

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. Like everything else in life, there are pros and cons to both sides. The final word will depend 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. This article presents BM&FBOVESPA's response to the false 'voluntary vs. mandatory' dilemma when it first published the Report or Explain for Sustainability or Integrated Reports in December 2011.

Report or Explain 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. The reporting movement remains strong and intense. The request was for listed companies to inform annually if and where they disclosed ESG information. Where reporting was not available, an explanation was required. Companies were not obliged to respond. 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 BM&FBOVESPA 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 BM&FBOVESPA 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%.

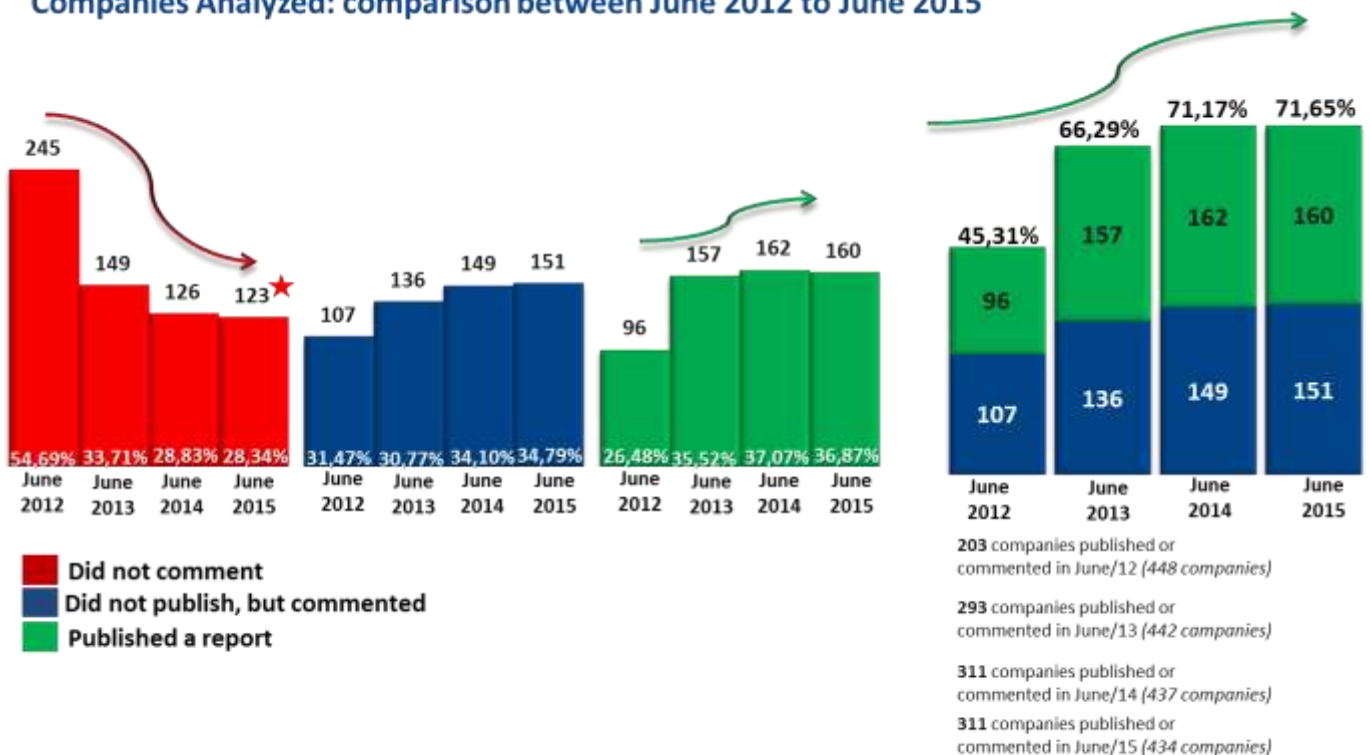
Since the inception of the Report or Explain initiative, we concluded that it would be no use just making a recommendation. We should have complementary actions in place to help companies along the way. For this, we offered two Report or Explain workshops annually. In the first half of the year, a workshop 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 BM&FBOVESPA 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 Reports". 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, BM&FBOVESPA 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



★ 20 companies in special situation. Amongst these companies, 4 published a report and 4 did not published but commented in 2014.

Link to the database: <http://www.bmfbovespa.com.br/en-us/bmfbovespa/sustainability/at-companies/report-or-explain.aspx?idioma=en-us>

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 will 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, the Exchange will no longer need to request such disclosure from companies as they will be committed to responding directly to CVM. Nonetheless, BM&FBOVESPA will continue to compile and disclose new data in an aggregate manner.

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. We have come a long way, but we still have a long way to go. Hopefully, companies will respond faster and faster.

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