

A Sustainable Banking Network (SBN)
Flagship Report
Addendum to SBN Global Progress Report

October 2019

Country Progress Report

Brazil



Sustainable
Banking
Network



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1. Country progress summary – Brazil



SBN Member:

- ☐ [Central Bank of Brazil \(CBC\)](#) (member since 2012)
- ☐ [FEBRABAN](#) (member since 2017)

SBN Working Group: Measurement Working Group, Green Bond Working Group

Key policy documents:

- ☐ Brazil Protocolo Verde (FEBRABAN, 2008)
- ☐ Measuring Financial Resources for the Green Economy (FEBRABAN, annually from 2013 to 2019)
- ☐ Resolution 4327 on Social and Environmental Responsibility (CBC, 2014)
- ☐ Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARB Framework (FEBRABAN, 2014)
- ☐ Guidelines for Issuing Green Bonds in Brazil (FEBRABAN and Conselho Empresarial Brasileiro para o Desenvolvimento Sustentável - CEBDS, 2016)
- ☐ Financial Institutions and Deforestation Risk Management (FEBRABAN, 2018)
- ☐ Implementing the TCFD recommendations: a roadmap for the Brazilian banking sector (FEBRABAN, 2019)
- ☐ Climate Risk Sensitivity Assessment Tool - Implementation Guide for Banks (FEBRABAN, 2019)

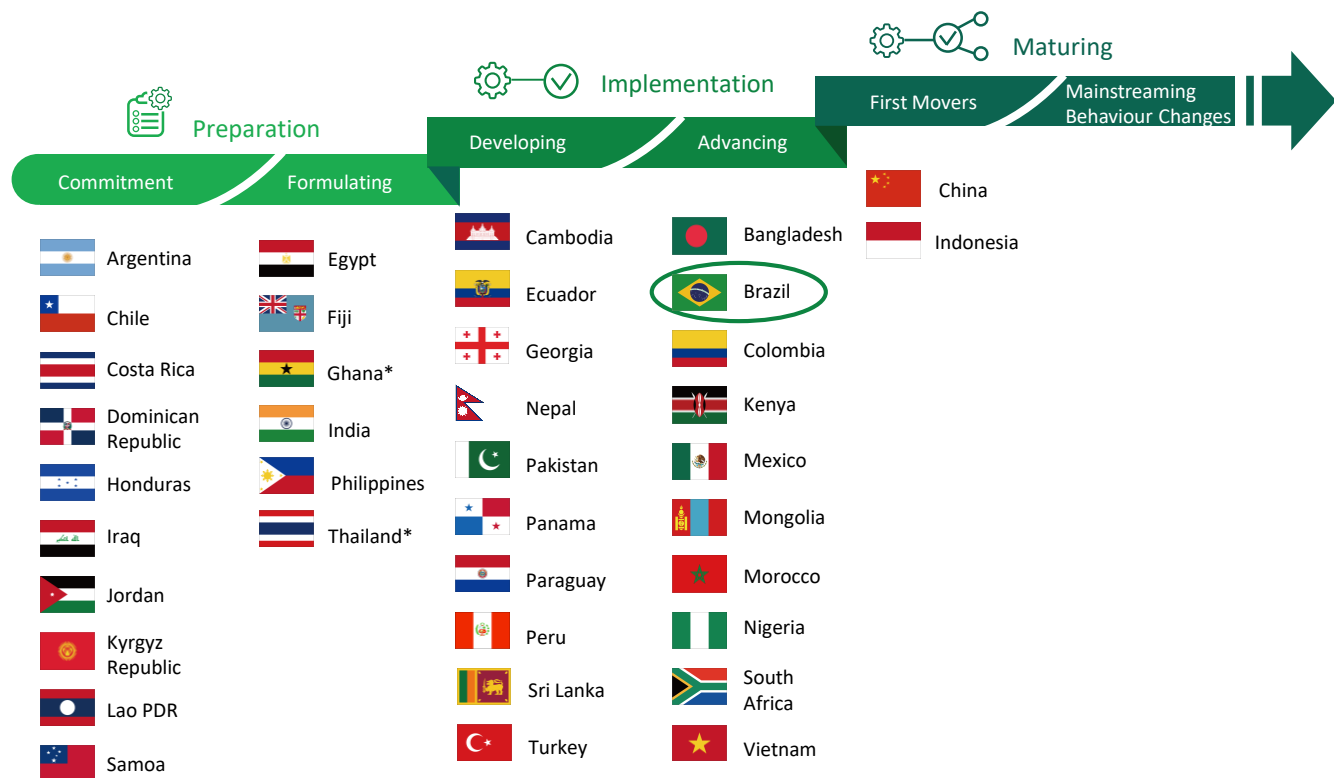
Key milestones since 2018 SBN Report:

