



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. _____
Series of _____

Subject: Guidelines on Integrating Sustainability Principles in Unit Investment Trust Funds (UITFs)

The Monetary Board, in its Resolution No. ____ dated _____, approved the guidelines on integrating sustainability principles in the creation, administration and management of UITFs by trust entities (TEs).

Section 1. Section 403/403-Q of the MORB/MORNBF¹ is hereby amended to read, as follows:

“403/403-Q DEFINITIONS

For purposes of regulating the operations of trust and other fiduciary business and investment management activities, unless the context clearly connotes otherwise, the following shall have the meaning as indicated:

a. Trust entity (TE) xxx

Xxx

jj. Sustainability or ESG-themed fund shall refer to a UITF that represents itself or is marketed as a sustainability or ESG-focused fund and uses or includes environmental, social and/or governance components as its key investment focus and/or strategy.

kk. jj-Related party/company xxx”

Section 2. Section 414/414-Q of the MORB/MORNBF¹ is hereby amended to read as follows:

“414/414-Q UNIT INVESTMENT TRUST FUNDS

A TE may create, administer, and manage the investments of a Unit Investment Trust Fund (UITF) Provided, That it has the competence and appropriate processes, systems, and

¹ As amended by Circular No. 1152 dated 5 September 2022

infrastructure to administer and market UITFs and to manage the related risks. The TE shall likewise have in place a sound client suitability assessment process and a system for the adequate disclosure of risks to clients. The administration of UITFs shall be consistently performed in accordance with these guidelines and other applicable laws, rules and regulations.

Creation of a UITF. Xxx

a. ***Creation of a UITF requiring prior Bangko Sentral approval.*** A TE that intends to create a UITF that falls under any of the following categories for the first time shall secure prior approval from the Bangko Sentral:

i. Xxx;

Xxx

- vi. multi-class fund; and
- vii. distributing fund; and
- viii. sustainability or ESG-themed fund.

A TE's creation of a UITF xxx.

(1) ***Qualification requirements. Xxx***

Xxx

(2) ***Application procedures. Xxx***

(a) Xxx

Additional requirements for an application for a distributing fund or multi-class fund:

Xxx

(g) Other relevant documents that may be requested by the Bangko Sentral to facilitate the evaluation of the application.

Xxx

The AFS of the UITFs together with the documents itemized above shall be classified as " Category B' reports.

Plan rules. Each UITF shall be governed by a written trust agreement drawn by the trustee, referred to as the "Plan," which shall be approved by the trustee's board of directors and a copy

of which shall be submitted to the Bangko Sentral in accordance with the provisions on the creation of UITFs.

The Plan shall contain the following minimum elements:

- a. *Title of the ~~plan~~-fund.* This shall correspond to the product/brand name by which the UITF is proposed to be known and made available to its clients. The Plan shall state the classification of the UITF (e.g., money market fund, fixed income fund, multi-asset fund, ~~or~~ equity fund, sustainable fund, or ESG fund), the structure of the UITF (e.g., feeder fund, fund-of-funds, and/or multi-class fund), and whether the fund has an income distribution feature. The title of the fund shall be consistent with its investment objectives, portfolio, and strategy/ies in order to ensure that the name of the fund is not misleading.
- b. *Manner by which the fund is to be operated.* Xxx
- c. *Risk disclosure.* The Plan rules shall state both the general risks and risks specific to the type of fund.

Xxx

- k. Such other matters as may be necessary or proper to clearly define the rights of participants in the UITF. The provisions of the Plan shall govern participation in the fund, including the rights and benefits of persons having interest in such participation, as beneficiaries or otherwise.

Xxx

The Plan may be amended by a resolution of the trustee's board of directors, subject to requirements under this Section.

