



Sustainable Central Banking Strategy





The Bangko Sentral ng Pilipinas (BSP) recognizes that in fulfilling its mandates, it has to take concrete actions in promoting the sustainability agenda in the financial industry. This is important as climate change, environmental, and social related risks may undermine efforts of the BSP to promote price and financial stability affecting lives and livelihoods of Filipinos.

It is in this light that the BSP launched the Sustainable Central Banking (SCB) Program in 2019 as part of its commitment to champion the sustainability agenda in the financial industry.¹ Under the SCB Program, the BSP aims to foster environmentally responsible and sustainable policies and work practices as well as integrate Environmental, Social, and Governance (ESG) related principles in its key functions and operations. This will be pursued through the adoption of a new 11-point SCB Strategy that embodies the BSP's roles as **enabler**, **mobilizer**, and **doer** in advocating sustainability in the financial system.

As an enabler

the BSP fosters a policy environment conducive to the adoption and growth of sustainable finance. This includes the issuance of enabling regulations that promote the sustainability agenda in the financial industry and affords supervised financial institutions to take a balanced and proportionate approach in scaling up sustainable finance. The BSP will also participate in multi-stakeholder dialogues and lead awareness and capacity-building initiatives in the industry.



As a doer

the BSP adheres to the same standards set for supervised financial institutions demonstrating its commitment to the sustainability agenda.



As a mobilizer

the BSP leads and shapes financial institutions' behavior to make environmentally and socially responsible business decisions, including investment decisions toward green or sustainable projects.



The 11-point SCB Strategy builds on three phases initiated under the SCB Program:

- The *first* phase covered activities aimed at building awareness and increasing understanding of the organization on sustainability concepts, ESG integration, and various climate and environmental risks in relation to the BSP mandate.
- The *second* phase involved the conduct of studies that informed the development of SCB strategies. The first is a **vulnerability assessment** to identify potential impacts of climate and environmental risks on BSP offices and branches and support the development of risk mitigation measures and action plans to promote a sustainable and climate-resilient transition in the BSP. The second study is a **self-assessment exercise** of BSP operations and functions, which aimed to (i) analyze the gaps and determine the areas where ESG or green principles/practices may be integrated; (ii) identify issues and challenges in ESG integration; and (iii) determine the readiness and extent to which ESG principles can be embedded in the BSP operations without undermining performance targets and efficiency standards.
- The *third* phase involved in-depth consultations with experts to inform policies and actions in promoting the sustainability agenda.

The 11-point SCB Strategy also leverages on BSP's collaborations and partnerships with varied stakeholders subscribing to the sustainability agenda.



BSP participation in domestic and global conversations on sustainable finance

The BSP is active in both domestic and global conversations on climate change and sustainable finance.

Domestic partnerships

The BSP actively participates in the Inter-agency Technical Working Group on Sustainable Finance or the Green Force. This is composed of eighteen (18) financial sector authorities and government agencies² with key roles in the achievement of the Philippines' Sustainable Development Goals (SDGs), and climate and environmental objectives. The Green Force aims to harmonize all government policies concerning green and sustainable projects, establish a cohesive action plan to institutionalize and accelerate the growth of sustainable finance, and develop a pipeline of sustainable investments.

In October 2021, the Green Force released and launched two important documents: the Philippine Sustainable Finance

Roadmap ("Roadmap") and the Sustainable Finance Guiding Principles³ ("Guiding Principles"). The Roadmap has three pillars namely: Policy, Financing, and Investments.

To operationalize the strategies and initiatives embedded in the Roadmap and the Guiding Principles, working clusters were created. As part of the working cluster on sustainable financial ecosystem, the BSP, SEC and IC, under the auspices of the Financial Sector Forum (FSF), are responsible for establishing common standards and in harmonizing regulatory expectations across the financial sector. To carry such tasks, the FSF has created the Technical Working Group on Sustainable Finance (FSF TWGSF). It leverages on the FSF's institutional framework to develop,

harmonize, and implement the relevant sustainable finance policies and initiatives for the financial sector.

