Answers, recommendations and general comments on Public Consultations No 100/2024

SUMMARY

São Paulo,
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Introduction

On March 27, 2024, the Central Bank of Brazil (BCB) launched a public consultation with the purpose of receiving subsidies, contributions and information to improve the rules governing the disclosure of the Social, Environmental and Climate Risks and Opportunities Report by the BCB. As reported, the launch took place during a seminar entitled "Climate risks: regulatory agenda for the financial system", which was part of the program of the *Task Force on Climate-related Financial Risks*, an initiative linked to the Basel Committee on Banking Supervision (BCBS), whose objective is to act on issues related to climate risks.[1]

In order to contribute to the issues proposed by Public Consultation No. 100/2024 and advance discussions on the role of the financial system in the transition to a more sustainable economy, the organizations subscribing to this Response present a set of recommendations aimed at supporting the public debate and advocating the adoption of better standards and criteria for measuring and analyzing the current state of affairs. The aim is to bring contributions from civil society organizations to the issue, multiplying the perspectives for reflection.

In this sense, considering the terms of the Escazú Agreement and its objective of promoting the rights of access to information, popular participation and justice in environmental issues and the protection of human rights; as well as the proposals within the framework of the Framework Law on Human Rights and Business (Bill No. 572/2022), the **principles of publicity, openness, efficiency and transparency** are reaffirmed as basic to the functioning of a republican and democratic state. In particular, it highlights the relevance of the issue from the point of view of guaranteeing the effectiveness of Law No. 8.078/1990, which provides for consumer rights.

The document is divided into five sections, including this brief introduction. Item 1 provides a contextualization of the discussions on financial regulation and environmental, social and climate risks, placing the public consultation in context. Next, item 2 presents points for consideration based on the issues presented in the public consultation. Based on the suggestions, item 3 offers further reflections on the role of the financial system in the transition to a more sustainable economy and, finally, final considerations are presented.

[1] BANCO CENTRAL DO BRASIL, "Central Bank launches public consultation on climate risk disclosure", March 27, 2024. Available at: https://www.bcb.gov.br/detalhenoticia/792/noticia

Background to the actions of the Central Bank of Brazil

Before moving on to the recommendations and proposed guidelines for public debate, a brief digression is being held in order to understand the context in which Public Consultation 100/24. In this sense, this section describes the developments in the field of financial system regulation since the aftermath of the 2008 crisis, with the management of new risks to financial stability, notably climate risks. It also briefly describes the ISSB *standards* and their aspiration to become a global standard for reporting financial information on sustainability.

Increasing risks to financial stability

Since the turn of the millennium, many efforts have been dedicated to changing the behavior of actors in the financial system with regard to topics previously considered "non-financial". One of these processes, now known as the ESG (*Environmental, Social, and Governance*) agenda, has been used to convince people of the financial materiality (i.e. the financial impacts) that issues related to the environment, social and environmental aspects and governance have been present in the management of economic entities.[2]

In particular, the impacts that climate change will have on the economy are strongly highlighted. Extreme weather events and the regulatory changes expected to promote a low-carbon transition could significantly affect asset pricing, which will have consequences for economic organization. An example of this is the concern about so-called *stranded assets*, which refer to assets that have the risk of becoming unprofitable. A significant part of these assets are involved in the misuse of forest conversion into areas of extensive grain and livestock cultivation, exploitation of mineral and forest resources, fossil fuels that directly impact traditional communities and peoples and their territories of common use.

In this sense, the reasons for investors to start worrying about the issue are reinforced, with the incorporation of "ESG criteria" into capital allocation decisions. But that's not all. The perception of climate change as a source of risk has also led to the consideration of its systemic impacts,[3]

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[2] See POLLMAN, Elizabeth, The making and meaning of ESG.

[3] For an elaboration of the "green **swan**" concept, referring to possible unexpected shocks to the financial system, see BOLTON, Patrick *et al*, **The green swan: central banking and financial stability in the age of climate change**, [s.l.]: Bank for International Settlements, 2020.

underpinning the mobilization of regulators (including central banks) responsible for ensuring the stability of the financial system.[4]

Since the 2007/2008 financial crisis, measures to strengthen financial stability have been intensified, with the regulatory environment becoming more complex in order to map and mitigate macro-prudential risks - i.e. those that are not mitigated at the level of individual organizations. An important dimension of these interventions is concern about the risks posed by climate change.[5]

Some milestones are important in building this path. In 2015, for example, the *Taskforce for Climate Related Financial Disclosures* (TCFD) was created within the framework of the *Financial Stability Board* (FSB), a prominent player in the formulation of global guidelines for the regulation of the financial sector. The aim of the initiative was to develop recommendations on the type of information that companies from different sectors should report so that climate risks could be assessed.[6]

In 2017, a group of eight central banks launched the *Network of Central Banks and Supervisors for Greening the Financial System* (NGFS), of which the BCB is a member, with the aim of strengthening the response of financial regulators to achieve the goals of the Paris Agreement. [7] The NGFS aims to improve the management of risks associated with climate change, as well as to mobilize investments for sustainable development.