Amendments to a UITF. Xxx

Xxx

Admission and redemption requirements. Xxx

Minimum disclosure requirements

- a. *Key Information and Investment Disclosure Statement (KIIDS).* This document shall contain xxx

b. The KIIDS, Participating Trust Agreement and marketing materials shall contain the following information/disclosures:

(i) Xxx

Xxx

(xiii) For feeder funds/fund-of-funds, the relevant information on the target fund/s.

c. The trustee shall likewise publish on its website the (i) updated Plan, (ii) latest KIIDS, (iii) historical NAVPu, and (iv) moving return on investment for each fund on a year-to-date and year-on-year basis.

Additional requirements for Sustainability or ESG-themed funds

A TE offering sustainability or ESG-themed UITFs must meet the requirements under this Section, in addition to the other requirements in Part IV of the MORB/MORNBF1 and the related Appendices.

A sustainability or ESG-themed UITF uses or includes the following ESG components as its key investment focus and/or strategy:

- i. Environmental aspect-addresses or focuses on climate change, natural resource conservation, pollution and waste management, environmental opportunities, energy usage, carbon footprint, contaminated property, hazardous waste or toxic emissions, among others.
- ii. Social aspect - addresses or focuses on human capital, product liability, stakeholder opposition, social opportunities, social or employee welfare, healthcare initiatives, diversity, inequality, or human rights monitoring, among others.
- iii. Governance aspect - addresses or focuses on transparency, board diversity, shareholder rights, investor relations, conflict of interest in board decisions, business ethics, political influence, legal practices, bribery, or corruption, among others.

A UITF is deemed to be focused on sustainability or ESG if at least two-thirds of the fund's net asset value is invested in assets that address the foregoing

ESG factors and these factors significantly influence the selection of the investment assets of the fund.

A TE offering sustainability or ESG-themed UITFs shall incorporate material E&S risks in its investment processes in accordance with the requirements under Appendix 86a (Sustainable Investment Activities). It shall likewise establish objective criteria that allow for the monitoring of the fund's compliance with its stated sustainability or ESG goals and objectives. Finally, it shall adopt measures to ensure that investments are channeled to companies that comply with sustainability-related standards, laws and regulations as well as companies that do not engage in greenwashing, as defined under Section 413.

a. Plan Rules. The trustee shall observe the following with respect to the plan rules of a sustainability or ESG-themed UITF:

(i) The title of an ESG or sustainability-themed UITF may include the words "ESG", "sustainable", "sustainability" or words of similar import to clearly distinguish the same from other non-ESG or non-sustainability-themed UITFs.

(ii) In defining the investment objectives, policies, and limitations, the trustee shall provide a clear description of the UITF's sustainability or ESG goals, strategy/ies, and investment priorities.

The fund's objectives shall include details on the following:

- a. The fund's sustainability or ESG focus such as climate change, low carbon footprint, reduction in GHG emissions, protection of human rights, promotion of social justice, among others, as well as any specific priorities (e.g. whether risk/return objectives come above or below sustainability objectives or if such have equal priorities);
- b. The general nature or feature/s of the fund that distinguishes the same

- from other non-sustainability or non-ESG-themed funds; and
- c. The relevant sustainability or ESG criteria used to measure the attainment of the fund's investment focus such as filters, indicators, ratings, third party certificates or labels.

The fund's investment strategy/ies shall include details on the following:

- a. A description of the investment strategy used by the fund to achieve its sustainability or ESG investment objective and how the strategy is implemented in the investment process on a continuing basis;
 - b. Investment universe on which the investment analysis will be performed, including the countries, industries, sectors or issuers that the fund may invest in, as applicable. The plan rules shall clearly specify whether the UITF will support or exclude certain countries, industries, sectors or issuers from its investment universe;
 - c. Investment selection process, including the metric/s or indicators used. For instance, a climate-focused UITF may use climate-related indicators such as carbon footprint, carbon intensity, greenhouse gas emissions, or exposure to carbon-related assets; and
 - d. The minimum asset allocation required to attain the sustainability or ESG focus. In setting the asset allocation, the trustee shall take into account minimum net asset values for sustainable funds set out in these guidelines.
- (iii) The trustee shall disclose in the Plan rules all material E&S risks of the fund, including any unique risks that arise from a fund's focus on

sustainability or ESG factors, such as concentration in certain types of investments; any limitation in the data, information or methodologies, including the use of assumptions or approximations, if any in producing sustainability-related data and the related impact; lack of universal ESG standards or taxonomy; reliance on third-party providers for sustainability ratings; or the risks involved in tracking the selected index or benchmark (including how it may impact the ability of the fund to meet its objective).