The FSF TWGSF is composed of three (3) sub-teams to lead the development of regulations and initiatives on the following key sustainable finance policy areas:

i) Corporate Governance, Risk Management, and Disclosures; ii) ESG Product Standards; and iii) Sustainable Finance Taxonomy. The sub-teams' work involves the stock-taking of existing local regulations as well as gap analysis vis-a-vis international standards. The Sustainable Finance Taxonomy, in particular, shall be in accordance with the Guiding Principles, adopting the approach of the ASEAN Taxonomy Version 1⁴.



EMEAP
Executives' Meeting of East Asia-Pacific Central Banks



Regional and International Engagements

The BSP has been a member of the Sustainable Banking and Finance Network (SBFN)⁵ since 2013 and became a plenary member of the Network of Central Banks and Financial Supervisors for Greening the Financial System (NGFS) in July 2020.⁶

The BSP is also part of interest and working groups on sustainable finance created under the Executives' Meeting of East Asia-Pacific Central Banks Working Group on Banking Supervision (EMEAP-WGBS) and the Alliance for Financial Inclusion (AFI). The EMEAP-WGBS Interest Group on Sustainable Finance (IGSF) conducted sustainable finance-related studies such as, among others, the stock-take exercise on members' initiatives related to banks' management of climate-related risks. Meanwhile, the AFI - Inclusive Green Finance (IGF) working group aims to "develop green financial inclusion policy solutions while focusing on the communities most vulnerable to climate change."⁷

The BSP also participated in regional initiatives promoting sustainable finance. It is a member of the ASEAN Senior Level Committee's Task Force on the *Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks*.⁸ The task force conducted a study on the roles of central banks in addressing climate and environment-related risks to monetary, financial, and broader

macroeconomic stability. The report provides a set of non-binding recommendations that reflect the balance between a unified ASEAN approach towards managing climate and environment-related risks. These non-binding recommendations, which may be undertaken individually or collectively by ASEAN central banks, consciously consider the ASEAN context, perspectives, and state of readiness to manage the risks of climate change and environment-related events.⁹

Leveraging on the output of the earlier task force, the ASEAN SLC created a TF on Sustainable Finance which is currently working on the: (i) establishment of ASEAN Learning Roadmap and Curriculum for Sustainable Finance; (ii) development of ASEAN Green Map; and (iii) stocktaking on AMS' sustainable finance frameworks and/or initiatives. Apart from its participation in the SLC-TF on Sustainable Finance, the BSP also participates in the updating of the ASEAN Taxonomy through its memberships in Working Group 1 of the ASEAN Taxonomy Board.

The 11-Point SCB Strategy

BSP to conduct a comprehensive vulnerability assessment of the Philippine economy and financial system, accounting for physical and transition risks and other environmental risks.



While there is a growing awareness of the physical risks associated with climate change in the Philippines, the implications for micro- and macro-financial stability are not fully understood yet. Moreover, for the time being, there is a limited understanding of climate-related transition risks as well as other environmental risks such as biodiversity loss.¹⁰ Given that the Philippines is a biodiversity hotspot with substantial dependencies of the economy on ecosystem services and biodiversity, the financial system may be exposed to substantial risks from nature loss.¹¹

The BSP will initiate discussions with key government agencies on the conduct of a comprehensive vulnerability assessment, where all sources of climate- and

environment-related vulnerability for the Philippine macroeconomy, the financial system, and public finances are systematically assessed. Such a vulnerability assessment will comprise a scenario analysis of climate and socio-economic change and address both physical and transition risks. It will consider both short-term and long-term risks,¹² including those traditionally beyond the horizon of the BSP. This may be undertaken through the support of the development partners.

Meanwhile, the BSP is currently working with volunteer thrift and rural banks and with the assistance of the Philippine Institute of Volcanology and Seismology (PHIVOLCS) and WWF

Philippines in the conduct of a pilot vulnerability assessment. This exercise aims to enhance to banks' environmental and social (E&S) risk management particularly concerning their loan portfolio. It will also provide the basis for further refining the BSP's guidelines and policies to better manage the banking system's climate- and environment-related risks.