In this scenario, the Central Bank of Brazil (BCB) has emerged as a relevant player, having been described as a pioneer in this area due to its previous work in socio- environmental risk management[8]. In the context of the global advancement of the agenda, the BCB's efforts have expanded and the institution has added a specific focus on the climate dimension. As a result, a series of standards were drawn up[9] which, among other things, redefined the previous formulation of "socio- environmental risk" into social, environmental and climate risks.

Considering the purposes of the public consultation being analyzed here, it is worth highlighting BCB Resolution 139, which required institutions in segments S1 to S4[10] to disclose the Social,

[4] JABKO, Nicolas; KUPZOK, Nils, Indirect responsiveness and green central banking, **Journal of European Public Policy**, v. 31, n. 4, p. 1026-1050, 2024.

[5] See, for example, the evolution of the issue within the Bank for International Settlements (BIS): <https://www.bis.org/img/topics/green_finance_infographic.pdf>

[6] See <https://www.fsb-tcfd.org/about/>.

[7] See <https://www.ngfs.net/en/about-us/governance/origin-and-purpose>.

[8] UNITED NATIONS ENVIRONMENT PROGRAMME, **The financial system we need: aligning the financial system with sustainable development**, [s.l.: s.n.], 2015.

[9] See CMN Resolutions 4.943, 4.944 and 4.945, as well as BCB Resolutions 139 and 140.

[10] O framework of institutions can be consult at <https://www.bcb.gov.br/estabilidadefinanceira/regprudencialsegmentacao>.

Environmental and Climate Risks and Opportunities Report (GRSAC Report). This rule should be interpreted in the light of BCB Normative Instruction 153/2021, which introduced model tables for reporting qualitative data on governance, treatment strategies, management structure, indicators used and business opportunities associated with social, environmental and climate risks. Continuing these regulatory developments, standards are now being proposed to improve the rules governing the disclosure of the GRSAC Report, incorporating quantitative aspects.

ISSB standards as a global standard

Reporting information related to sustainability (or, as it was previously called, "non- financial" information) is not a recent practice. Since the 1990s, different initiatives have sought to promote the practice among companies in various sectors, seeking to publicize and generate pressure regarding their social and environmental impacts. Many frameworks have been suggested to define how and what information should be reported, most notably the Global Reporting Initiative (GRI), which has become predominant among large corporations.

In the context of this diversity of reporting forms, a major challenge concerns the comparability of this information. The difficulty of comparison, in turn, has become a focus as the developments described in the sub-item above have been consolidated. In other words, if social, environmental and, notably, climate-related aspects are financially relevant, organizations need to be able to measure and compare this data in order to manage these risks.

In this sense, we are seeing a search for a lowest common denominator in these reports, notably by concentrating efforts on the climate dimension and, within this, on the impacts of climate change on the organization - since it is in this area that the greatest risk to the stability of the financial system can be identified. A first step in this direction was taken with the aforementioned TCFD, whose recommendations were published in 2017 and are now being promoted by various actors and initiatives.

Since then, another *venue* for developing a global standard for reporting financial information on sustainability has been set up: the International Sustainability Standards Board (ISSB). The ISSB was formed within the IFRS Foundation, which is also responsible for the International Accounting Standards Board (IASB), the body responsible for developing financial disclosure standards and which has transformed the financial accounting environment globally[11].

[11] See <https://www.ifrs.org/about-us/who-we-are/

The ISSB is the result of important institutional engagements involving not only the absorption of the TCFD, but also direct dialogue with the most important sustainability reporting standards, including GRI and the Carbon Disclosure Project (CDP). Up to date, two standards have been published: IFRS S1 (general requirements) and IFRS S2 (dealing specifically with rules for climate reporting). New standards are in the process of being developed relating to priority themes: biodiversity and ecosystems, human rights, human capital and integration in reports.

It is important to note that the historical context described - about efforts to change investor perceptions and the notion of climate as a risk factor for financial stability - is relevant to the consideration of ISSB standards because, as is well known, these standards adopt the perspective of investors in determining what information should be included in sustainability reporting. In technical language, the term "simple materiality" or "financial materiality" is used, and only risks that can impact the cash flow of the organization in question are included.

In the wake of the promotion of a global standard that facilitates the interoperability and comparability of information, different regulators have been adopting ISSB standards around the world. Brazil is one of the pioneers on this front, with the adoption of the standards by the Brazilian Securities and Exchange Commission (CVM). According to Resolution no. 193 of October 20, 2023, publicly traded companies, securities funds and investment and securitization companies must prepare and disclose financial information related to sustainability based on ISSB standards.[12]

According to the terms of the public consultation being analyzed, the BCB is considering accepting the international standards IFRS S1 and IFRS S2 issued by the ISSB. But in addition to these standards, the proposal being drawn up by the BCBS is also being evaluated, which considers specific climate risk reporting requirements for banks, complementing the ISSB standards with regard to banking regulation and its prudential logic.[13] The effective adoption of sustainability reporting standards requires standardization and integration between the reports of listed companies, corporations and financial institutions.