(iv) In order to ensure that all investments do not compromise the sustainability or ESG objectives of the fund, a TE is expected to disclose in the plan rules how the remainder of the portfolio shall be invested. A UITF that merely incorporates or integrates ESG considerations into its investment process in order to seek financial returns would not be regarded as having ESG or sustainability focus.

(v) Where the fund is tracking a sustainability or ESG benchmark or index to measure the attainment of its sustainability or ESG focus, the TE shall provide an explanation of how such index/ benchmark is consistent with or relevant to the fund's investment focus. If the benchmark is used only for financial performance measurement, the TE should state such fact.

b. Disclosure requirements. The trustee shall ensure the adequacy and comprehensiveness of disclosures to ensure that its clients understand the nature of the risks inherent in the sustainability or ESG-themed UITFs that it offers, reduce information asymmetries, and aid the clients in making informed decisions about how sustainability or E&S risk issues can impact their investments. Any

sustainability or ESG-related terms used in the disclosures should be clearly defined.

(i) *Annual Report*. The TE shall disclose the results of the annual assessment of the attainment of the UITFs' sustainability-related objectives in its annual report. Specifically, it shall disclose:

i. a description of how the UITF has attained its sustainability or ESG objective/s during the assessment period, including, where appropriate:

(a) the actual proportion of underlying investments that are commensurate with the fund's sustainability or ESG focus;

(b) the actual proportion of the investment universe that was selected or eliminated as a result of the fund's sustainability or ESG screening, as applicable;

(c) a comparison of the performance of the fund's sustainability or ESG factors against the designated reference benchmark (if any);

(d) actions taken by the fund in attaining the fund's sustainability or ESG focus (e.g. ESG integration in building the investment portfolio or improving the investee's ESG performance through active ownership or stewardship).

ii. a description of the basis of the assessment performed, including estimations and limitations, if any; and

iii. where the fund has provided previous periodic assessment, a comparison between the current and at least the previous assessment period.

(ii) *KIIDS*. The trustee shall provide a clear explanation on how the fund achieved its sustainability or ESG objective/s in a clear, fair and non-misleading manner, as well as how the objective/s and/or

strategy/ies have contributed to the fund's return. Sustainability or ESG-themed funds that are structured as Feeder Funds or Fund of Funds shall likewise disclose information on the sustainable investments of the target fund/s.

(iii) *Prevention of greenwashing.* In line with the requirements under Section 413, the trustee shall adopt control mechanisms to prevent *greenwashing* relative to its fund disclosures. A trustee may be deemed as engaging in greenwashing in the following cases:

1. There is lack of alignment between the fund's sustainability or ESG-related name and its investment objectives and/or strategies.
 - a. The fund's name refers to sustainability or ESG but its investment objective/s do/es not;
 - b. The fund's name refers to sustainability or ESG but its use of sustainability strategies is limited; and
 - c. The fund's name refers to sustainability or ESG but the TE has discretion over whether the product takes sustainability or ESG aspects into account.
2. Marketing activities that do not accurately reflect the fund's investment objectives and/or strategies:
 - a. The fund is marketed as a sustainability or an ESG-themed UITF but it is not;
 - b. The fund is marketed as focusing on all three ESG components but is only focused on one; and
 - c. The extent and nature of fund's use of sustainability or ESG strategies are different than advertised.
3. Failure of the fund to follow its sustainability or ESG-related investment objectives and/or strategies.

4. Misleading claims about the fund's sustainability or ESG-related performance and results.
5. Lack of disclosure about the fund's investment strategies or the fund's sustainability or ESG-related performance and results."

Xxx.

Unit Investment Trust Fund administration support. Xxx

Counterparties.