BSP to enhance mandatory disclosures of climate-related financial risks by all banks in the Philippines, building on the TCFD recommendations.

Disclosures of climate-related and environmental risks and opportunities are instrumental in ensuring better management of these forces and scaling up green finance. Disclosures are crucial for improving the data situation to facilitate the analysis of risks and design appropriate responses to mitigate and manage them, both at the level of financial firms as well as the central bank/supervisor. The recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) have emerged as the major international framework for climate-related financial disclosures.¹³

Through Circular No. 1085 or the Sustainable Finance Framework, the BSP has already required banks to disclose E&S risks in their annual reports.¹⁴ The Sustainable Finance Framework provides a three-year transition period from May 2020 for disclosures of E&S risks and other E&S-related matters. Banks are, however, not precluded from disclosing relevant information prior to the lapse of the transitory period.

Moreover, the FSF TWGSF is currently working on harmonizing the disclosure requirements issued by the individual financial sector regulators. It is also receptive of the ongoing developments in the establishment of international disclosure standards for potential alignment with the global best practices and recommendations.

Building on the Sustainable Finance Framework, the BSP will enhance the mandatory disclosure practice of climate-related financial risks by all banks in the Philippines in line with the TCFD recommendations and issue supplemental guidelines for implementation. Once the International Sustainability Standards Board's (ISSB) standards for general sustainability-related disclosure requirements and climate-related disclosures are finalized, the BSP will issue a corresponding circular requiring banks to adhere to the ISSB sustainability reporting standards consistent with the adoption of the International Financial Reporting Standards (IFRS) for financial statements reporting purposes.

The BSP will also explore the work of the Taskforce on Nature-related Financial Disclosures (TNFD) for the potential development of risk management and disclosure frameworks for banks to report and act on nature-related risks.¹⁵





BSP to issue guidance on mandatory climate stress testing for banks.

Because of the forward-looking nature of climate risks and the inherent uncertainty about future events, traditional risk modeling methodologies based on historical data employed by financial institutions are of limited use in assessing these risks. A growing number of supervisory authorities have turned to stress tests to try to quantify financial institutions' exposures to climate risks and to assess the extent of financial firms' vulnerability to climate change.¹⁶

Mandatory climate stress tests can, at the same time, strengthen the ability of financial institutions to better assess climate risks and improve their risk management systems, as well as provide important information to the BSP on the exposure of individual financial institutions and the financial system at large, informing decisions about the need to adjust regulatory policies (e.g., capital treatments).

In June 2020, the BSP published a study on the "Impact of Extreme Weather Episodes on the Philippine Banking Sector: Evidence Using Branch-Level Supervisory Data."¹⁷ The study confirmed that extreme weather conditions adversely impact the banks, as shown by the negative effect on the growth of deposits and loans, loan quality, and profitability.

Through the Sustainable Finance Framework and the Environmental and Social Risk Management (ESRM) Framework (or Circular No. 1128), the BSP has already requested banks to integrate E&S risks in stress testing exercises.

The BSP will enhance the existing guidelines in the conduct of stress testing to integrate climate stress testing, including guidance on

the scenarios that should be used. The BSP, in collaboration with The World Bank, is conducting a pilot climate stress-testing exercise focusing on the impact of transition risk on the banking system. The results of the pilot stress testing exercise will feed into the development of the guidelines on the conduct of climate stress-testing, and enhancements of certain prudential reports to facilitate the collection of climate and sustainability-related data. This exercise reinforces the BSP's adoption of the principle of proportionality in its regulatory and supervisory frameworks, including in the implementation of the sustainable finance framework.

Prospectively, the BSP may also seek to develop stress tests for nature loss scenarios.¹⁸





BSP to explore the integration of E&S risk into prudential practices.