Climate change creates physical risks, for example for agricultural operations, which are subject to

[12] The requirement will apply to fiscal years beginning on or after January 1, 2026. The Brazilian Committee on Sustainability Pronouncements (CBPS) is conducting the process of national transposition of the ISSB standards. A joint public consultation on the proposed version is currently open, see <https://www.gov.br/cvm/pt-br/assuntos/noticias/2024/aberta-consulta-publica-que-torna-obrigatoria-divulgacao-de-informacoes-financieras-relacionadas-a-sustentabilidade>.

[13] BASEL COMMITTEE ON BANKING SUPERVISION, **Consultative document: disclosure of climate-relate financial risks**, [s.l.: s.n.], 2023.

droughts or floods, or for land and air transportation of goods and people, which is affected by storms, hurricanes and fires. Climate risks therefore imply an increase in banks' credit risk. Given the scenario described above, one can better understand the scope of the rules now being examined through Public Consultation No. 100/2024, with the aim of advancing the regulation of social, environmental and climate risks by the institutions of the National Financial System.

Contributions to the public consultation

As mentioned, through the consultation the Brazilian Central Bank is seeking input for the implementation of quantitative criteria in the disclosure of social, environmental and climate risks. What follows in this section are some points to think about in order to improve the proposals.

Metrics and targets for social risk and for environmental risk

The BCB's pioneering role in managing sustainability-related risks dates back to the first mentions of "socio-environmental risk"[14]. It is in view of this history that the implementation of a TCFD "plus" approach by the Brazilian regulator becomes understandable. In other words, recent regulatory innovations have not been limited to climate risk management (predominant on the international agenda), but have sought to broadly address sustainability risks segmented into social, environmental and climate risks.

This approach is particularly important in view of the significant socio-environmental risks imposed by economic activity in a country with a structure like Brazil's. The strong dependence on primary sectors and the location in global value chains impose ecological and social costs on Brazilian territory.

However, there are also important challenges posed by the TCFD "plus" route. Global efforts to develop prudential measures are focused on climate risks and, as the consultation document points out, there are no international standards for reporting indicators and metrics in relation to social and environmental risks.

[14] See Circular 3.547/2011. For an example of the first thoughts on the subject, back in 2007, see TOSINI, Maria de Fátima; CRUVINEL, Elvira, A responsabilidade socioambiental de órgãos reguladores e do Banco Central **do** Brasil, **Boletim Responsabilidade Social e Ambiental do Sistema Financeiro**, v. 2, n. 23, p. 1-2, 2007.

In the case of climate risks, the data on exposures to sectors (according to the proposal presented) will serve as a basis for climate stress tests, verifying the vulnerability of Brazilian financial institutions to possible future climate change scenarios, considering the different transmission mechanisms of physical risks and transition risks. What about social and environmental risks? What and how do we expect to measure them using quantitative indicators?

This is a reflection that should undoubtedly be made with the support of public debate, and built collectively. Therefore, without the pretension of answering these questions definitively, below we propose some indicators that could be used as *proxies* for assessing social and environmental risks.

1. Number of possession disputes;
2. Number of embargoes, fines and occurrences of judicial or administrative environmental proceedings applied by the **Union**, **States**, **Federal District** and **Municipalities;**
3. Number of environmental licenses suspended or revoked;
4. Number of Conduct Adjustment Terms (TAC);
5. Number of embargoes and total area embargoed, number and value of fines and number of labor lawsuits;
6. Number and severity of accidents at work;
7. Mentions or references in lists of occurrences of work analogous to slavery;
8. Number of corruption operations/proceedings;
9. Quantity, toxicological profile, identification of toxic products used (including pesticides), health or environmental incidents;
10. Quantity and identification of effluents (gases, liquids and solids) produced;
11. Exposure to activities with the potential to generate contaminated areas;
12. Exposure to contaminated areas registered in public registers;

In this sense, it should be noted that these indicators must be collected at a different level to the sectoral one. For most of them, the data must be compiled from the level of the financed counterparty (considered individually or as a corporate/society group). There is also data (such as exposure to contaminated areas) that should be extracted from the level of individual assets.

It is true that the growing demand for data will have a "spillover" effect[15] or "trickle down" effect[16] for funded entities - even if they are not directly subject to legal reporting obligations. Therefore,

[15] HUQ, Asif M. *et al*, **Institutional isomorphism and CSR reporting of small and medium sized enterprises**, Institute of Retail Economics: [s.n.], 2023.
[16] EUROCHAMBRES; SMEUNITED, **Access to sustainable finance for SMEs: A European survey**, [s.l.: s.n.], 2023.

potential impacts on small and medium-sized enterprises in terms of information requests should be considered.

Finally, it is worth mentioning that some of the indicators listed are already used by the regulated entities themselves, according to an analysis of the GRSAC Reports drawn up in 2022 and 2023. In different ways, they have been used as a metric for classifying reported risks.