- ☐ FEBRABAN implemented the first phase of an institutional project to support Brazilian banks in the adoption of the recommendations published by the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board in 2018.
- ☐ CBC has started to compare, through questionnaires, banks' E&S risk evaluation and action plans with its own views and evaluations since 2018.
- ☐ FEBRABAN issued the "Implementing the TCFD recommendations: a roadmap for the Brazilian banking sector" and "Climate Risk Sensitivity Assessment Tool - Implementation Guide for Banks" (2019).

SBN and IFC role: IFC has provided capacity building to support BCB implement its policy, in partnership with Canada. Through IFC/SBN, BCB and FEBRABAN have shared their experience with other SBN members and benefited from the collective SBN experiences.

Figure 1: SBN Progression Matrix with Assessment Results²

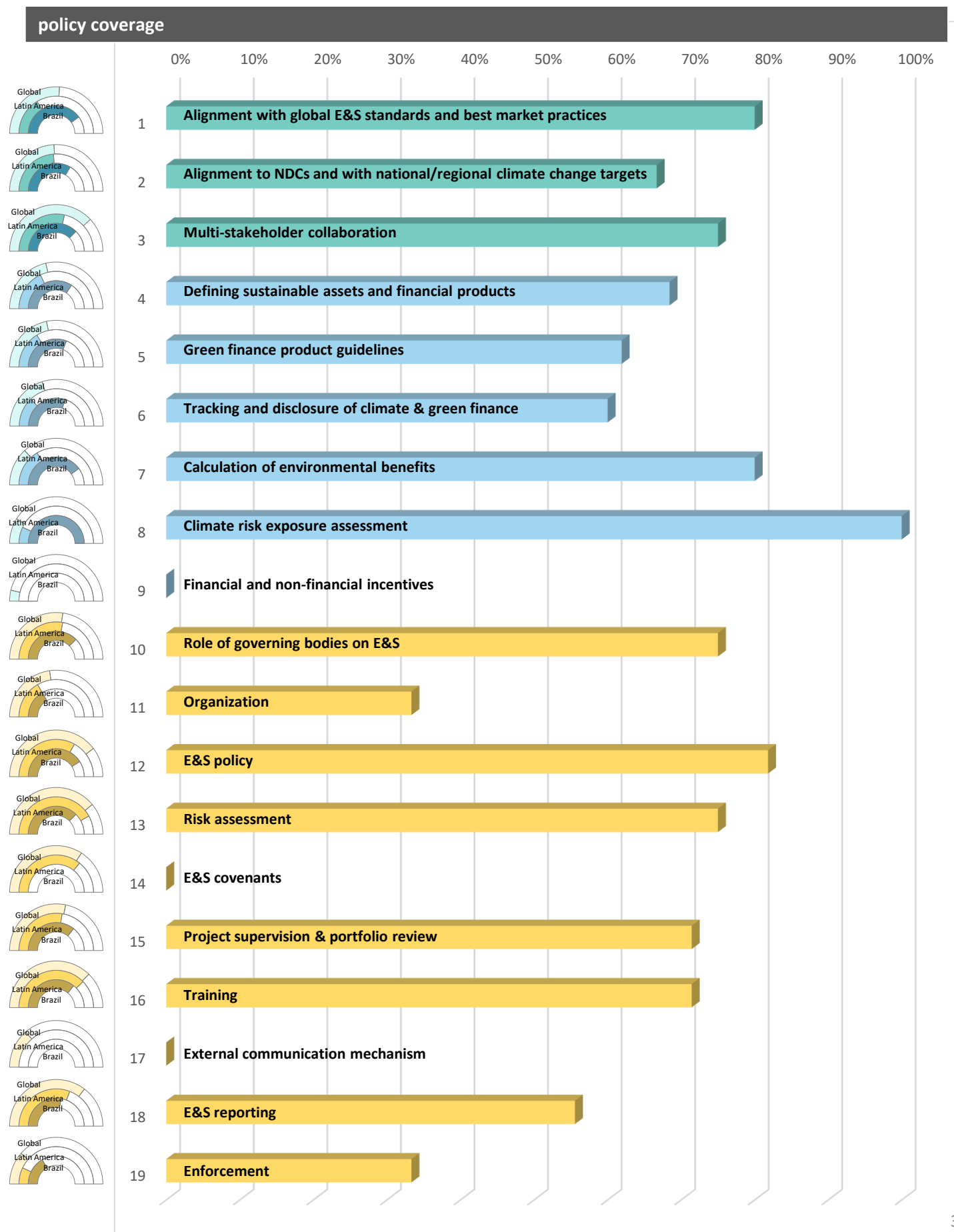
Assessment based on progress up to and as of June 2019³



