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Bovespa Launches Business Sustainability Index in Brazil with IFC's Support

New indicator encompasses 28 firms committed to business sustainability

Sao Paulo/ Washington DC, December 1, 2005. - Brazil's new stock market indicator, the Business Sustainability Index (ISE), was launched by Bovespa at the start of today's trading session. The index, the first of its kind in Latin America, was developed by the Center for Sustainability Studies at the Getúlio Vargas Foundation (FGV-EAESP), with financial support from the International Finance Corporation, the private sector arm of the World Bank Group.

The index includes 28 local companies listed on the Sao Paulo Stock Exchange and will track not only their economic and financial performance, but also their corporate governance and environmental and social performance. The new index was announced as the centerpiece of IFC's International Conference on Sustainable Finance in Emerging Markets, in Sao Paulo.

Assaad Jabre, IFC's Acting Executive Vice President, said during the launch that the index "is a validation of the many companies that recognize the depth of the value proposition inherent in environmental and social responsibility." He added, "More and more companies in the emerging markets recognize that, to be competitive and efficient, they have to go to the markets. And when they take that step, they discover that the markets want more information, more transparency. And they want higher standards on environmental issues, social issues, and corporate governance. This index will help position Brazilian companies at the cutting edge of these trends."

A sustainability index serves two purposes: it informs potential investors about the sustainability of listed companies' operations, and in doing so it encourages listed companies to focus more on environmental, social, and corporate governance concerns. An index can thus help a country's business community understand how attention to sustainability is good for business.

The Bovespa Sustainability Index is part of a trend to integrate sustainability into lending and investment in emerging markets—a trend widely supported by Brazil's private sector and one that IFC is promoting worldwide. Other developing countries are looking to launch a sustainability index, with Brazil's index expected to serve as a model. The financing to

Methodology and selection process

Participants in the initial portfolio were chosen from among 63 firms that answered a questionnaire designed by the Center for Sustainability Studies. The center has developed the methodology for the sustainability index and sent the questionnaire to 121 of the 150 firms whose shares are most traded on the Bovespa. The index will be revised annually and weighted by a free float (the number of shares circulating on the market) of the firms comprising it.

The index was designed on the basis of the international “triple bottom line” concept, which makes a comprehensive valuation of firms in terms of the economic and financial, social, and environmental dimensions. Corporate governance criteria and indicators have been added to triple bottom line principles, following the example of the Johannesburg stock exchange index.

The questionnaire sent to firms assesses the economic/financial, social, and environmental dimensions of their operations, using four sets of criteria: political (indicators of commitment); management (plans, programs, targets, and monitoring); performance indicators; and legal compliance (evaluating compliance with competition, consumer, labor, environmental, and other standards).

The ISE Board consists of the Brazilian Private Pension Fund Association (ABRAPP), the Association of Capital Market Investment Analysts and Professionals (APIMEC), the National Association of Investment Banks (ANBID), the São Paulo Stock Exchange (BOVESPSA), the Brazilian Institute of Corporate Governance (IBGC), the Ethos Institute of Business and Social Responsibility, the International Finance Corporation (IFC), and the Ministry of the Environment.

ISE in Bovespa

The new index will reflect the return earned on a portfolio of shares issued by the best performers on all dimensions of business sustainability. It is intended to serve as a benchmark for socially responsible investment and to foster good practices in the Brazilian business world. The ISE will be calculated continuously throughout the trading session, using the prices of the latest spot-market trades. Shares included in the index are selected from those most heavily traded on the Bovespa in terms of liquidity, weighted in the portfolio by the market value of assets available for trading.

The index will be revised annually on the basis of the following procedures and criteria:

Criteria for inclusion

- The shares must be among the 150 most traded over the 12 months prior to the revaluation.
- Shares must have been traded in at least 50 percent of all trading sessions in the 12 months prior to formation of the portfolio.

- Companies must satisfy the sustainability criteria specified in the annual questionnaire.

Criteria for exclusion

- If, during the lifetime of the portfolio, the issuing firm goes into judicial receivership or bankruptcy, its shares will be removed from the ISE portfolio. In the event of a public offering resulting in a significant portion of shares being withdrawn from circulation on the market, the firm will again be removed from the portfolio. In either case, the necessary adjustments will be made to ensure continuity of the index.
- If, during the lifetime of the portfolio, an event occurs that significantly alters a share's levels of sustainability and social responsibility, the ISE Board may decide to remove the firm from the portfolio.
- If, at the time of the annual review, the share fails to satisfy the sustainability criteria specified in the questionnaire, the firm will be removed from the portfolio.

About IFC

The International Finance Corporation, the private sector arm of the World Bank Group, promotes sustainable private sector investment in developing and transition countries, helping to reduce poverty and improve people's lives. IFC finances private sector investments, mobilizes capital in the international financial markets, helps clients improve social and environmental sustainability, and provides technical assistance and advice to governments and businesses. Its 178 member countries provide its share capital and collectively determine its policies.

From its founding in 1956 through FY05, IFC has committed more than \$49 billion of its own funds and arranged \$24 billion in syndications for 3,319 companies in 140 developing countries. IFC's worldwide committed portfolio as of FY05 was \$19.3 billion for its own account and \$5.3 billion held for participants in loan syndications. For more information, visit www.ifc.org.

For more information:

[International Finance Corporation \(IFC\)](#)

[Web site developed by Abi:](#)

[IFC's Sustainable Financial Markets Facility](#)

<http://www.ifc.org/ifcext/enviro.nsf/Content/SFME>

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