Breakdown of the loan portfolio at agro

Considering the emissions profile of the Brazilian economy, the proposed focus on the agricultural sector and the request for details according to different crops is undoubtedly appropriate and in line with the BCB's other regulatory initiatives. It is well known that there are peculiarities and challenges specific to each one, and greater transparency in this regard (rather than lumping everything together under the category of "agriculture") is certainly a positive step.

However, the portfolio needs to be further detailed. We therefore recommend adding at least the following categories to the CRFR Agro table: forestry, cotton, oil palm, coffee, palm oil and sorghum.

In line with this reasoning, it is also necessary to develop a specific spreadsheet for the macro-mining sector. This would detail specific exposures to the following metals: iron, aluminum, copper, tin, niobium, nickel, gold, lithium, cobalt and rare earth elements.

Other indicators for climate risk management

Considering the BCBS proposal and the availability of data published by the MCTI, the parameterization summarized in the table below is relevant, but insufficient.

Indicators of impact	**Impact**	**Risk Index of impact**	**Scenario (optimistic and pessimist)**
Water Resources	Drought	Climate threat	Present and 2030
Road infrastructure	Waterlogging and flooding	Climate threat	Present and 2030
Port infrastructure	Sea level rise	Climate threat	Present and 2030

For analysis of present and future scenarios (2030 and 2050), it is necessary to incorporate all the impact indicators available on the Adapta Brasil Platform.

The Information and Analysis System on the Impacts of Climate Change (AdaptaBrasil MCTI) was set up by the Ministry of Science, Technology and Innovation and its aim is to consolidate, integrate and disseminate information that makes it possible to advance the analysis of the impacts of climate change, observed and projected in the national territory, providing support to the authorities responsible for adaptation actions.

AdaptaBrasil MCTI is developed through cooperation between the National Institute for Space Research (INPE) and the National Research and Education Network (RNP), and is sponsored by the Ministry of Science, Technology and Innovation (MCTI). Its governance is exercised by a Management Committee made up of two representatives, one of whom is a member and one an alternate, from the three aforementioned institutions. In the table below, we list which indicators and impacts should be added to the BCB table.

Indicator	**Impacts to be included**	**Risk index**	**Scenario**
Hydrological disasters	Floods, torrents and waterlogging, and Landslides	Climate threat	Present, 2030 and 2050
Food safety	Drought and Rain	Climate threat	Present, 2030 and 2050
Energy security	Availability (Variations in electricity generation, based on the impacts of climate change on electricity supply and demand) and Access (Climate Vulnerability, Exposure and Threat)	Climate threat	Present, 2030 and 2050
Port infrastructure	Storm and Gale	Climate threat	Present, 2030 and 2050
Health	Expected and resulting consequences of climate change climate in socio-ecological systems related to health. Malaria and Leishmaniasis are already included, along with the insertion of new diseases such as Dengue and the like.	Climate threat	Present, 2030 and 2050

Rail infrastructure	Landslides, erosion and temperature	Climate threat	Present, 2030 e 2050
Road infrastructure	Landslides, erosion, fires and temperature	Climate threat	Present, 2030 e 2050

Disclosure of voluntary commitments and transition plans

With regard to the disclosure of voluntary commitments and transition plans, it should be noted that a strong and responsible financial sector is needed to allocate funds and make investments efficiently, preventing and mitigating social, environmental and climate risks. The development of standards and targets is a step in this direction and civil society plays a key role in the application and review of these targets. The exercise of social control and popular participation are indispensable for ensuring that products and services labeled as sustainable actually have positive environmental and/or social impacts.

Fair Finance International (FFI) is one of the civil society initiatives in this direction. It was launched in 2014 and consists of a collaborative effort by civil society organizations in Belgium, Bolivia, Brazil, Cambodia, Colombia, Germany, India, Indonesia, Japan, the Netherlands, Norway, Pakistan, Peru, the Philippines, South Africa, Sweden, Thailand and Vietnam. By comparing the financial and investment policies of financial institutions on a range of issues and sectors that cut across sustainability, the methodology developed by the FFI makes it possible to see the limitations of the sources of information and databases available (mainly sustainability reports) and the indispensability of the search for common and comparable targets.

The methodology developed by the FFI can support the BCB in its quest for social, environmental and climate sustainability. Its efforts are aligned with the recommendations of the TCFD and should guide the **ongoing supervision** efforts **and revisions of the Social, Environmental and Climate Responsibility Policy (PRSAC)**.

The Forests and Finance Coalition is another initiative in this direction. It was launched in 2016 and consists of a collaborative effort by civil society organizations from Brazil, Indonesia, Malaysia, Cameroon, the Netherlands and the United States, which seek to stop financial flows to companies that cause deforestation and social impacts.

Below we list a set of targets that financial institutions should strive for in relation to Climate Change, Fossil Fuels, Biofuels, Mining, Renewable Energies, Protection of Socio Biodiversity and Human Rights and Workers' Rights.

