



CASE STUDY SERIES: Innovative Financing for Gender Equality via Bonds



# Brazil: SUSTAINABILITY-LINKED BOND ISSUED BY A STOCK EXCHANGE

B3 S.A. - BRASIL, BOLSA, BALCÃO

*United States Dollar (USD)*





<p><b>Issuer</b></p>	<p>Brasil, Bolsa, Balcão (B3) is one of the world’s largest financial market infrastructure companies, providing trading services in an exchange and over-the-counter (OTC) environment.<sup>1</sup></p> <p>B3’s scope of activities includes the creation and management of trading systems, clearing, settlement, deposit and registration for the main classes of securities, from equities and corporate fixed income securities to currency derivatives, structured transactions, interest rates and agricultural commodities.</p> <p>In September 2021, B3 became the first stock exchange in the world to issue a Sustainability-Linked Bond (SLB) and therefore financially commit to meeting sustainability-related goals. It was in the total amount of US\$700 million. B3 indicated it was also the first Brazilian company to issue an SLB with exclusively social targets abroad.<sup>2</sup> Its journey to improve gender equality included becoming a signatory to the United Nations Women’s Empowerment Principles in 2017.</p> <p>B3 plays an active and pioneering role in advancing environmental, social and governance (ESG) best practices as well as developing ESG-related products and services including groundbreaking ESG data and analytics tools, indices, solutions for carbon markets and strategic stakeholder engagement initiatives.<sup>3</sup></p>
<p><b>Issuance tranche</b></p>	<p>US11778EAA47 (Rule 14)<sup>4</sup> and USP19118AA91 (Reg S)<sup>5</sup></p>
<p><b>Amount issued</b></p>	<p>US \$700 million</p>
<p><b>Date of issuance</b></p>	<p>20 September 2021</p>
<p><b>Date of maturity</b></p>	<p>20 September 2031</p>
<p><b>Number of issuances</b></p>	<p>Dual-tranche issuance (Rule 14A &amp; Reg S)</p>
<p><b>Coupon rate</b></p>	<p>4125 basis points (bp)</p>



<b>Listing (domestic or international)</b>	International
<b>Stock exchanges where listed</b>	Luxembourg Stock Exchange
<b>Future issuances</b>	Not applicable
<p style="text-align: center; font-weight: bold; color: white;">       Key Performance Indicators and/or Sustainability Performance Targets     </p>	<p>B3 recognizes the need to increase diversity at all levels of its company as an essential element of its strategy. Likewise, the issuer also expects the companies listed on B3 to do the same. As such, B3 selected two indicators for its framework that encompasses its commitment to a more diverse and inclusive society, which is core, material and relevant for B3’s business and crucial for taking Brazil to the next step.<sup>6</sup></p> <p><b>For the selection of the gender-linked key performance indicators (KPIs), B3 set two KPIs:</b></p> <ul style="list-style-type: none"> <li>• <b>KPI #1:</b> Women in leadership positions.</li> <li>• <b>KPI #2:</b> Diversity Index.</li> </ul> <p><b>B3 has set the following sustainability performance targets (SPTs) to advance gender equality, both in the organization and more broadly in the Brazilian economy:</b></p> <ul style="list-style-type: none"> <li>• <b>SPT 1:</b> Achieve at least 35 per cent of women in leadership positions by 31 December 2026.</li> <li>• <b>SPT 2:</b> Create an index that incentivizes companies listed on B3 to improve their diversity and inclusion practices by formally disclosing, on an annual basis, the diversity of leadership positions by 31 December 2024.</li> </ul> <p><b>The SLB issued by B3 has sustainability-linked features that are aligned to the Sustainability-Linked Bond Principles (SLBPs) and ensures a penalty (step-up) in the following scenarios:<sup>7</sup></b></p> <ul style="list-style-type: none"> <li>• From and including 20 September 2025, the interest rate payable on the Notes will be increased by 12.5 basis points to 4.25 per cent per annum if the Diversity Index Sustainability Performance Target is not achieved.</li> <li>• From and including 20 September 2027, the interest rate payable on the Notes shall be increased by 12.5 basis points to either (a) 4.375 per cent per annum if the Diversity Index Subsequent Interest Rate is in effect and the Women in Leadership Positions Sustainability Performance Target is not achieved or (b) 4.25 per cent per annum if only the Women in Leadership Positions Sustainability Performance Target is not achieved.</li> </ul>



## Gender considerations in the Key Performance Indicators

The two KPIs enable B3 to track organic growth and commit to achieve a more diverse and sustainable scenario.