Through the sustainability-related regulatory issuances (i.e., Sustainable Finance Framework, ESRM Framework, and the Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks¹⁹), the BSP has already formulated supervisory expectations on embedding E&S risks in the risk management policies and practices of banks.

The BSP will also consider whether and how to adjust micro and macro-prudential frameworks to mitigate climate- and other E&S-related financial risks for individual financial institutions and the financial system. The BSP will align existing regulations with

developments in internationally recognized standards, including in the capital framework for banks, with due regard to domestic conditions.

The BSP is already requiring banks to submit transition plans setting out how portfolios and loan books could become progressively compatible with a move to a climate-neutral economy.²⁰ It will issue guidance to ensure that transition plans are meaningful and in line with the Sustainable Finance Taxonomy being developed by the FSF TWGSF, to avoid greenwashing.



BSP to incorporate macroeconomic effects of climate change into monetary policy analysis

Fiscal authorities are the primary agents in responding to the call of mitigating climate change. Nonetheless, central banks also play an equally important role especially when it comes to managing the impact of climate change on the central banks' ability to deliver on their price and financial stability mandates.

The BSP recognizes the important implications of climate change on the conduct of monetary policy. For this reason, efforts and resources have been deployed, some of which have been allocated to conducting climate change-related research activities to understand better how climate-

related considerations can be incorporated in our policymaking process.

In June 2022, the BSP published an Economic Newsletter providing its preliminary thoughts on climate change and monetary policy.²¹ Based on preliminary scoping of literature, the BSP assessed the potential impact of climate change on the conduct of monetary policy and how it can be integrated systematically into the current monetary policy framework of the BSP. It also identified key challenges ahead as climate change is embedded in the decision-making process of monetary authorities. Further, it presented an action plan for the BSP to strengthen its analytical capacity and ability to manage

climate risks with appropriate policy responses.

In line with the SCB strategy, the BSP plans to strengthen its research activities on the interaction of climate change and monetary policy. The BSP's future research undertakings on monetary policy and climate change mainly include:

- (1) assessing the linkage between climate change and monetary policy;
- (2) developing a model or framework suitable for the Philippine case that can be applied in the analysis of the potential impact of climate change on monetary policy; and
- (3) identifying possible implications of climate change on monetary policy and the BSP's price stability mandate.



BSP to consider incentive schemes for the promotion of green lending by banks.

Central banks can use targeted refinancing operations or lending facilities to provide funds to banks at a preferential rate when they lend to projects in particular segments of the economy.²²

Central banks can also introduce other incentive schemes to encourage sustainability-linked lending and investment or a penalizing factor to discourage lending and investment in environmentally harmful economic activities. The BSP will consider the approaches taken by other central banks²³ in terms of embedding sustainability-linked components in their existing lending facilities.

Building on ongoing research on incentivizing green lending by banks, the BSP will mobilize enhancements and innovations in its credit operations, as

appropriate, to support the financing of sustainable economic activities. This may feature a collateral framework to account for climate- and other E&S-related risks.²⁴ It may also include incentives such as, but not limited to, preferential rediscount rates, assigning lower haircuts, etc., to the extent allowable under the BSP legal and regulatory framework.

When considering such adjustments, the BSP needs to study potential unintended consequences and risks, such as creating green bubbles, as lending to sustainable areas is not necessarily less risky than conventional lending. In this context, the BSP will also consider the possibility of introducing an environmental risk-based

penalizing factor as an alternative or complement to a green incentivizing calibration. To ensure coherence, any incentive schemes need to be aligned with the Sustainable Finance Taxonomy being developed by the FSF TWGSF.

Meanwhile, the BSP issued Circular No. 1159 dated 4 November 2022 or the Implementing Rules and Regulations of the Mandatory Agriculture, Fisheries and Rural Development Financing.²⁵ This regulation recognizes sustainable finance as a form of compliance with the mandatory credit to the agriculture sector and rural development.



BSP to include sustainability considerations in its portfolio management and risk management and sign the UN Principles for Responsible Investment (UN PRI).

