



BANGKO SENTRAL NG PILIPINAS

The Bangko Sentral ng Pilipinas Responsible Gold Sourcing Policy

I. Policy Statement

The Bangko Sentral ng Pilipinas (BSP) commits to ensure that the source of its gold products and related sourcing activities comply with the requirements and standards set forth by the London Bullion Market Association (LBMA) and applicable laws, rules, and regulations, with the ultimate goal of ensuring sustainable gold supply chain by building close and long-lasting relationships with gold-supplying counterparties and relevant stakeholders based on trust and mutual recognition.

This commitment is cognizant of the risks associated with the related gold sourcing activities and the responsibility to uphold human rights and conflict-free gold sourcing practices, and prevention of illicit flow of funds.

II. Coverage

The BSP established the BSP Gold Buying Program pursuant to Section 17 of Republic Act (RA) 7076¹ which provides that all gold produced by small-scale miners shall be sold to the BSP, Section 69 of RA 7653², as amended, providing that the BSP may buy gold in any form, subject to such regulations as the Monetary Board may issue and shall be made in the national currency at the prevailing international market price. Further, pursuant to Sections 65 and 66 of RA 7653, as amended, the BSP is mandated to maintain the international reserves which is composed of gold and assets in foreign currencies, which was strengthened by the passage of RA 11256³ which provides applicable tax incentives for the sale of gold to the BSP.

Based on the above stated mandate, the BSP may conduct gold transactions with small-scale miners, gold-panners, accredited traders and/or sellers, and large-scale mining companies, which shall be referred to in this policy as “gold-supplying counterparties”, that comply with the BSP Responsible Gold Sourcing Policy.

III. Definition of Terms

Accredited Traders: Refer to persons and/or entities engaged in the business of buying and selling gold that have complied with the BSP’s gold trader accreditation procedure.

Artisanal and Small-Scale Mining (ASM): Formal or informal mining operations with predominantly simplified forms of exploration, extraction, processing, and transportation.

¹ People’s Small-scale Mining Act of 1991

² The New Central Bank Act

³ An Act to Strengthen the Country’s Gross International Reserves

Conflict-Affected and High-Risk Areas (CAHRA): These areas are identified by the presence of armed conflict, widespread violence, or other risks of harm to people. Armed conflict may take a variety of forms, such as a conflict of international or non-international character, which may involve two or more states, or may consist of wars of liberation, insurgencies, civil wars, etc. High-risk areas may include areas of political instability or repression, institutional weakness, insecurity, collapse of civil infrastructure and widespread violence. Such areas are often characterized by widespread human rights abuses and violations of national or international law.

Contribution to conflict: Contribution (either by means of financial and / or other resources) to armed aggression between two or more parties which leads to human rights abuses. The parties in the conflict may include government, militia, organized criminals or terrorist groups.

Due diligence: Research and analysis of a company or organization done in preparation for a business transaction and throughout the relationship.

Environment, Social and Governance (ESG): Decision-making that considers the ESG factors.

Gold-supplying counterparty or counterparties: Refer to small-scale miners, gold-panners, accredited traders and/or sellers, and large-scale mining companies transacting with BSP.

Know Your Customer or Counterparty (KYC): The process of a business identifying and verifying the identity of its counterparts and establishing the facts to have a clear understanding of the nature and background of the relationship.

Mined Gold (also referred to as primary gold): Gold that originates from Large and/or Medium-Scale Mines (LSM) or Artisanal and Small-Scale Mines (ASM) and has never been previously refined. This term means any gold or gold-bearing material produced by or at a mine, in any form, shape and concentration, until it is fully refined (995 or greater), fabricated into a gold refinery product (e.g., bar or grain) and sold.

Money laundering: The practice of disguising the origins of illegally obtained money. Ultimately, it is the process by which the proceeds of crime are made to appear legitimate.

Politically Exposed Persons (PEPs): Individuals and their family members and close associates (either foreign or domestically based) who are or have been entrusted with prominent public functions by a particular country. These individuals can include heads of state or government, senior politicians and government officials, senior executives of state-owned corporations and important political party officials.