### KPI 1: Percentage of women in leadership positions<sup>8</sup>

- **Medium-term goal:** Increase the percentage of women in leadership positions to reach at least 35 per cent by 31 December 2026.
- **Long-term goal:** Achieve an equal split of women and men in leadership positions.
- **KPI:** Positions occupied by managers, superintendents, officers and the chief executive officer of B3.
- **Definition of 'women':** For this goal, B3 considers women under the vision of gender identity, i.e. the internal and individual experience of gender deeply felt by each person, which may or may not correspond to the sex assigned at birth, including the personal sense of the body (which may involve, if chosen freely, modification of bodily appearance or function by medical, surgical or other means) and other expressions of gender, including dress, speech and mannerisms. Therefore, B3 refers to employees who identify themselves as women. Gender identity data are collected in the admission process and can be changed freely by employees in the internal system.

### KPI 2: Creation of a Diversity Index<sup>9</sup>

- **Medium-term goal:** Create and offer a diversity index by December 2024.
- **Long-term goal:** Incentivize and promote companies that are listed on B3 to follow B3 in setting ambitious targets to expand diversity, including in leadership positions.
- **KPI:** B3 will create a new index with a set of criteria focused on diversity. All companies listed on B3 will be invited to provide information on diversity topics and the data shared with B3 will be used to evaluate if the company is eligible for inclusion into the index. Those companies that respond to B3's request will be eligible for the index and will be evaluated and benchmarked against each other. Among the companies that are eligible for the index, only those that present and maintain the best diversity performance will be included in the index.
- **(Upcoming) index methodology:** The index will be the weighted average of a theoretical portfolio of stocks and the issuer will start the backtest and structuring of the Index Methodology and Guidelines in 2023.<sup>10</sup> The index will follow the market's standard and certain methodologies utilized by B3 for other indexes. Nevertheless, B3 assures that it will include, at least, information regarding gender diversity and specifically the percentage of women in leadership for those companies that will be part of the index. This will mirror and provide disclosure on the target B3 selected for themselves in KPI #1.



## Alignment with the Sustainable Development Goals (SDGs)

The achievement of the Women in Leadership Positions Sustainability Performance Target contributes to the following SDGs:



The achievement of the Diversity Index Sustainability Performance Target contributes to the following SDGs:



## SDG targets that the bond addresses



### Target 5.5

Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.



### Target 8.5

By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.



### Target 10.2

By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.



## Target population

Even though there are no specific provisions regarding the target populations in the Sustainability-Linked Bond Principles, the issuer has decided to disclose the scope of application of the two social KPIs by defining the two following target populations:

- B3's leadership, defined as positions occupied by managers, superintendents, officers and the chief executive officer of B3.
- All companies listed on B3 for the Diversity Index.

## Indicators related to gender equality

B3 has disclosed information on the evolution of the two goals in its latest annual report:<sup>11</sup>

- **35 per cent of women in leadership positions by 2026:** B3 has structured an action plan for the coming years which will include individual goals for senior leadership (Vice Presidents and Officers) linked to:
  - Percentage growth in female leaders with periodic monitoring by the Diversity and Inclusion area
  - Support in the design and execution of specific action plans for each area with a women leaders goal
  - Development programmes focused on women promoting upcoming talent for career progression to leadership positions
  - Continuity of the mentorship programme for women with analysts III, consultants, coordinators and managers with the aim of preparing them for the next career step working with soft and hard skills
  - Female empowerment programmes – “One goes up and pulls the other up” – every woman promoted to a leadership position will mentor another woman on her team who will be next in line for that position.
- **Creation of a Diversity Index by 2024:** In 2022, B3 started a search for public data on diversity, equity and inclusion in listed companies. Through this action, a lack of standardization and availability of information by the market was observed. As a result, the issuer invited all companies listed on B3 to voluntarily respond to a request to fill out a form to obtain quantitative data on gender, race/colour, people with disabilities and LGBTQIA+ people. Based on the data collected, B3 will begin the backtest and structuring of the Index Methodology and Guidelines in 2023.