Note:

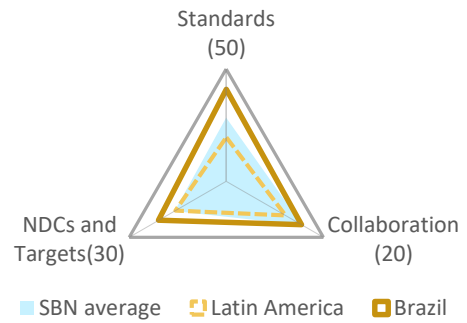
1. Please refer to the SBN Global Progress Report for an explanation of the Progression Matrix.

2. Overview of policy coverage by indicators



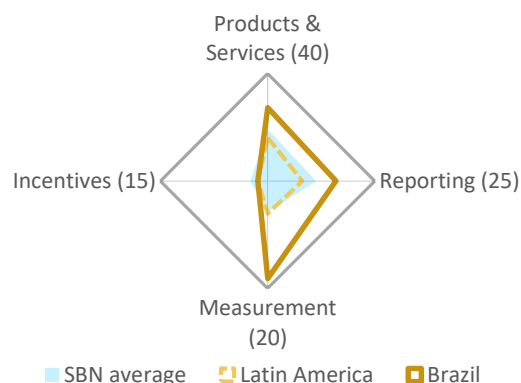
3. Policy coverage developed

Pillar I: Strategic Alignment



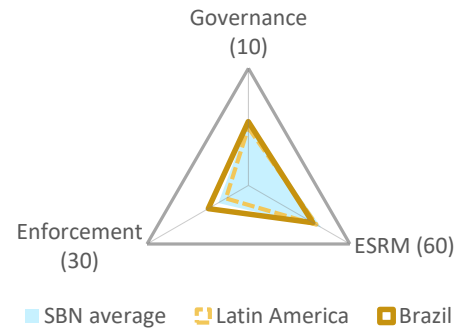
Indicator	Policy requirement	Reference
Alignment with global E&S standards and best market practices		
Indicator 1	<p>Existing policies and guidelines refer to international E&S targets and risk management standards.</p> <p>FEBRABAN's 2018 report on implementing the TCFD's recommendations also aims to provide Brazilian banks with a Roadmap steering them towards alignment with global best practices.</p> <p>Furthermore, many FIs have gone beyond the requirements of the current framework in aligning themselves with global standards. For instance, 37 FIs have signed the Global Compact, 5 of the largest banks have signed the Equator Principles, and 48 FIs have signed the UN PRI.</p>	<p>Guidelines for Issuing Green Bonds in Brazil (FEBRABAN and CEBDS, 2016) – Introduction; Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARF Framework (FEBRABAN, 2014), Section II – Article 14; Implementing the TCFD recommendations: a roadmap for the Brazilian banking sector (FEBRABAN, 2019); Climate Risk Sensitivity Assessment Tool (FEBRABAN, 2019)</p>
Alignment to NDCs and with national/regional climate change targets		
Indicator 2	<p>FEBRABAN published a number of studies in 2018 intended to align banks' operations with Brazil's commitments under the UN Framework Convention on Climate Change. These studies aim to help FIs analyze E&S risks and identify opportunities associated with the green economy.</p>	<p>Guidelines for Issuing Green Bonds in Brazil (FEBRABAN and CEBDS, 2016) - page 19</p>
Multi-stakeholder collaboration		
Indicator 3	<p>The framework involves both the banking association, and the regulator.</p>	<p>Brazil Protocolo Verde (FEBRABAN, 2008) ; Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARF Framework (FEBRABAN, 2014); Implementing the TCFD recommendations: a roadmap for the Brazilian banking sector (FEBRABAN, 2019)</p>

