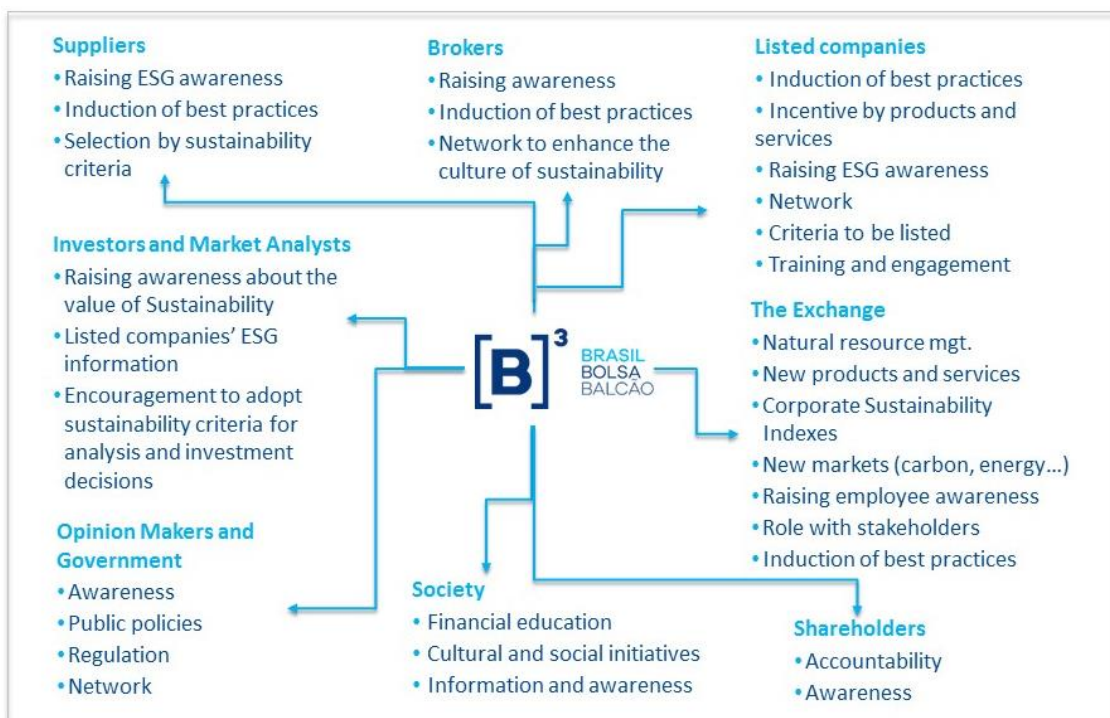
for new business development and business structuring as per BACEN [Resolution 4.327 \(Only in Portuguese\)](#).

10. Do you and/or your regulator provide guidance on externally assuring ESG disclosures? In your market, how common is external assurance of ESG disclosures?

In Brazil, we see now more than ever, that our market is concerned about integrating ESG factors in financial analysis by including explicit ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources. This behavior has drawn the attention of investors and analysts who are increasingly interested in how companies are incorporating ESG issues to their strategy and management. Therefore, the assurance is the key part of this process for the credibility and the compatibility of documents. Brazilian audits already offer this service and it can be noticed that this practice is being increasingly adopted. It is not part of our role, as a self-regulator, to give external assurance.

11. How do you engage and collaborate (or plan to do so) with: regulators, peer exchanges, investors, companies, global organizations and other stakeholders?