<b>International standards alignment</b>	<ul style="list-style-type: none"><li>• ICMA Sustainability-Linked Bond Principles (SLBP)</li><li>• GRI Standards</li></ul>
<b>Link to framework</b>	<p>Sustainalytics. 2021. B3 – Brasil, Bolsa, Balcão Sustainability-Linked Financing Framework. Second-Party Opinion. 9 September, pp. 19–35.</p> <p><a href="https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/b3-sustainability-linked-financing-framework-second-party-opinion.pdf?sfvrsn=d290fd6c_1">https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/b3-sustainability-linked-financing-framework-second-party-opinion.pdf?sfvrsn=d290fd6c_1</a></p>
<b>Link to Second Party Opinion</b>	<p>Sustainalytics. 2021. B3 – Brasil, Bolsa, Balcão Sustainability-Linked Financing Framework. Second-Party Opinion. 9 September.</p> <p><a href="https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/b3-sustainability-linked-financing-framework-second-party-opinion.pdf?sfvrsn=d290fd6c_1">https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/b3-sustainability-linked-financing-framework-second-party-opinion.pdf?sfvrsn=d290fd6c_1</a></p>
<b>Second Party Opinion provider</b>	Sustainalytics
<b>Credit enhancement</b> <i>(yes or no)</i>	No



## Was the bond oversubscribed and were there any special considerations?

The issue was well-received by leading investment firms across the globe including Carmignac, Oaktree, Invesco, Western Asset, Credit Suisse, Citadel, Goldman Sachs, Amundi, AXA, Brandywine and PIMCO. Together, the top 10 investors accounted for over US\$375 million of allocations.

Moreover, the issue reached a demand of US\$3.5 billion (7x) at the peak, allowing B3 to upsize the issue to US\$700 million, pricing it at 4.125 per cent through the tight end of guidance, only 12.5 basis points back of the Brazil sovereign benchmark.

## Partners

- **Legal advisors:**<sup>12</sup> Clifford Chance LLP; Milbank LLP; Pinheiro Guimarães; Machado, Meyer, Sendacz e Opice Advogados.
- **Global coordinators:** Bradesco BBI; Citigroup; Itaú BBA; J.P. Morgan MUFG.
- **Joint bookrunners:** BofA Securities; Safra; Santander; UBS Investment Bank.
- **Trustee, registrar and paying agent:** Deutsche Bank Trust Company Americas
- **Luxembourg listing and paying agent:** Deutsche Bank Luxembourg S.A.

## Other features

Since 2008, B3 has reported on its sustainability performance and has linked variable remuneration for executive-level management to the achievement of diversity and inclusion targets since 2020.<sup>13</sup>

### Examples of a project that supports the two goals:

B3 plans to initiate certain initiatives/programmes to achieve its goals. Among those initiatives/programmes, B3 might:

1. Do active recruitment for female candidates for leadership positions both internally (in the organization) and externally (from other companies), including the prioritization of women for replacement vacancies and turnover.
2. Map the organization's female talents and develop career acceleration from day one (including internal or third-party mentor programmes, professional development opportunities, empowerment and networking spaces).
3. Develop affirmative actions, invest in the deconstruction of bias and prejudiced behaviours, and create corporate solutions for intersectional struggles in the work environment, including parental leave and caregiving.





## Lessons learned

B3 recognized that human capital is a material topic for its business and central to its long-term success. B3 indicated its belief that implementing strong diversity and inclusion (“D&I”) programmes can result in a competitive difference, not only to attract but also to retain the best talent.

The issuance is grounded in the belief that an increase in diversity provides greater capacity for innovation whereby ideas are generated from a broad group of well-rounded individuals. As such, by becoming more diverse, B3 aims to reinforce its culture of inclusion and human capital appreciation, creating a better work environment for all its employees. Since 2020, B3 D&I targets are linked to management’s variable remuneration, including the C-level.<sup>14</sup>

Moreover, B3 asserts that, as an exchange, it must work towards promoting and enabling more transparency and disclosure in the market, providing market participants with data to make informed decisions. B3 believes that more than setting a target for itself (in KPI 1), it needed to proactively incentivize companies listed on B3 to discuss and disclose diversity in leadership positions in a more simple and direct fashion, thereby increasing the overall transparency in the market for this topic.

