



São Paulo, 16<sup>th</sup> of September, 2022

**Re: ESG Annex to the Regulations for the Listing of Issuers and for the Admission of Securities for Trading**

Dear B3's Issuers' Regulation, Guidance and Enforcement Team,

At abrdn, our purpose is to enable our clients to be better investors. We have been integrating environmental, social and governance (ESG) considerations into our investment process since the 1990s, and we believe investing responsibly is not only the right thing to do, it also helps us to identify opportunities and manage risks. ESG investment is about active management, with the goal of improving the performance of assets we manage around the globe, and comparable ESG-related data is a key tool that can help us achieve our ambition to make a difference – for our clients and customers, society and the planet. Transparent disclosure allows us to hold companies to account for their consideration of ESG factors. As such, we are strong supporters of various groups advocating for timely, consistent, and high-quality disclosures that will enable asset managers like us to make better assessments of how our investments could positively or negatively impact the progress towards our shared goals, like mitigating climate change and upholding strong human rights practices. Moreover, we know that making progress in diversity and inclusion is critical for the long-term sustainability of companies and economic growth. We are committed to pushing forward progress in our operations and to promoting diversity and inclusion through our investment activities. As investors, we are aware of growing empirical evidence showing that, under the right conditions, diversity and inclusion can lead to positive business outcomes.

With this in mind, please find below our contribution regarding the proposal presented by B3 on Issuers Regulation.

**Question 1: What is your opinion on the exclusion of smaller reporting companies (Article 294-B of Law No 6,404/1976) from the scope of the Annex? Would it be appropriate to include smaller reporting companies listed in Level 1, Level 2, or Novo Mercado within the scope of the Annex? Explain your answer.**

Regarding the scope, we see no reason why smaller companies that fit into the Article 294-B of Law No 6,404/1976, should be excluded, since they are subject to the same requirements of disclosure and represent a relevant percentage of the number of listed companies. We do, however, support the exclusion of companies registered as Category B company with CVM, since they are not required to adhere to the same level of disclosure. In our view, for the proposal to achieve the goals it intends, it is important that the scope of companies subject to it comprehends as many listed companies as possible.

**Question 2: What is your opinion about the exclusion of Sponsored BDR issuers from the scope of the Annex? Explain your answer especially if you are against the exclusion.**

We disagree that all companies listed as Sponsored BDRs should be exempt from observing the requirements proposed. Nowadays there are [8 Sponsored BDRs](#) listed at B3 (AURA, G2DI, GPIV, INBR, NUBR, PPLA, STOC, XPBR), and only one of them not being a Brazilian company, with all of them having operations in Brazil. These companies being exempt from adhering to the proposed requirements is not coherent.

An alternative to the exemption of all Sponsored BDRs we propose here, is having different requirements for foreign companies that choose to be listed in Brazil through Sponsored BDRs, similar with what was posed by [NASDAQ](#) in their recent ESG proposal, requiring the presence of women on the board of directors, but not necessarily a member of a minority community, since the definition of minority communities may vary from one country to another. Nonetheless, exempt a Brazilian company from adhering to the proposal is not coherent with the goal it aims to achieve.

**Question 3: ESG Measure 1 proposes the election as an effective member of the board of directors or of the executive committee of at least (i) one woman and (ii) one member of an underrepresented minority. In this respect, such two members may be distributed among the bodies as appropriate for the company. Do you deem this approach to be appropriate or would you suggest any modification, particularly regarding the number of board members and bodies covered? Explain your answer.**

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In our view, despite being a move in the right direction, the proposal is not as ambitious as one would hope, which may not lead to an impactful change in the D&I profile of Brazilian listed companies. We believe there is an opportunity now to add meaningful requirements in the Issuers Regulation, and this is a good chance to propose more robust and effective measures. Going into more detail on our views, the first observation would be on the number of diverse members, since one female member and one member of a minority community (with the possibility of one person representing both characteristics) seems to represent a small penetration of diversity within the companies' bodies. Ideally, the proposal would require 20%-30% of representativeness within the board of directors, in line with other markets. Additionally, looking at IBOV Index, 75% of the companies already have at least one woman on the board of directors, and according to the document of this public hearing, of the 423 listed companies, 63% already have at least one woman on the board of directors, which corroborates our point that the measure is not ambitious enough.