Recycled Gold: This term traditionally encompasses anything that is gold-bearing and has not come directly from a mine in its first gold life cycle. In practical terms, it relates to gold sourced by an LBMA refiner, or downstream

intermediate processor, including end-user, post-consumer products, scrap and waste metals, and materials arising during refining and product manufacturing, and investment gold and gold-bearing products which are returned to a Refiner to begin a new lifecycle. This category may also include fully refined gold that has been fabricated into grain, Good Delivery bars, medallions and coins that have previously been sold by a refinery to a manufacturer, bank or consumer market, and that may thereafter need to be returned to a refinery to reclaim their financial value or for transformation into other products (e.g., 1 kilo bars).

Refiner: Refers to the Bangko Sentral ng Pilipinas.

Registered Small-Scale Miners: Refer to Filipino citizens who have organized themselves as an individual miner, cooperatives or associations duly licensed by the Mines and Geoscience Bureau to engage in the extraction of minerals or ore-bearing materials from the ground under the terms of a small-scale mining contract. Pursuant to Section 32.B7.i of RA 11256⁴, sale of gold to the BSP by registered small-scale miners shall be exempt from applicable taxes.

Terrorist financing: Includes the financing of terrorist acts, of terrorists and of terrorist organisations.

Ultimate Beneficial Owner: Refers to the natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement (defined as 10% or more ownership).

World Heritage Site: A landmark or area which is selected by the United Nations Educational, Scientific and Cultural Organization (UNESCO) as having a cultural, historical, scientific or other form of significance, and is legally protected by international treaties. The sites are judged important to the collective interests of humanity.

IV. Acronyms

AML-CFT: Anti-Money Laundering – Combating the Financing of Terrorism

ASM: Artisanal and Small-Scale Mining

BSP: Bangko Sentral ng Pilipinas

BROC: Board Risk Oversight Committee

CAHRA: Conflict-Affected and High-Risk Area

CIP: Customer Information Packet

CO: Compliance Officer

CSPSS: Currency and Securities Production Sub-Sector

⁴ An Act to Strengthen the Country's Gross International Reserves

EDD: Enhanced Due Diligence

ESG: Environmental, Social, and Governance

GBS: Gold Buying Station

KYC: Know your Counterparty / Customer

LBMA: London Bullion Market Association

NLRO: North Luzon Regional Office

MRO: Mindanao Regional Office

PCMS: Payments and Currency Management Sector

PEP: Politically Exposed Persons

RCO: Risk and Compliance Office

ROAS: Regional Operations and Advocacy Sector

RGG: Responsible Gold Guidance

RGS: Responsible Gold Sourcing

SCO: Site Compliance Officer

SSM: Small Scale Miners

TWG: Technical Working Group

UBO: Ultimate Beneficial Owner

V. Organization and Responsibilities

The BSP shall:

- A. Buy its gold only from known sources and areas that have not used gold to finance the following:
 - 1) Systematic or widespread human rights abuses associated with the extraction, transport, or trade of gold, including:
 - a) Any forms of torture, or inhuman and degrading treatment
 - b) Forced or compulsory labour
 - c) Worst forms of child labour
 - d) Widespread sexual violence or other gross human rights violations
 - e) War crimes, crimes against humanity or genocide.

- 2) Direct or indirect support to illegitimate non-state armed groups, or public or private security forces (“illegitimate non-state armed groups, public or private security forces”) which:
 - a) Illegally control mines, sites, traders or other intermediaries, and transport routes through the supply chains; or
 - b) Illegally tax or extort money or minerals through the supply chains.
 - 3) Bribery and fraudulent misrepresentation of the origin of gold.
 - 4) Activities that result to non-payment of taxes, fees and royalties due to governments related to mineral extraction, trade and export.
 - 5) Money laundering or terrorism financing.
 - 6) Contribution to conflict.
- B. Engage with gold-supplying counterparties that foster environmentally responsible and sustainable policies and work practices and have integrated ESG related principles in their key functions or operations, consistent with the BSP’s ESG policy, and considering the following ESG factors:
- 1) Compliance with environmental, health, safety and labour regulation in country of operation and/or company policy.
 - 2) Environmental management, including:
 - a) Air, water, land pollution and incident management plans
 - b) Water stewardship, especially in water scarce and stressed areas
 - c) Unauthorised sourcing from World Heritage Sites and Protected Areas.
 - 3) Storage, handling, and disposal of hazardous chemicals.
 - 4) Management of labour issues, including remuneration, working hours, collective bargaining, discrimination, diversity, disputes and safeguarding of workers.
 - 5) Community engagement and management programmes (land acquisition and community resettlement, cultural heritage sites and indigenous people, closure planning and safeguarding of vulnerable populations).
 - 6) Management of business integrity and ethical conduct, and supporting the implementation of relevant initiatives such as the Extractive Industry Transparency Initiative (EITI).
- C. Maintain a reporting organizational structure to support the gold supply chain due diligence.