Pillar II: Climate and Green Finance



Indicator	Policy requirement	Reference
Products and services		
Indicator 4, 5	<p><u>Defining sustainable assets and financial products</u> The framework provides good definitions for green sectors and green bonds. In the latter case, definitions match international standards – the Green Bond Principles and the Climate Bonds Standard.</p> <p><u>Green finance product guidelines</u> The framework provides guidelines for green bonds, refers to existing standards, and recommends external party verification.</p>	<p>Guidelines for Issuing Green Bonds in Brazil (FEBRABAN and CEBDS, 2016) - Page 15, 36 and 44</p> <p>Guidelines for Issuing Green Bonds in Brazil (FEBRABAN and CEBDS, 2016) - Introduction & page 44 – 5.2</p>
Climate and green investment reporting		
Indicator 6	The current framework provides transparent aggregate measures of the annual allocations of finance to the 12 sectors that comprise Brazil's green economy. Banks are encouraged to disclose publicly these allocations.	Guidelines for Issuing Green Bonds in Brazil (FEBRABAN and CEBDS, 2016) - Introduction, and Page 44 - 5.2; Measuring Financial Resources for the Green Economy (FEBRABAN, annually from 2013 to 2019)
Measurement		
Indicator 7, 8	<p><u>Calculation of environmental benefits</u> The framework asks FIs to calculate environment benefits of their investments and provides a taxonomy of potential environmental impacts.</p> <p><u>Climate risk exposure assessment</u> FEBRABAN's Roadmap for implementing the recommendations of the TCFD encourages banks to monitor climate risks at portfolio level, and provides references to specific methodologies. It also recommends incentivizing high-risk clients to meet voluntary climate-related commitments.</p>	<p>Guidelines for Issuing Green Bonds in Brazil (FEBRABAN and CEBDS, 2016) - page 22, 23 & 24</p> <p>Implementing the TCFD recommendations: a roadmap for the Brazilian banking sector (FEBRABAN, 2019) - Bank's exposure to climate-related risks; Climate Risk Sensitivity Assessment Tool (FEBRABAN, 2019)</p>
Incentives		
Indicator 9	-	-