As public institutions, central banks are subject to particular public scrutiny. When calling upon the Philippine financial sector to take account of E&S-related risks, the BSP should lead by example and appropriately address E&S risks and impacts in its own operations. In line with NGFS recommendations, the BSP has therefore started to include sustainability considerations in its portfolio management and adopt Sustainable and Responsible Investment practices to demonstrate this approach to other investors and mitigate material ESG risks as well as reputational risks.²⁶

In 2019, the BSP started investing in green bonds through a fund managed by the Bank for International Settlements (BIS). The BSP's allocation in the BIS' Green Bond Fund has been increased twice since then. The BSP has also been working with other regional central banks to further

develop the green bond market. In 2021, the EMEAP, of which BSP is a member, agreed to promote investment in green bonds through the Asian Bond Fund (ABF).²⁷ The BSP has provided inputs to the development and design of the BIS' Asian Green Bond Fund (BISIP G3), which aims to help channel central bank reserves to green projects in the Asia-Pacific region.²⁸ In February 2022, the BSP invested in the Asian Green Bond Fund. This provides the BSP the diversification benefits to its FX reserves while advancing its sustainability initiative.

The BSP will continue its efforts to integrate sustainability goals into its portfolio management. It will study and explore the expansion of eligible sustainable financial instruments for the BSP's reserves in line with its risk tolerance and Charter requirements.

The BSP will continue building technical knowledge and engaging with relevant stakeholders and work towards becoming a signatory of the UN Principles for Responsible Investment (UN PRI) and align its overall investment process with the said principles.²⁹ The BSP will also consider developing and adopting a Responsible Investment Charter.³⁰

Likewise, the BSP will explore the possibility of including climate scenarios in conducting stress tests on the investment portfolio and explore how these can be utilized in the risk management of the BSP's foreign exchange reserves.





BSP to develop a task force for inclusive green finance.

People at the base of the economic pyramid tend to be disproportionately exposed to the risks and impacts of local and global environmental change while also playing an important role in mitigating environmental change. Social inequity and exclusion from economic opportunities not only limit the capacity of vulnerable groups and micro, small and medium enterprises (MSMEs) to protect themselves from the effects of environmental change and boost their resilience, but it also limits the scope for effective mitigation

strategies.³¹ Without empowering households at the base of the pyramid and enhancing the business opportunities of MSMEs, a just transition to a low-carbon, environmentally sustainable economy will be impossible to achieve.

In 2007, the BSP was the first central bank to establish a dedicated financial inclusion unit, the Financial Inclusion Office. In January 2022, the BSP launched the National Strategy for Financial Inclusion 2022-2028, which serves as a blueprint to achieve the vision of driving financial inclusion toward inclusive growth and financial resilience. It builds on the principles-based approach of the original strategy launched in 2015. The development of the National Strategy for Financial Inclusion is

led by the interagency Financial Inclusion Steering Committee (FISC), chaired by the BSP and established under Executive Order No. 208.

Building on its work as a member of the Alliance for Financial Inclusion's working group on Inclusive Green Finance, the BSP will continue to develop market-shaping policies targeting the underserved/unserved areas/segments of the population and economy leveraging the existing and ongoing sustainable finance and financial inclusion policies and initiatives. To this end, the BSP will continue to study how it can best help promote inclusive green finance in the Philippines. This work will also involve an analysis of how digital solutions can enhance inclusive green finance.

BSP to include climate-related financial disclosures in its Annual Report.

As pointed out by the NGFS in its recent Guide on Climate-related Disclosure for Central Banks, “it is important for central banks to seek to lead by example and demonstrate accountability by disclosing climate-related risks and, where relevant, opportunities in a progressively wider scope and increasing detail.”³²

In its 2020 Annual Report,³³ the BSP introduced its SCB Program and Sustainable Finance Framework. The 2021 Annual Report includes updates on the BSP’s SCB Program and the integration of sustainability principles in the BSP’s reserve management. The BSP is in the early stages of looking into best practices on disclosures and studying the elements of impact reporting that will be included in the report to the Management and the stakeholders. It will consider including ESG investment profile in management reporting and publication of an impact report for stakeholders’ information and benefit. Going forward, the BSP will incorporate NGFS recommendations on climate-related disclosure for central banks in its Annual Reports.