The engagement and relationship with stakeholders is critical to **B3** and a strategic part of several initiatives. For each public, the Exchange performs a specific plan of action. In the diagram below, it is possible to see the main interaction goals with each stakeholder:



Besides this, **B3** believes that being part of boards is a dynamic with high influential power strategy. An example of this, is the several boards that **B3** participates:

- Signatory [Global Compact](#) / UN, member and board vice-president of the [Brazilian Global Compact Committee](#) (CBPG).
- Signatory, [Principles for Responsible Investment](#) / UN Member, [PRI ESG Practices Working Group Brazil](#) and [SDG Advisory Committee](#);
- Founding Signatory, [Sustainable Stock Exchanges \(SSE\)](#) / UN;
- Vice-Chair and member, Sustainability Working Group of the [World Federation of Exchanges \(WFE\)](#);
- Member [Global Reporting Initiative](#) - [GRI's Focal Point Brazil](#), Advisory Committee
- Member, [Brazilian Federation of Banks \(FEBRABAN\)](#) Intra-Sector Sustainability & Environment Commission and Social Responsibility & Sustainability Committee.
- Member, Technical Advisory Council, [Carbon Disclosure Project \(CDP\)](#), LATAM;

Be part of foreigner sustainability indexes can also play a strong and strategic role for B3's development and engagement with the sustainability agenda. On September 12th of 2017, B3 was chosen to integrate the FTSE4Good Emerging

Latin America Index, which evaluates the companies' performance about their environmental, social and governance (ESG) policies and practices.

12. How has your exchange supported the development of financial products that address sustainability-related issues (e.g., ESG Indices, carbon markets, social/environmental bonds, sustainable development funds, etc.)?

B3 fosters innovation by inspiring new practices and starting new products and services that foresee needs from market players, make processes more efficient, minimize externalities, and above all add value. Following these commitments, **B3** seeks to embed the concept of sustainability in its products & services, engaging all business areas with the [Sustainability Policy guidance](#), approved by the Board in 2013 and based on 4 pillars that bring together relevant themes – Market—and ESG, including climate change. Examples of initiatives are the [Corporate Sustainability Index](#) (ISE) and its [ETF](#) – Exchange traded Fund, the [Carbon Efficient Index](#) (ICO2) and its [ETF](#) – Exchange traded Fund, and the [Novo Mercado Special Corporate Governance Equity Index \(IGC-NM\)](#).

Also, through the product area, **B3** actively participates on several forums for discussion of the issue including governmental, trade unions, environmental and capital markets ones. Based on this continuous market reading, the company constantly evaluate the opportunities in place.

In terms of external representations, **B3** participates with other three Brazilian Institutions ([ANBIMA](#), [CNSEG](#) and [ABRAPP](#)) at the Intra-Sector Sustainability & Environment Commission and Social Responsibility of Brazilian Federation of Banks ([FEBRABAN](#)). This group was created in the context of the Inquiry into the [Design of a Sustainable Financial System of UNEP](#). The main discussion in the forum is how to develop Green Bonds in Brazil.

EXCHANGE NEEDS

13. Are there specific resources (meetings, commissioned research, webinars, etc.) that you would like from the SSE or other relevant groups to help you in your sustainability work?

B3 is very satisfied with the progress of the SSE initiatives. In addition, the webinars have been very useful tool for exchanging information, the guides are very helpful and the events are inspiring.

We think that, once SSE is part of the UN system (UNCTAD, GLOBAL COMPACT, UNEP-FI and PRI), it could think more about “bridges” to expand the ESG discussions.

14. Are there any specific requests you have of investors, issuers and regulators in terms of their role in advancing sustainability in the market?

Yes, **B3** would like investors, issuers and regulators work forward to considerer sustainability on the mainstream, by doing:

- **Investors:** including sustainability more incisively in their questionnaires and using references such as ISE in their decision-making process.
- **Issuers:** advancing more and more in practices of transparency and especially that, Small and Medium Enterprises (SMEs) be more involved in sustainability issues. In terms of large companies, stimulate their value chain to adopt ESG agenda.
- **Regulators:** including sustainability in their processes and requests and being more involved in ESG Forums.

Regarding the lack of ESG information:

Investors don't find ESG information to make well-founded decisions, so they have to follow the traditional portfolio allocation model, which prioritizes economic performance, and at the same time, companies and sustainability experts complain that investors pay insufficient attention to ESG disclosure. Furthermore, building a vicious cycle that B3 works to break it by promoting ESG initiatives to companies and providing disclosure to investors.