VI. Management Systems

The BSP shall establish and maintain a management system which follows a risk-based approach in conducting its gold supply chain due diligence practices to comply with LBMA standards.

A. Gold Traceability System

The BSP shall adopt a supply chain traceability system that records and maintains supply chain information for every gold received and refined. Information included in the traceability system shall include, but not limited to the following:

- 1) Identifying gold supplying counterparty;
- 2) Assigned Reception Note number as a reference number;
- 3) Type of gold received;
- 4) Weight and assay; and
- 5) Date of initial transaction and date of final payment.

B. Risk-Based Gold Supply Chain Due Diligence Process

1) KYC Procedures

The BSP implements a KYC procedure with the objectives of verifying the identity of the counterparty and validating the information contained in the KYC Questionnaire, CIP, and other relevant documents/information⁵ submitted to the BSP, before establishing a relationship.

2) Gold Supply Chain Risk Assessment

Risk identification and assessment shall be performed through an integrated assessment of the accomplished KYC due diligence forms and information gathered. Appropriate scrutiny and monitoring of the relevant transactions of the counterparty shall be undertaken through verification of available information and traceability documents.

3) Background Investigation / Gold Seller Verification

The BSP through its dedicated security units and personnel shall conduct a process of gold seller verification, in coordination with relevant national government agencies, and background investigation undertaken at the local and community level. This aims to validate the veracity of the information declared by the gold supplying counterparty, ascertain if there are any issues and/or concerns with the gold supplying counterparties, their designated representatives or UBOs, such as possible association and/or linkages to terrorism, money laundering, violations of human rights, child labour, incidents related to ESG, among others as specified in this BSP RGS Policy.

⁵ List available at <https://www.bsp.gov.ph/CitizensCharter/bspcitizenscharter> (Gold Buying Program Section)

4) Risk Classification Criteria

The BSP adopts a risk-based due diligence approach in the determination and assessment of the source of gold, supplier, types of material and the scale of sourcing operations which are factored in the risk classification table. The risk classification profile, actions to be taken and required due diligence to be performed are outlined in the Table 1 below.

RISK CLASSIFICATION CRITERIA				
CLASSIFICATION	ISSUES			ACTIONS TO BE TAKEN
Zero-tolerance Supply Chains	The Mined Gold is known to originate from areas designated as World Heritage Sites	The Mined or Recycled Gold is known to be sourced in breach of international sanctions (including but not limited to those of the UN, EU, UK, and US)	Gold-supplying counterparty, other known upstream companies or their UBOs are known money launderers, fraudsters or terrorists, or have been implicit in serious human rights abuses, or in direct or indirect support to illegitimate non-state armed groups.	REFUSE OR TERMINATE BUSINESS RELATIONSHIP
High Risk Supply Chains	Location-based high risks	Supplier-based high risks	Material-based high risks	
<u>Mined Gold</u>	Originates from, has transited or has been transported via a Conflict-Affected and High-Risk Area (CAHRA)	Have shareholders, or UBOs, or other gold supplying interests in one of the location-based high-risk criteria.	Sourced from ASM	ENHANCED DUE DILIGENCE
		Have UBOs that are Politically Exposed Persons (PEPs)	Produced with the use of mercury	
	Originates from a country through which gold from CAHRAs is known, or reasonably suspected, to transit	Have activities in a higher-risk business activity such as arms, gaming and casino industry, antiques and art, and sects and their leaders	Contributing to catastrophic harm or highly adverse ESG factors, to the extent that the Refiners is able to identify this (e.g., through a record in a public domain or in the Refiner's due diligence file)	
		Originated from a country that has limited known reserves, likely resources or expected production levels		
<u>Recycled Gold</u>	Originates from, has transited or has been transported via a Conflict-Affected and High-Risk Area (CAHRA)	Operate in a money laundering high-risk country	From an intermediate Refinery or trader with a high-risk supply chain or a trading counterparty sourcing from an Intermediate Refinery with a high-risk supply chain.	
		Have UBOs who are Politically Exposed Persons (PEP)		
	Originates from a country through which gold from CAHRAs is known, or reasonably suspected, to transit	Have activities in a higher-risk business activity such as arms, gaming and casino industry, antiques and art, and sects and their leaders		
		Have been known to have sourced gold from a high-risk country in the last 12 months		
		Have significant unexplained geographic routing from their supplier or counterparty in the supply chain.		