The second observation is regarding the possibility of these members being appointed to either the executive management or the board of directors, which prompts an even bigger dilution of D&I representativeness within the relevant bodies, especially since the number of members each company has on this bodies vary significantly. With this in mind, in our view, the proposal should prioritize setting a target for the presence of women on boards of directors at first.

One final comment on this issue we would like to emphasize is the lack of continuity the proposal presents. As a first measure being proposed by a relevant Brazilian market player, the measure is on the right trajectory, but we would expect to see some clarity as to what are the next steps, whether it is ramping up the number of diverse members, removing the possibility of one person accumulating both desired characteristics, or making the requirements mandatory instead of the "comply and explain" approach, for instance.

**Question 4: In your opinion, should any group be included in (or excluded from) the definition of underrepresented minority? Explain your answer**

We agree with the scope of the proposed groups to be considered underrepresented minorities.

**Question 5: Do you deem the proposed timeframes for phasing-in to ESG Measure 1 adequate? Explain your answer.**

We agree with the proposed timeframes, since they are long enough for companies to search, analyse, nominate and submit to elections candidates that fit in the proposed characteristics at AGMs and/or EGMs.

**Question 6: In your opinion, should ESG Measure 4 be associated to a specific document or would it be appropriate for each company make their own choice? Explain your answer.**

In our view, the requirement for companies to disclose the pertinent information for ESG Measures 1, 2, 3 and 4 under specific items of the Reference Form is ideal, since it provides investors with a more standardized location of information disclosure. The company can disclose the same or additional information on the relevant issues posed by the ESG Measures in other reports as well, but consolidating the data on the Reference Form makes for a more transparent and comparable disclosure.

**Question 7: Is there any ESG issue that should be included in or excluded from the minimum content of ESG Measure 4? Explain your answer.**

We disagree with the way the ESG Measure 4 is structured, since it does not consider that material issues vary by company and sector. Some of the issues listed in the proposal, for instance, may be material to some companies and not for others, while some other issues that are material to some sectors are not even mentioned in the proposed list of required contents. Regarding this, we would like to propose an approach where companies are required to disclose pertinent information concerning its material issues, and the [SASB Standards](#) framework would be a good way to structure this requirement, both from a perspective of identifying the material issues for each company, but also disclosing the information on each issue identified.

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At abrdn, we are strongly supportive of the International Sustainability Standard's Board (ISSB) work to establish a comprehensive global baseline of sustainability disclosures, incorporating the SASB standards and other globally recognized frameworks, since this affords investors with the ability to conduct comparable analysis and bring consistency to ESG integration. In general, while well intentioned, jurisdictional efforts to legislate for increased corporate ESG disclosure risk creating a fragmented approach to ESG reporting, where companies operating internationally have to produce multiple reports. In the worst-case scenario, this could turn into a box ticking exercise which does not result in useful, comparable and high quality ESG data that companies like us need to support our clients become better investors. In summary, framing the required disclosure structure under SASB Standards can potentially lead to best outcome, as companies will be less exposed to different disclosure requirements, and investors will be provided with useful and comparable ESG data.

One additional point we would like to emphasize outside of the proposed questions is regarding the "comply or explain" model. While we believe this approach is sensible, we would expect it to be transitory and the explanation to be robust, with the only accepted rationale being that the company is actively looking at these issues and there is a firm commitment to comply within the short term.

Lastly, we would like to thank B3 for giving us the opportunity to express our views on this important proposal. We look forward to following the next steps in the process and remain at your disposal should you wish to discuss our comments further.

Yours sincerely,



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