

Stock Exchanges and the ESG Agenda: An analysis of the measures adopted by B3

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The ESG agenda continues to gain momentum in the business world, including in the finance and capital markets sectors. Investor awareness of ESG issues has increased, and so has the scrutiny of these issues in investment decisions, resulting in growing demands that companies develop sustainability and diversity policies.

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As the value investors give to the ESG agenda continues to grow, stock exchanges are uniquely positioned to act as catalysts. By their nature, stock exchanges bring together investors and companies and facilitate the relationship between them. For investors, they offer a secure way to invest in the capital market; for companies, they provide a regulated environment for raising the funds needed to develop their businesses, without the (often more costly) intermediation of financial institutions.

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Given their pivotal role in the capital markets, there has been a global call for stock exchanges to integrate ESG factors and principles into their regulatory agendas. What started as voluntary company initiatives – either from conviction or, perhaps more often, market pressure – has taken on regulatory contours in various jurisdictions. This trend is evident in Brazil, where B3 – Brasil, Bolsa, Balcão (B3) is increasingly putting ESG at the top of its agenda.

In July 2023, B3 introduced its new Issuer Regulation (“Regulamento de Emissores”), which includes an Annex focused on ESG matters. According to the new Regulation, listed companies in Brazil (with some exceptions) must appoint at least one woman and one member from an under-represented community to senior leadership positions. They must also include diversity criteria for nominating board members and statutory directors, either in their bylaws or in a specific policy. For companies with variable executive compensation, the compensation plan must include the performance indicators related to ESG themes or goals.

These measures operate under the “comply or explain” model. If a company does not adopt a proposed measure, or adopts only part of it, it must give the reasons for its decision. This system encourages companies to adopt measures promoting social and environmental policies and diversity, as they will be subject to comparative market evaluation against their peers.

The measures adopted by B3 are aligned with an initiative for greater diversity adopted by Nasdaq in 2021. The American exchange requires listed companies, also under a “comply or explain” model, to disclose information annually on the composition of their board of directors, and to appoint at least two officers or board members who meet certain diversity criteria. The rule applies to foreign issuers as well, including Brazilian companies that launched their IPO on Nasdaq.

Turning back to the Brazilian exchange, other significant measures include B3's set of sustainability indices. The Corporate Sustainability Index ("Índice de Sustentabilidade Empresarial"), the Efficient Carbon Index ("Índice Carbono Eficiente"), various indices linked to different corporate governance criteria, and a diversity index all track companies that are committed to certain ESG issues and stand out in their fields.

Another interesting initiative developed by B3 is the trading environment for "ESG-themed" bonds, which promotes sustainable finance by enabling investors to identify green, social, and sustainable bonds in B3's systems. Furthermore, in 2021, B3 was the first stock exchange in the world to issue a sustainability-linked bond, which is tied to achieving sustainable goals.

Although B3 is not one of the largest stock exchanges in terms of market capitalization, its active stance and leadership in promoting the value of the ESG agenda put it on par with major global exchanges, with great prominence and pioneering spirit in ESG matters.

From a macro perspective – looking beyond the Brazilian exchange – it is vital for stock exchanges across the various jurisdictions to embrace the ESG agenda and act as catalysts in encouraging companies to adhere to social and environmental agendas. To this end, it is important that stock exchanges provide the necessary support to listed companies as they incorporate ESG criteria into their policies and activities, mitigating the risk of "greenwashing", and on the other side of the equation, offering investors the tools they need to identify the ESG products that best match their interests.

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