Climate Change Targets

1. Disclose the absolute greenhouse gas (GHG) emissions in scopes 1, 2 and 3 associated with its entire financing and investment portfolio.
2. For the financing of large projects, carry out socio-environmental impact assessments that include data on GHG emissions and direct and indirect climate risks.
3. Encourage companies and publicly traded companies to disclose their scope 1, 2 and 3 GHG emissions.
4. Contribute to supervisory bodies on the stock of carbon credits and the accounting of investments in the sector in order to prevent double counting.
5. Do not participate in direct or indirect *lobbying* (attempting to influence decisions made by regulators) with the aim of weakening climate policy and excluding companies that do so from financing and investment.

Fossil fuel targets

1. Companies and projects dedicated to the exploration of new oil and gas wells are excluded from investment and financing.
2. Companies and projects dedicated to the development of new gas-fired power plants are excluded from investment and financing.
3. Companies active in oil and gas extraction that account for more than 30% of their revenues are excluded from investment and financing.
4. Companies active in the production of electricity from gas or oil for more than 30% of the electricity produced are excluded from investment and financing.
5. The financial institution completely excludes financing and investment in companies active in the extraction of oil and gas and/or the production of electricity from fossil fuels until 2030.

Biofuels targets

1. Companies and projects that produce biomass for energy generation or the manufacture of biofuels, which cause competition with food production, the conservation of socio-biodiversity and/or the territorial rights of indigenous peoples, quilombolas, traditional peoples or peasants are excluded from funding and investment.
2. Companies and projects producing biomass for energy generation or the manufacture of biofuels that use agricultural practices that result in air, soil or water pollution are excluded from financing and investment.
3. Companies and projects producing biomass for energy generation or the manufacture of biofuels that violate labor or human rights are excluded from financing and investment.
4. Companies and projects producing biomass for energy generation or the manufacture of biofuels that emit more greenhouse gases per unit of energy generated than alternative energy sources are excluded from financing and investment.
5.

Mining targets

1. Mining companies and projects involved in tailings dam breaks and/or spills are permanently excluded from investment and financing.
2. Mining companies and projects that do not have an adequate tailings management strategy and do not adopt a zero-failure objective for tailings storage facilities are excluded from financing and investment.
3. Mining companies and projects that do not have plans to completely de- characterize their tailings dams by 2030 are excluded from investment and financing.
4. Mining companies and projects that deliberately or accidentally dispose of tailings in rivers, streams, creeks or marine waters are excluded from investment and financing.
5. Only mining companies and projects that consider the socio-environmental effects, on the health of the communities and ecosystem in question, resulting from a mine after its closure are financed in the development plans for new mines.
6. Only companies and projects that guarantee the recovery of ecosystems and the health of directly and indirectly affected communities after the end of commercial activities are financed for all extractive industry projects.
7. Companies and projects in areas affected by conflicts of any kind and with the presence of illegal mining are excluded from financing and investment.
8. Only companies and projects that ensure complete traceability o f their mining and mineral trade chain are eligible for funding and investment.
9. Only companies and projects that carry out assessments of the impact of mining activities or tailings storage on water are eligible for funding and investment.
10. Companies and projects for uranium and asbestos mining, for deep-sea mining, on mountain tops, in densely populated areas or with sensitive ecosystems are excluded from financing and investment.
11. Companies and projects involved in the development of new thermal coal mines are excluded from investment and financing.
12. Companies that do not integrate environmental, social and governance criteria into their operational policies are excluded from financing and investment.

Targets for new renewable energies

Despite the extreme importance of reducing the use of fossil fuels in order to achieve the climate goals set out in the Paris Agreement, the new renewable energies (wind and solar) are far from being considered a clean energy source. The large wind and solar farms, with their transmission lines, cause significant damage and socio- environmental impacts in the territories where they are installed. They affect human health, fauna and flora, and constitute threats to local biodiversity - an extreme example is the Brazilian Caatinga biome, whose greatest contemporary threat of deforestation is precisely wind and solar farms.

Financial institutions and the national financial system play a central role in protecting the social, environmental and human rights of the populations affected by the new renewable energies, since the projects and companies are financed by banks.

In this sense, only projects and companies that can demonstrate their ability to generate new renewable energies should be financed:

1. Protecting and respecting the territorial rights of indigenous, quilombola, traditional and peasant populations affected by energy generation and/or transmission projects. Insofar as the first stage in the process of consolidating wind and solar farms consists of establishing lease and land use contracts, it is up to the Financial Institution that will provide resources for the execution of the project to supervise these contracts, checking that they do not contain abusive clauses.
2. The carrying out of socio-environmental impact studies that detail the procedures adopted for popular participation and consultation with local populations since its conception; the adequacy of the project to local social cartographies and territorialities; compatibility with the economic-ecological zoning of the region; guarantees for the protection of the health of local populations; and the adequacy of mitigation and compensation measures for the damage caused.
3. The feasibility of the project's decommissioning plan, which includes the recycling of materials and structures and the restoration of the local landscape.

Goals for protecting nature and socio biodiversity

To deal with the risks to natural areas and other threats to biodiversity, financial institutions need to draw up a services and investment policy in accordance with international conventions and national legislation.