Pillar III: ESG Integration



Indicator	Policy requirement	Reference
Governance of E&S		
Indicator 10, 11	<u>Role of governing bodies</u> Requirements set by the Central Bank and FEBRABAN both state the need for appropriate guidance, and for staff to have the capabilities to implement and monitor E&S policies and guidelines.	Resolution 4327 (Banco Central do Brasil, 2014) – Art.3 ; Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARB Framework (FEBRABAN, 2014) – Chapter IV
	<u>Organization</u> Policy defines roles and responsibilities.	Resolution 4327 (Banco Central do Brasil, 2014) - Article 3
E&S risk management		
Indicator 12 - 18	<u>E&S policy</u> Resolution No. 4,327 requires FIs to formalize an E&S responsibility policy for all their activities, and to assess and quantitatively record downstream E&S risks and impacts.	Brazil Protocolo Verde (FEBRABAN, 2008) - page 2 & 3; Resolution 4327 (Banco Central do Brasil, 2014) – Chapter II
	The framework encourages FIs to go beyond E&S requirements of local laws and regulations.	Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARB Framework (FEBRABAN, 2014) - page 2, Article 8
	The framework asks FIs to publicly disclose their E&S policy and its governance.	Brazil Protocolo Verde (FEBRABAN, 2008) - page 3 & 4;
	<u>Risk assessment</u> The framework requires FIs to carry out appropriate E&S due diligences at transaction level and at client level.	Brazil Protocolo Verde (FEBRABAN, 2008) - page 2 & 3; Resolution 4327 (Banco Central do Brasil, 2014) – Art 6; Brazil Protocolo Verde (FEBRABAN, 2008) – Page 3 – 2; Financial Institutions and Deforestation Risk Management (FEBRABAN, 2018)
	The same document, along with FEBRABAN’s Green Protocol and self-regulation SARB14, expects FIs to include E&S criteria in their risk assessment processes, and to categorize projects accordingly based on their E&S risks.	Resolution 4327 (Banco Central do Brasil, 2014) – Art. 3 & 6; Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARB Framework (FEBRABAN, 2014) – Page 6 – Chapter IX – Article 22
	Resolution No. 3,547 requires FIs to assess their E&S risk exposures, and their ability to manage them so as to maintain capital adequacy. Together with SARB14, it also requires public reporting of E&S risks.	
	<u>Project supervision & portfolio review</u> The framework asks FIs to develop processes to manage E&S risks during supervision.	Resolution 4327 (Banco Central do Brasil, 2014) - Article 6
	<u>Training</u> The framework asks FIs to develop and maintain E&S capacity through regular training.	Resolution 4327 (Banco Central do Brasil, 2014) - Article 3
	<u>E&S reporting</u> The policy requires FIs to report regularly on E&S or ESG performance, including publicly, to investors or to regulators.	Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARB Framework (FEBRABAN, 2014) - Page 6 - Chapter IX - Article 22

Pillar III: ESG Integration (cont.)

Indicator	Policy requirement	Reference
Enforcement		
Indicator 19	Public reporting of FIs' E&S risks is required by Central Bank regulation and by FEBRABAN, using a standardised template.	Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARB Framework (FEBRABAN, 2014) - page 6, Article 22

4. Policy coverage to be developed

Pillar	Sub Pillar	Gaps	Areas for improvement
Pillar I: Strategic Alignment	Alignment with global E&S standards and best market practices	20%	➤ Requirement to seek external verification for E&S policies, practices, and results
	Alignment to NDCs and with national/regional climate change targets	33%	➤ Defined main climate risks for their local financial sector
	Multi-stakeholder collaboration	25%	➤ Collaboration with representatives of civil society
Pillar II: Climate and Green Finance	Products & services	35%	➤ Definitions/examples for social/sustainable asset ➤ Guidelines for green financial assets (excluding green bond)
	Climate & green investment reporting	40%	➤ Requirement to report on climate risk exposure at portfolio level
	Measurement	10%	➤ Methodologies, tools, and/or templates to measure and report environmental impacts
	Incentives	100%	➤ Incentives for green financial products/services ➤ Financial incentives on green products/services
Pillar III: ESG Integration	Governance of E&S	50%	➤ Requirement for FI operational bodies to report to the governing bodies on implementation of the E&S strategy ➤ Highlight the roles of front officers and second lines of defense ➤ Requirement to define competencies for each role
	E&S risk management	40%	➤ Requirement for FIs to set E&S or ESG objectives and targets ➤ Encouragement of site visits for high-risk transactions ➤ Invitation to engage with clients to implement mitigation measures in case of negative impacts ➤ Requirement to incorporate E&S covenants and investment conditions into legal agreements with clients ➤ Encouragement of a periodic review of E&S risks at aggregate portfolio level ➤ Highlight of the training of (i) front officers, (ii) second lines of defense (risk officers and/or compliance officers), and (iii) E&S experts ➤ Requirement of FIs to establish and maintain any inquiry/complaints/grievance mechanism in relation to E&S or ESG practices ➤ Requirement of E&S or ESG reporting and disclosure to be more consistent across financial institutions through introducing principles, guidelines, or templates
	Enforcement	67%	➤ Financial and non-financial incentives for establishing ESRM systems ➤ Sanctions/penalties/warnings in case of noncompliance

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