Xxx

Foreign currency-denominated unit investment trust funds. Xxx

Exemptions from statutory and liquidity reserves, single borrower's limit, director, officers, stockholders and their related interests. Xxx

Enforcement Actions. Xxx."

Section 3. Appendix 86a/Q-49a of the MORB/MORNBFBI is hereby inserted to read, as follows:

**Sustainable Investment Activities
(Appendix to Section 414/414-Q)**

These guidelines provide the Bangko Sentral's expectations for the integration of sustainability and ESG principles, including material E&S risks, in the fund management and investment activities for sustainability or ESG-themed UITFs.

Policy Statement

The Bangko Sentral is cognizant of the potential contribution of TEs to the sustainable development of the country through the investments of the funds they manage in sustainability or ESG-oriented themes or sectors that promote these principles. The Bangko Sentral likewise recognizes the growing demand from investors to achieve long-term value and to ensure alignment of their investment activities with sustainability and/or ESG-related objectives. Finally, the Bangko Sentral recognizes that allowing TEs to offer sustainability or ESG-themed UITFs

provide the investing public with diversification opportunities.

A TE offering a sustainability or ESG-themed UITF is expected have appropriate systems, policies and procedures, as well as internal control systems to ensure that it is able to meet the fund's sustainability or ESG targets and objectives and manage the relevant E&S risks arising from the fund's investments. The TE shall also ensure that it has adequate resources, including personnel with sufficient knowledge and skills, for conducting the relevant investment processes for these UITFs.

In fulfilling the requirements under these guidelines, a TE shall consider the nature, scale, and complexity of its fund management activities, including the investment focus and strategy of the fund/s it offers.

A TE shall continue to comply with the requirements under Part IV and Appendix 86 of the MORB/Part IV and Appendix Q-49 of the MORNBFI, as applicable, in addition to the requirements under this Appendix. A TE which is part of a banking group may take guidance from or leverage their group's existing policies and frameworks if it has determined that such policies and frameworks meet the principles set out in these guidelines.

Governance

The adoption of an effective governance mechanism and structure helps identify and assess opportunities and risks arising from sustainability or ESG-themed UITFs. Considering that the board or the trust committee, as applicable and senior management play critical roles in determining the investment strategies for funds offered by a TE, they shall ensure that sustainability and/or ESG principles are integrated in the fund management activities of these types of UITFs, particularly in the investment and decision-making processes in a consistent manner, and that the relevant E&S risks arising from the investments of these UITFs are integrated in the TE's risk management systems.

Policies and procedures

A TE offering sustainability or ESG-themed UITFs shall have in place comprehensive policies and

procedures that contains the overall investment approach to achieve the fund's sustainability or ESG targets, including the manner by which material E&S risks are integrated in its investment activities and risk management systems. The policy shall be regularly reviewed and updated to reflect market and regulatory developments. At a minimum, the policy shall contain the following:

1. Investment philosophy - this covers the TE's overall investment principle, as well as how sustainability and ESG factors are considered in making informed investment decisions for the fund. It shall provide the TE's approach for defining the investment objective of the fund, including the factors and criteria that would be considered in defining such objective.
2. Investment policy- this covers the TE's approach for implementing the sustainability objective/s of the investment strategies of the fund. A TE may adopt the approaches for incorporating material E&S risks in the implementation of the fund's investment strategy under Section 614 of the MORB.² A TE may likewise adopt other approaches it deems appropriate depending on the nature of the fund's investments, volume of transactions, and existing risk management system; *Provided*, That the approach chosen is aligned with the fund's investment objectives. The policy shall likewise provide guidance on how the sustainability or ESG targets of the fund shall be identified, assessed, and monitored. In addition, it shall provide the process for selecting and setting the fund's relevant benchmark, which shall be consistent with the requirements under Sec. 414/414-Q.
3. Risk management system - this covers the process for identifying, assessing and managing material E&S risks and opportunities in the investment portfolio, including a description of the resources and tools used, if any.
4. Monitoring and reporting - these cover the mechanism/s to ensure regular monitoring and reporting of E&S risks arising from the fund's investment activities. At a minimum, the policy should provide the monitoring tools, frequency of monitoring and reporting, manner of reporting and to whom reported, as well as the unit and personnel responsible for the monitoring.