The following goals are crucial:

1. Companies and projects that are involved in direct and indirect burning and/or deforestation are excluded from financing and investment.
2. Companies and projects that do not guarantee the traceability of their products are excluded from funding and investment.
3. The financial institution measures and discloses the biodiversity footprint of its portfolio.
4. Companies and projects that do not demonstrate how they avoid negative impacts on Indigenous Lands, Quilombola Territories, Traditional Territories, Peasant Territories, Conservation Units, Extractive Reserves, Agrarian Reform Settlements and other areas of native forests and fields in their business operations and in the areas they manage are excluded from financing and investment.
5. Companies and projects that do not demonstrate how they avoid negative impacts on protected areas that fall under categories I-IV of the International Union for Conservation of Nature and the Ramsar Convention on Wetlands in their business operations and in the areas they manage are excluded from financing and investment.
6. Companies and projects that do not demonstrate how they avoid negative impacts on archaeological and speleological heritage areas in their business operations and in the areas they manage are excluded from financing and investment.
7. Companies and projects that do not demonstrate how they avoid negative impacts on populations or numbers of animal species on the IUCN Red List of Threatened Species are excluded from funding and investment.
8. Companies and projects that do not demonstrate how trade in endangered plant and animal species complies with CITES conditions are excluded from funding and investment.
9. Only projects and companies that carry out water scarcity impact assessments in water-scarce regions and adopt comprehensive mitigation measures to meet community and ecosystem water needs are funded.
10. Only companies and projects that integrate nature criteria into their operational and purchasing policies and into their contracts with subcontractors and suppliers are eligible for funding.
11. Companies and projects that do not ensure animal welfare in their business operations and the activities they manage are excluded from funding and investment.

Targets for the protection of human rights and workers's rights

1. The financial institution respects all human rights, as described in the United Nations

Guiding Principles on Business and Human Rights and other national and international treaties and norms on the subject.

2. The financial institution has a zero-tolerance policy towards all forms of discrimination at work, including on the basis of gender, race, ethnicity, sexuality, physical ability and age.
3. Companies and projects that do not respect all human rights, as described in the UN Guiding Principles on Business and Human Rights and other national and international treaties and standards on the subject, protecting life and preventing human rights defenders from being threatened are excluded from funding and investment.
4. Companies and projects that do not demonstrate that they respect labor rights, with effective policies to protect against all forms of discrimination at work, including on the basis of gender, race, ethnicity, sexuality, physical ability and age, are excluded from funding and investment.
5. Companies and projects that do not demonstrate that they have adopted human rights *due diligence* protocols to identify, prevent, mitigate and account for how they deal with their impact on human rights and that do not publish the main measures carried out to promote equal rights and mitigate violations are excluded from funding and investment.
6. Companies and projects that violate the rights of indigenous peoples, quilombolas, traditional peoples and peasants in their business operations, activities and areas o f activity are excluded from financing and investment.
7. Companies and projects that do not demonstrate that they have carried out Free, Prior and Informed Consultation, following the Community Consultation Protocols and respecting the autonomy and self-determination of indigenous peoples, quilombolas, traditional peoples and peasants, are excluded from funding and investment.
8. Companies and projects that do not demonstrate that they ensure the popular participation of indigenous, quilombola, traditional and peasant peoples and of the local populations affected by their activities in the diagnosis of impacts and damage to human rights and in the monitoring of reparation measures are excluded from financing and investment.
9. Companies and projects that violate the rights of children and adolescents are excluded from funding and investment.
10. Companies and projects that do not include clauses on compliance with human rights criteria in their contracts with subcontractors and suppliers are excluded from financing and investment.
11. Build, promote, expand and prioritize credit lines that integrate an approach based on the

promotion of human rights with the protection of socio- biodiversity and the climate.

12. Permanently exclude from public funding value chains that do not comply with basic human rights principles.
13. Establish objective, public and effective accountability mechanisms for the impact of human rights violations. Mechanisms that go beyond *accountability* strategies.
14.

The need for public debate on the role of the financial system in promoting sustainability

The urgent need for more accurate reporting and information on social, environmental and climate risks

In addition to instruments that allow for the general and generic quantification of exposure to so-called social, environmental and climate risks recorded on financial institutions' balance sheets, it is also essential that other principles and criteria guide the preparation of Risk Reports. The integration of sustainability reports and the transparency of the information provided are essential steps in guaranteeing the stability of the financial and economic systems and involve financial institutions, listed companies and other companies. To this end, we recommend