In line with the NGFS and TCFD recommendations on climate-related financial disclosures, a

dedicated section in the BSP’s Annual Report or a separate documentation may be attached to the BSP Annual Report to address the following three major dimensions:

- **Governance:** Disclose the high-level approach to climate-related risks and opportunities and climate-related governance structures around monetary policy, asset management, financial stability, and internal operations.
- **Strategy:** Disclose strategies for identifying, assessing, and describing climate-related risks, as well as any adaptation of areas and functions to climate-related risks and opportunities.
- **Risk management:** Disclose the current state of climate-related risk management, including integration with non-climate-related risk management.

Including this information in its Annual Report will provide important information to stakeholders and showcase the BSP’s concerted efforts under its SCB Strategy.

Once the TNFD recommendations become available in 2023, the BSP will also explore such standards to broaden environmental disclosures in its Annual Reports.



BSP to adopt sustainable practices for its own facilities and operations.



In 2021, the BSP conducted a comprehensive study on the potential impacts of climate change and other environmental risks in the BSP branches and offices. The study revealed that BSP sites have varying levels of exposure and vulnerability to natural hazards, including earthquakes, severe wind, and flooding. These hazards may impact business objectives and result in financial losses. Except for high-intensity earthquakes, Mission Critical Departments (MCDs) may not be fully affected by these hazards, given the business continuity strategies in place. After estimating the financial impact and assessing the resiliency of the BSP offices and branches, the report outlined broad recommendations, as follows:

- (i) Improving the resiliency of BSP facilities to withstand better the challenges brought about by the natural hazards;
- (ii) Enhancing emergency response system and business continuity strategies to reduce business disruptions to the extent possible;

(iii) Establishment of controls and practices that ensure availability of sufficient buffers to cover financial losses, and

(iv) Bridging the methodology and data gaps for future similar studies.

To reduce its environmental footprint, the BSP will continue promoting sustainable practices for its own estate/facilities and across its operations. The BSP's estate/facilities management has been striving to develop inclusive, green, smart, and modern facilities, guided by green building principles.³⁴ In line with this, the BSP Head Office has initiated the process for certification to Building for Ecologically Responsive Design Excellence (BERDE) which espouses green building principles (BSP Head Office is already registered for certification under "Operation"). BERDE is the recognized green building certification in the Philippines by the World Green Building Council. Once achieved, the BERDE certification will attest to the various initiatives undertaken at the BSP Head Office to provide a safe, healthy, environment-friendly, and reliable work environment for BSP staff and stakeholders.

In the procurement area, the BSP will adopt a green public procurement program and circular economy principles, in line with the Government Procurement Policy Board's Green Public Procurement Roadmap.³⁵ This will include an enhanced vendor management system and vendor registry; the

development of a Procurement Management and Information System; intelligent Predictive and Analytical Procurement; and the establishment of technical specifications for office supplies, equipment, and systems.

The BSP will also continue initiatives to digitalize operations and reduce resource use and adopt platforms and solutions that will provide various digital products and services and, at the same time, improve the BSP's internal processes.

Regarding the production of banknotes, the BSP announced in 2021 the use of polymer banknotes for sustainable, economic, and cost-effective currency production. The BSP is also working on sustainable production and recycling of banknotes and coins, including energy conservation measures in production, the use of alternative, non-toxic, and environment-friendly chemicals, and the disposal/re-use of polymer briquettes and coins.

To ensure effective implementation and monitor progress in this emission reduction initiative, the BSP will enhance its compliance program to incorporate this objective and explore greenhouse gas (GHG) emissions measuring methodologies to facilitate the targeting, calculating, and monitoring of BSP GHG emissions.

In line with the objective of "leading by example," the BSP will develop a dedicated section on the BSP's website to communicate its commitment to the sustainability agenda and inform stakeholders of its various initiatives to promote transformative actions towards achieving climate and sustainability goals.