Table 1. Risk Classification Criteria⁶

⁶ Sourced from LBMA RGG Version 9, November 2021

C. Enhanced Due Diligence (EDD) Procedures

For gold supply chains classified as High Risks, the BSP shall conduct an EDD procedure and shall undertake an on-site investigation/visit of the location of the gold origin prior to entering business relationship with the counterparty or, at the least, within six (6) months from the initial transaction. Taking into consideration the risk profile of the counterparties subject of EDD, the on-site investigation/visit shall be performed every two (2) years or as frequent as necessary based on the results of the monitoring activity.

The conduct of site visit aims to gather a range of information, including but not limited to the following:

- 1) Location and photographs of the site;
- 2) Production and operation description; and
- 3) Documentation attesting legal sourcing, and security description.

Accordingly, the BSP shall adhere to the risk management strategies based on the results of the EDD conducted.

D. Monitoring

The BSP shall conduct an appropriate scrutiny and monitoring of transactions undertaken through the course of the relationship to ensure that the transactions are consistent with the BSP's knowledge of the supply chain and risk profile. Results of the monitoring conducted (e.g., inconsistencies in the information provided, noted deviation in the profile of the counterparty based on the submitted KYC documents, etc.) can likewise trigger the BSP to conduct an EDD procedure.

E. Reporting

Relevant and material information relative to this policy shall be periodically reported to the appropriate level of authority (e.g., BROCC).

F. Confidential Grievance Mechanism

The BSP shall maintain a confidential grievance mechanism wherein external stakeholders can share concerns over the gold supply chain anonymously by sending to bspmail@bsp.gov.ph. The BSP may also gather feedback through the Customer Satisfaction Measurement Survey Form accomplished by gold sellers.

G. Competency Building

The BSP shall provide the relevant officers/personnel with efficient, effective, and continuous education programs to enable them to comply with all their obligations / functions fully and consistently under this BSP RGS Policy.

H. Counterparty Engagement

The BSP shall maintain a strong engagement with gold-supplying counterparties and other relevant agencies/institutions through the conduct of dialogues, focus group discussions or webinars, to help build the capability of counterparties and promote responsible mining and sourcing practices throughout the supply chain.

I. Records Management

The BSP shall maintain adequate and relevant records for at least five (5) years to demonstrate appropriate and ongoing risk identification, due diligence, and traceability.

VII. Independent Third-Party Assurance on Supply Chain Due Diligence Practices and Reporting

An independent third-party assurance shall be conducted annually to assure conformance to the LBMA RGG.

Further information on BSP's supply chain due diligence procedures, management systems and risk assessment processes and other pertinent data on BSP's compliance to the assurance requirements are detailed in the BSP Refiner's Compliance Report and can be accessed at the BSP Website thru this link: <https://www.bsp.gov.ph/Pages/CoinsAndNotes/PoliciesAndPrograms/GoldAndSilverBuyingAndSelling.aspx>

All reporting deliverables shall be submitted to the LBMA, as required.

VIII. Review and Amendments

This Policy shall be reviewed every three (3) years or more frequently, as deemed necessary.

Any amendments to this Policy which are operational in nature shall be approved by the Governor, except for material amendments requiring approval from the MB upon the recommendation of the BROCC.

IX. Effectivity

This Policy shall take effect on 30 September 2022.