1. Disclosure, with precise location (in urban areas, the address of the head office where the activity is carried out and, for others, in addition to information on the state and municipality, geo-referencing), of assets sensitive to environmental, climate or human rights risks, identifying the type of risk, the degree of control over the asset (direct, indirect or financed). Stakeholders, if any, or controllers and subsidiaries in other jurisdictions, if any, must be explained.
2. More detailed information and data on social, environmental and climate risks, especially for sensitive economic sectors such as agriculture, forestry, mining, power generation and transmission, and oil and gas extraction. For these sectors, we recommend that financial institutions investigate and disclose the following criteria

a. Compliance with environmental licensing and its conditions;
b. Proof of actions and measures to protect and respect the human and territorial rights of indigenous, quilombola, traditional and peasant populations affected by financed projects and operations. In this sense, it is essential to demand and disclose (while respecting privacy) the contracts and agreements signed with local populations, in addition to verifying the procedures implemented to guarantee and respect Prior, Free and Informed Consultation, in accordance with ILO Convention 169 and the United Nations Declaration on the Rights of Peasants and Other People Working in Rural Areas;
c. Carrying out and publishing complementary socio-environmental impact studies for projects linked to these sectors. This type of procedure is already applied by financial institutions, including the World Bank Group and the International Finance Corporation (IFC), which have their own guidelines and methodologies for carrying out impact studies;
d. Occurrence of infraction notices and environmental embargoes at federal, state, municipal and Federal District levels;
e. The granting of water licenses and the existence of embargoes and restrictions, if any;
f. Granting of exploration and mining licenses for mining operations and embargoes, if any;
g. Incidence of deforestation, legal or illegal, in the areas affected by the projects and undertakings financed;
h. The regularity of the land ownership of the projects and undertakings financed, which requires consulting the databases and systems of the Justice Institutions, in particular the Public Prosecutor's Offices;
i. Number of animals produced and details of production systems;
j. Respect for labor rights and human rights, observing the occurrence of work analogous to slavery, other fines and labor infractions, complaints and lawsuits relating to the sexual or labor exploitation of children and adolescents.

3. The publication of the number of calls opened in the ombudsman's offices of financial institutions regarding environmental, climate or human rights issues, always preserving the identity and security of the complainants, but allowing the nature of the risk and the measures taken in response to be visualized.

4. The construction of policies that guarantee greater synergy and compatibility between the sustainability reports demanded by the different regulatory authorities for financial and economic activities.
5. Establish partnerships with various sources o f data on rights violations, especially public platforms and research by civil society organizations.

Rural Credit and goals for sustainability

Brazil's GHG emissions scenario differs substantially from the global scenario. While 73.2% of global emissions in 2020 came from the energy sector[17], in Brazil, land use change and agriculture account for around 75% of GHG emissions[18]. Therefore, in order to tackle climate change and achieve the goals of the Paris Agreement and similar treaties, the objectives related to **land use change and agriculture** are central. Our recommendations related to this segment are aimed at Rural Credit and the traceability of agricultural, forestry and biofuel chains.

Progress must be made in adopting better criteria, adequate monitoring instruments and control mechanisms in the distribution of Rural Credit, the main source of funding for Brazilian agriculture. We therefore propose

1. The revision of CMN Resolution No. 5,081, of June 29, 2023, which deals with Rural Credit and the Green Bureau, in particular:

> "Art. 1.5 - Rural credit will not be granted for an enterprise located on rural property totally or partially on land occupied by indigenous people, provided that:
>
> a) the lands occupied by indigenous people must be listed as homologated, regularized or defined as an Indigenous Reserve in the Indigenous Information System of the National Foundation for Indigenous Peoples (FUNAI); and
>
> b) The provisions of the caput do not apply to cases in which the applicant belongs to tribal groups or indigenous communities that occupy or inhabit the indigenous land on which the project is located." (NR)

   a. New wording for point a): lands occupied by indigenous people, whether they have been homologated, regularized or defined as an Indigenous Reserve in the Indigenous Information System of the National Foundation for Indigenous Peoples (FUNAI) or are included in pending identification and delimitation requests.
   b. Include a new paragraph: "Rural credit will only be granted for forest restoration or enrichment, for a project located on a rural property that is totally or partially on

[17] OUR WORLD IN DATA. Sector by sector: where do global greenhouse gas emissions come from? United Kingdom: Our World in Data, September 2020. Available at: https://ourworldindata.org/emissions-by-sector Accessed on June 23, 2023.
[18] See more information at: https://seeg.eco.br

land occupied by indigenous people."

c. Include a new paragraph: "Rural credit will not be granted for an enterprise located on rural property that is wholly or partially on land occupied by indigenous people who are linked to the conversion or maintenance of crop areas based on the replacement of forest even if they are bona fide occupants.

d. Although progress is being made to include quilombola territories and agrarian reform settlements in INCRA's databases, it is essential to incorporate data from the Traditional Territories Platform (https://territoriostradicionais.mpf.mp.br/#/inicial) and social cartographies developed by civil society organizations and research institutions, taking into account quilombola territories that have not yet been regularized and the territories of other Traditional Peoples and Communities, which are also recognized in the Brazilian legal system (Decree No. 6.040, of February 7, 2007).

a. Art. 1. Clause 8 - "Rural credit will not be granted to enterprises:

a) located on rural property where there is an embargo from the competent Federal or State environmental agency", municipal and Federal District embargoes must also be taken into account.

1. Stop self-reporting information on credit and investments in the Green Rural Credit Bureau and replace it with institutional analysis and monitoring.