These elements led B3 to define KPI 2, creating an index that will enable market participants to evaluate companies based on their diversity performance while simultaneously promoting the expansion of diversity for the market overall. The creation of the index is intended to promote more disclosure regarding diversity and incentivize companies listed on B3 to begin internal changes and/or create targets to improve their diversity, including in management positions.<sup>15</sup>



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## Endnotes

1. B3 S.A. – Brasil, Bolsa, Balcão. “About: Who we are?” [https://www.b3.com.br/en\\_us/b3/about/who-we-are/](https://www.b3.com.br/en_us/b3/about/who-we-are/)
2. Sustainable Stock Exchanges Initiative (SSE). “B3.” <https://sseinitiative.org/stock-exchange/b3/>
3. Ibid.
4. Luxembourg Stock Exchange. B3BRABOLBAL 4,125% 20/09/2031 Rule 144A. <https://www.luxse.com/security/US11778EAA47/345649>
5. Luxembourg Stock Exchange. B3BRABOLBAL 4,125% 20/09/2031 Reg S. <https://www.luxse.com/security/USP19118AA91/346019>
6. Sustainalytics. 2021. B3 – Brasil, Bolsa, Balcão Sustainability-Linked Financing Framework. Second-Party Opinion. 9 September, p. 10. [https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/b3-sustainability-linked-financing-framework-second-party-opinion.pdf?sfvrsn=d290fd6c\\_1](https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/b3-sustainability-linked-financing-framework-second-party-opinion.pdf?sfvrsn=d290fd6c_1)
7. B3 S.A. – Brasil, Bolsa, Balcão. 2022. U.S.\$700,000,000 4.125% Notes due 2031. Offering Memorandum (Prospectus). 10 March, p. 129. <https://www.luxse.com/security/US11778EAA47/345649>
8. Sustainalytics. 2021. B3 – Brasil, Bolsa, Balcão Sustainability-Linked Financing Framework. Second-Party Opinion. 9 September, p. 11. [https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/b3-sustainability-linked-financing-framework-second-party-opinion.pdf?sfvrsn=d290fd6c\\_1](https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/b3-sustainability-linked-financing-framework-second-party-opinion.pdf?sfvrsn=d290fd6c_1)
9. Ibid., p. 12.
10. The index methodology will be developed in 2023. B3 – Brasil, Bolsa, Balcão. 2022 Annual Report, p. 91. <https://api.mziq.com/mzfilemanager/v2/d/5fd7b7d8-54a1-472d-8426-eb896ad8a3c4/2ee7f594-bca0-e698-84e1-3b8da1643231?origin=1>
11. Information on the evolution of the goals is described in the 2022 Annual Report. Ibid., p. 91–92.
12. B3 S.A. – Brasil, Bolsa, Balcão. 2022. U.S.\$700,000,000 4.125% Notes due 2031. Offering Memorandum (Prospectus). 10 March, p. 474. <https://www.luxse.com/security/US11778EAA47/345649>
13. Sustainalytics. 2021. B3 – Brasil, Bolsa, Balcão Sustainability-Linked Financing Framework. Second-Party Opinion. 9 September, p. 9. [https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/b3-sustainability-linked-financing-framework-second-party-opinion.pdf?sfvrsn=d290fd6c\\_1](https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/b3-sustainability-linked-financing-framework-second-party-opinion.pdf?sfvrsn=d290fd6c_1)
14. Ibid., p. 11.
15. Ibid., p. 12.

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UN Women supports UN Member States as they set global standards for achieving gender equality, and works with governments and civil society to design laws, policies, programmes and services needed to ensure that the standards are effectively implemented and truly benefit women and girls worldwide. It works globally to make the vision of the Sustainable Development Goals a reality for women and girls and stands behind women's equal participation in all aspects of life, focusing on four strategic priorities: Women lead, participate in and benefit equally from governance systems; Women have income security, decent work and economic autonomy; All women and girls live a life free from all forms of violence; Women and girls contribute to and have greater influence in building sustainable peace and resilience, and benefit equally from the prevention of natural disasters and conflicts and humanitarian action. UN Women also coordinates and promotes the UN system's work in advancing gender equality.



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