² As amended by Circular No. 1149 dated 23 August 2022

5. Data quality and sourcing - this includes the process for sourcing data on sustainability or ESG with respect to prospective as well as existing investments of the fund/s, and the control mechanisms to ensure the quality and reliability of data.

Investment process

In order to come up with informed investment decisions and to ensure that investment risks in the sustainability or ESG-themed UITFs being offered are actively managed and monitored in a holistic manner, the TE shall integrate material E&S risks in the investment strategy formulation, implementation as well as performance monitoring and reporting of the fund. It shall likewise source reliable and high-quality data to facilitate such analysis.

In crafting the investment strategy for a fund, the TE shall comprehensively consider the relevant sustainability or ESG factors as well as trends that may impact the portfolio. The TE shall define medium and long-term sustainability or ESG targets as well as the criteria for their evaluation. In evaluating a potential investment strategy, the TE may create possible investment strategy scenarios by considering the full range of investment allocation options across different asset classes, sectors, geographies, and/or time horizon, among others. A TE may consider taking E&S risk factors into account when defining the fund's target allocation to various asset classes. On a tactical level, the TE may consider E&S risk information in making top-down decisions regarding the attribution to different sectors or markets. It may also apply E&S risk factors purely in the bottom-up process when assessing the individual investment holdings of the fund.

In conducting specific investment research, a TE may adopt risk criteria to identify sectors or specific companies with higher E&S risks. In case of environmental risk, the criteria may include, among others, the level of green house gas (GHG) emissions, vulnerability to extreme weather events, or linkages to unsustainable energy practices, deforestation or pollution. A TE may likewise procure asset-class specific research from external parties, where appropriate, to supplement its internal assessment.

A TE shall ensure that the chosen investment strategy scenario/s is assessed against the sustainability or ESG ambition set for the fund, taking into account its overall asset mix, liquidity, diversification, and risk and return trade-off. A TE may likewise use a variety of tools and models, such as in-house or proprietary criteria or third-party sustainability or ESG scores, in constructing their portfolios.

A TE shall regularly monitor and evaluate investments or portfolios of the fund and its underlying assets in order to ensure compliance with the stated sustainability or ESG investment objectives, strategy/ies, as well as performance goals. The monitoring shall include a comparison of the portfolio's periodic performance to measure the achievement of its sustainability or ESG-related targets. For instance, the TE can monitor the total GHG emissions of the fund's investment portfolio, with reference to a benchmark.

A TE may use either external or internal key performance indicators (KPIs) to aid in its monitoring, which should be integrated in the portfolio management and reporting system or mechanism. The relevant system or mechanism shall facilitate tracking of specific indicators or violation of a defined policy.

As part of the investment review of the sustainability or ESG-themed UITF, a TE shall conduct an assessment on how the portfolio has attained its sustainability or ESG objectives and targets during the assessment period, a description of the basis of the assessment (such as any estimation or limitations), and a comparison of the results between the current and at least the previous assessment period, as applicable.

Section 4. The following transitory provisions shall be incorporated as a footnote to Section 414/414-Q of the MORB/MORNBFI.

Trust entities shall be given a period of one year from the effectivity of this Circular to make appropriate changes to their plan rules, policies, processes, and procedures in order to comply with the above requirements.

A TE that has previously obtained approval from the Bangko Sentral on the establishment of a sustainability or ESG-themed UITF shall be considered as having effectively been granted approval to create such UITF in accordance with Section 2 of this Circular.

Section 5. Applicability. The requirements under these guidelines shall apply to trust corporations pursuant to Section 302-T of the MORNBF I and to non-bank financial institutions with trust licenses pursuant to Section 1003-N of the MORNBF I.

Section 6. Effectivity. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:

FELIPE M. MEDALLA
Governor