2. Incorporate agro-hydroecological zoning, proposed by economist Guilherme Delgado, as a criterion for granting rural credit. The aim of this zoning is to:

> establish empirical indicators of ecological production and simultaneously restrict anti-ecological forms of production. It would operate a priori with three synthetic indicators: a) agricultural water consumption per ton produced (or per hectare cultivated) in a given hydrographic basin within the Mesoregion of reference; b) quantity of agrochemical products used per hectare cultivated; c) levels of greenhouse gas emissions convertible into carbon dioxide equivalents per hectare cultivated, from different regional crops.
> All the indicators are measured per agricultural establishment, either directly or by sampling. Each of them would be associated with a classification in descending order from A to E, reflecting an ordering from the lowest to the highest entropy in water consumption and the dumping of agrochemical residues in the soil. The last indicator reports minimum and maximum levels of greenhouse gas emissions per agricultural hectare cultivated or exploited for livestock purposes.
>
> Thus, the highest scores, corresponding to levels A, B and C, located in the successive prescriptive intervals from lowest entropy to highest entropy, would reward agricultural establishments in descending order in their contracts with agricultural policy and obligations with fiscal policy. These criteria would apply respectively to rural credit policies, guarantee prices and rural insurance, on the one hand; and on the other hand, to the tax favors of Cédula G of the Income Tax. Grade D, also within the respective prescriptive range, is yellow - it withdraws any financial and tax favors previously granted for new agricultural crops. They

are also excluded from any operations involving amnesty, forgiveness or recovery of debts owed to the Federal Government. And finally, grade E is a red light, which, once identified, administratively classifies the establishment in its respective spaces as not complying with the social and environmental function of the land, subject to further sanctions provided for in Articles 184 to 186 of the Federal Constitution. This threshold condition does not exclude the sanctions of exclusion from awards, applicable to the previous condition (note D).[19]

1. Submit Rural Credit operations to the United Nations Guiding Principles on Business and Human Rights (UNGPs).

2. Ensure the traceability of supply chains to guarantee zero deforestation of native forests. The adoption of periodic monitoring clauses involving the entire value chain is necessary.

3. Use the provisions of the Escazú Agreement for drawing up the BC# Agenda Sustainability and the forthcoming Social, Environmental and Climate Risks and Opportunities Reports (RIS) in the guidelines for providing rural credit.

Final considerations

By way of conclusion, we reinforce the need for integration between regulatory efforts on social, environmental and climate issues and the incorporation of popular participation and social control in this process. Civil society has a fundamental role to play in regulating and controlling the financial system in order to guarantee stability.

[19] DELGADO, Guilherme. "Rural development and ecological economy: an approach based on zoning". Revista agriculturas: experiências em agroecologia. Cadernos para debate, n. 4, year 2021.

In this regard, we stress the urgent need to include the BCB and representatives of civil society organizations, social movements, consumers (of financial services or not), trade unions and researchers in the Committee on Sustainable Sovereign Finance (CFSS), currently composed only of public secretariats and ministries, in order to promote transparency and social control i n decision-making, avoiding practices such as *greenwashing* and speculation based on financial services.

Corporate and financial reports classify socio-environmental damage and impacts on the violation of fundamental rights as "externalities", i.e. situations that occur on an exceptional and non-recurring basis. The idea of "externality" does not take into account international standards for the protection of life and the environment, such as the Universal Declaration of Human Rights (UDHR) of 1948, which deals with basic civil, political, economic, social and cultural rights for all human beings, nor does it take into account the Universal Declaration of Animal Rights proclaimed by UNESCO in 1978.

It is well known that, historically, specific groups have been more vulnerable and more susceptible to rights violations, and therefore exposed to greater environmental and climate risks. In particular, black populations, People with Disabilities (PWD), women and girls, children, immigrants, quilombolas, indigenous people, traditional peoples and communities in their complex diversity. In addition, urban and rural territories and the socio-biodiversity linked to these territories are constantly violated, impacted and expropriated.

Brazil's economy, based on a few low value-added products that depend directly on the exploitation of natural resources, such as mining, oil and gas exploration and farming, has a direct impact on the guarantee and effectiveness of the fulfillment of fundamental rights and constantly produces violations of basic rights over humans and nature, whether through the invasion of the territories of diverse populations, causing a series of social, economic and political conflicts, or through contamination of the soil, air and water.

On the one hand, even if the BCB's activities can contribute to human rights violations, on the other, it has indispensable duties in promoting investments, capital operations and the offer of financial services in accordance with human rights safeguards and guaranteeing access to information on the impacts of the operations carried out by its intermediaries, through the direct action of the institutions it supervises and on the capital markets.

They also sign this contribution:

1. ActionAid Brazil
2. Study Group on Social Change, Agribusiness and Public Policies (GEMAP)
3. Brazilian Forum of NGOs and Social Movements for the Environment and Development (FBOMS)
4. Esquel Group Foundation Brazil
5. Brazilian Institute for Nature Conservation (IBRACON)
6. International Rivers