BSP to roll out a capacity-building program for all staff in relevant areas.

To deepen its understanding of sustainable finance and ESG risks, the BSP has actively participated in global and regional initiatives to mainstream sustainable finance, including the SBFN, NGFS, EMEAP-WGBS IGSF, and AFI-IGF.

The BSP has also forged partnerships with local and

international organizations and multilateral institutions to increase awareness and strengthen the capacity of both supervisors and supervised financial institutions. Its partners in providing training and seminars on ESG and other related topics on the sustainability agenda include the World Bank, Asian Development Bank, United Kingdom Government, International Finance Corporation,

WWF Philippines, and Allotrope Partners, among others.

The BSP will intensify efforts to build the necessary skills, capacities, tools, and cooperation to implement the SCB Strategy successfully. The BSP will initiate basic training on E&S risks and sustainable finance for all staff and organize specialized training for staff implementing the Strategy.

Endnotes

- 1 A bank-wide technical working group was formed to implement the initiatives under the SCB Program.
- 2 Includes Department of Finance, BSP, Securities and Exchange Commission (SEC), Insurance Commission (IC), Climate Change Commission, Department of Energy, Department of Environment and Natural Resources, National Economic and Development Authority, Bases Commission Development Authority, Department of Agriculture, Department of Budget and Management, Department of Interior and Local Government, Department of Public Works and Highways, Department of Science and Technology, Department of Transportation, Department of Trade and Industry, Mindanao Development Authority, and Public-Private Partnership Center
- 3 BSP Circular Letter No. CL-2022-011 on the Philippine Sustainable Finance Roadmap and Guiding Principles dated 08 February 2022. This document can be accessed at <https://www.bsp.gov.ph/Regulations/Issuances/2022/CL-2022-011.pdf>
- 4 ASEAN Taxonomy Board. November 2021. ASEAN Taxonomy for Sustainable Finance Version 1. Accessed at: <https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf>
- 5 Formerly known as the Sustainable Banking Network (SBN)
- 6 In July 2022, the BSP submitted to NGFS its updated representatives for the workstreams on Supervision, Monetary policy, Scenario design and analysis, and Net zero for central banks, and Task force for Nature related risks.
- 7 <https://www.afi-global.org/working-groups/inclusive-green-finance-igf-working-group/>
- 8 The Task Force was created in response to the proposal of the ASEAN Senior Level Committee (SLC) on Financial Integration to undertake a study on how ASEAN Central Banks can help advance the sustainability agenda, as deliberated and endorsed by the ASEAN Central Banks Deputies and Governors. The task force conducted a study on the roles of central banks in addressing climate and environment-related risks to monetary, financial, and broader macroeconomic stability.
- 9 <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5624> The report can be accessed at: https://www.bsp.gov.ph/Media_And_Research/Media%20Releases/2020_12/news-12052020bl.pdf
- 10 Whereas climate has been at the centre of attention of the work of central banks and supervisors; attention is now also shifting to other environmental risks such as biodiversity loss and their implications for macro-financial stability. The final report of the Joint NGFS-INSPIRE Study Group on Biodiversity and Financial Stability makes clear that biodiversity loss poses a material risk to macroeconomic and financial stability. See: NGFS-INSPIRE Study Group on Biodiversity and Financial Stability (2022), Central banking and supervision in the biosphere: An agenda for action on biodiversity loss, financial risk and system stability. Final Report of the NGFS-INSPIRE Study Group on Biodiversity and Financial Stability. NGFS Occasional Paper, Paris: Network of Central Banks and Financial Supervisors for Greening the Financial System, https://www.ngfs.net/sites/default/files/medias/documents/central_banking_and_supervision_in_the_biosphere.pdf.

- 11 In a recent landmark report, the World Bank estimates that, in a conservative scenario, a collapse in select nature services could result in a decline in global GDP amounting to \$2.7 trillion in 2030, equivalent to over 3% of current world GDP. The World Bank estimates that the Philippines would suffer a GDP loss of 8.2% under such a scenario. See: Johnson, J.A., Ruta, G., Baldos, U., Cervigni, R., Chonabayashi, S., Corong, E., Gavryliuk, O., Gerber, J., Hertel, T., Nootenboom, C., Polasky, S. (2021), *The Economic Case for Nature: A Global Earth-Economy Model to Assess Development Policy Pathways*, Washington, DC: World Bank, <https://openknowledge.worldbank.org/bitstream/handle/10986/35882/A-Global-Earth-Economy-Model-to-Assess-Development-Policy-Pathways.pdf?sequence=1&isAllowed=y>.
- 12 The BSP will build on the NGFS climate scenarios (<https://www.ngfs.net/ngfs-scenarios-portal/>) and explore developing scenarios that are tailored to the specific context of the Philippines. See also: NGFS (2020), *Guide to Climate Scenario Analysis for Central Banks and Supervisors*, June, Paris: Network of Central Banks and Financial Supervisors for Greening the Financial System, https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_scenario_analysis_final.pdf; and NGFS (2021), *Scenarios in Action. A Progress Report on Global Supervisory and Central Bank Climate Scenario Exercises*, October, Paris: Network of Central Banks and Financial Supervisors for Greening the Financial System, <https://www.ngfs.net/sites/default/files/medias/documents/scenarios-in-action-a-progress-report-on-global-supervisory-and-central-bank-climate-scenario-exercises.pdf>.
- 13 See: <https://www.fsb-tcfd.org/recommendations/>.
- 14 In the case of publicly listed banks, their Sustainability Reports may be submitted together with their Annual Report to the BSP in compliance with the disclosure requirements under Circular No. 1085.
- 15 See: <https://tnfd.global>.
- 16 For an overview of approaches and best practice, see Baudino, P. and Svoronos, J.-P. (2021), "Stress-testing Banks for Climate Change – A Comparison of Practices", FSI Insights on Policy Implementation No 34, July, Basel: Financial Stability Institute, Bank for International Settlements, <https://www.bis.org/fsi/publ/insights34.pdf>.
- 17 "Impact of Extreme Weather Episodes on the Philippine Banking Sector: Evidence Using Branch-Level Supervisory Data" <http://www.bsp.gov.ph/downloads/Publications/2020/WPS202003.pdf>
- 18 See: van Toor, J., Piljic, D., Schellekens, G., van Oorschot, M., Kok, M. (2020), *Indebted to Nature. Exploring Biodiversity Risks for the Dutch Financial Sector*, Amsterdam: De Nederlandsche Bank and Netherlands Environmental Assessment Agency, <https://www.dnb.nl/media/hdOlowkq/methods-for-analyses-in.pdf>.
- 19 Circular No. 1149 dated 23 August 2022
- 20 Section 3 of Circular No. 1085 or the Sustainable Finance Framework. Accessed at; <https://www.bsp.gov.ph/Regulations/Issuances/2020/ci085.pdf>
- 21 Abenoja, Z., Ganapin, L., Armas, J., Asi, R., Mandap, D., (2022) *Climate Change and Monetary Policy: Some Preliminary Thoughts*. BSP Economic Newsletter No. 22-03. Manila. Accessed at https://www.bsp.gov.ph/Media_And_Research/Publications/EN22-03.pdf <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=6174>
- 22 See: Colesanti Senni, C. (2021), "The Case for Climate Objectives in Central Banks' Targeted Refinancing Operations", <https://www.cepweb.org/the-case-for-climate-objectives-in-central-banks-targeted-refinancing-operations/>; van 't Klooster, J. and van Tilburg, R. (2020), "Targeting a Sustainable Recovery with Green TLTROs", www.positivemoney.eu/wp-content/uploads/2020/09/Green-TLTROs.pdf.
- 23 Both the Bank of Japan and the People's Bank of China have recently launched their existing targeted lending facilities to include a positive sustainability-linked component.
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