



## Environmental, Social, and Governance (ESG) Investing in the Philippines

June 25, 2021

Broadly speaking, environmental, social, and governance (ESG) investing is understood as investing that incorporates ESG factors in investment decisions. It is often used interchangeably with the terms sustainable investing, responsible investing, ethical investing and impact investing.

The growing importance of ESG factors in investment decision-making was highlighted by Larry Fink, Chairman and Chief Executive Officer (CEO) of BlackRock, the world's largest asset manager, in his annual letter to CEOs in 2018. In the letter, Mr. Fink said, "[s]ociety is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate."<sup>1</sup>

In the Philippines, regulators have in recent years steadily deployed a stream of policy measures designed to enable investors to consider ESG factors in their investment, and to encourage companies to behave in a manner that benefits society and the environment. These policy measures are discussed below.

- A. [Securities and Exchange Commission](#)
  - 1. [Code of Corporate Governance](#)
  - 2. [Guidelines on the Issuance of Green, Social and Sustainability Bonds](#)
- B. [Insurance Commission](#)
- C. [Bangko Sentral ng Pilipinas](#)
- D. [Conclusion](#)

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<sup>1</sup> Larry Fink's 2018 Letter to CEOs: A Sense of Purpose, available at <https://www.blackrock.com/corporate/investor-relations/2018-larry-fink-ceo-letter>.

## Securities and Exchange Commission

### Code of Corporate Governance.

In 2016, the Philippine Securities and Exchange Commission (SEC) issued the Code of Corporate Governance for Publicly-Listed Companies (CG-PLC),<sup>2</sup> which superseded the Revised Code of Corporate Governance and related issuances insofar as they relate to publicly-listed companies (PLCs). Significantly, the CG-PLC adopted an expansive view of corporate purpose, reinforced the idea of stakeholder governance, and introduced sustainability reporting in the governance framework of PLCs.

The CG-PLC defines corporate governance as “the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders.” It further states that the purpose of corporate governance is to maximize an organization’s long-term success, creating sustainable value for its shareholders, stakeholders, and the nation. It defines the term “stakeholder” to include customers, creditors, employees, suppliers, investors, as well as the government and community in which an organization operates.<sup>3</sup>

Principle 10 of the CG-PLC states that a company should ensure that material and reportable non-financial and sustainability issues are disclosed. Pursuant thereto, the CG-PLC recommends that the board of directors have a clear and focused policy on the disclosure of non-financial information, with emphasis on the management of economic, environmental, social and governance issues of its business which underpin sustainability. It also recommends that companies adopt a globally-recognized standard/framework in reporting sustainability and non-financial issues.

On the other hand, Principles 14 to 16 of the CG-PLC articulate a company’s duties to its stakeholders. Principle 16 states that a company should be socially responsible in all of its dealings with the communities where it operates, and should ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development. Among others, the CG-PLC recommends that a company recognize and place importance on the interdependence between business and society, and promote a mutually beneficial relationship that allows the company to grow its business, while contributing to the advancement of the society where it operates.

In 2019, the SEC issued the Code of Corporate Governance for Public Companies and Registered Issuers (the *CG-PC & RIs*).<sup>4</sup> The CG-PC & RIs is the counterpart of the CG-PLC for public companies and registered issuers. It contains the same concepts, principles and recommendations on stakeholder governance and sustainability reporting as those in the CG-PLC.

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<sup>2</sup> Please see SEC Memorandum Circular No. 19 s.2016 at [https://www.sec.gov.ph/wp-content/uploads/2019/11/2016\\_memo\\_circular\\_no.19.pdf](https://www.sec.gov.ph/wp-content/uploads/2019/11/2016_memo_circular_no.19.pdf) for reference.

<sup>3</sup> While a similar definition of the term “stakeholders” and the duties of the board of directors towards a corporation’s stakeholders (alongside its duties to the corporation’s shareholders) were first introduced in a 2014 amendment to the Revised Code of Corporate Governance, the latter did not go as far as to explicitly recognize that corporate purpose encompasses creating sustainable value for a corporation’s stakeholders.

<sup>4</sup> Please see SEC Memorandum Circular No. 24 s.2019 at <https://www.sec.gov.ph/mc-2019/mc-no-24-s-2019-code-of-corporate-governance-for-public-companies-and-registered-issuers/> for reference.

### Sustainability Reporting Guidelines for Publicly-Listed Companies

In 2019, the SEC took a step further and transformed the recommendation under the CG-PLC that PLCs report on their non-financial and sustainability issues into a mandatory requirement. The SEC's *Sustainability Reporting Guidelines for Publicly-Listed Companies* (the *Sustainability Reporting Guidelines*)<sup>5</sup> require PLCs to submit a sustainability report together with their Annual Report.

The Sustainability Reporting Guidelines seek to, among others, help PLCs identify, evaluate and manage their material economic, environmental, and social risks and challenges, and measure and monitor their contribution towards achieving universal targets of sustainability, such as the United Nations Sustainable Development Goals (SDGs), and national policies and programs. Its reporting template draws heavily from the Global Reporting Initiative's (GRI) *Sustainability Reporting Standards*, the Sustainability Accounting Standards Board's (SASB) *Sustainability Accounting Standards*, and the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).

Recognizing that sustainability reporting is a journey in which PLCs would be at different levels, with some being in a more advanced stage than others, the Sustainability Reporting Guidelines adopt a "comply or explain" approach for the first three years of its implementation. This means that reporting companies are required to attach the reporting template to their Annual Report but they can provide explanations for items where they still have no available data on.

The Sustainability Reporting Guidelines is on its second year of implementation.

### Guidelines on the Issuance of Green, Social and Sustainability Bonds

In 2018 and 2019, the SEC promulgated, in series, guidelines on the issuance in the Philippines of green, social and sustainability bonds under the *ASEAN Green Bond Standards*, the *ASEAN Social Bond Standards*, and the *ASEAN Sustainability Bond Standards*, respectively (collectively and for ease of reference, the *ASEAN Bond Standards*). The ASEAN Bond Standards were developed by the ASEAN Capital Markets Forum based on the International Capital Markets Association's *Green Bonds Principles*, *Social Bonds Principles* and *Sustainability Bond Guidelines*.

The SEC's *Guidelines for Issuance of ASEAN Green Bonds*<sup>6</sup> govern the issuance of ASEAN Green Bonds where proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible "Green Projects". Eligible Green Project categories include, but are not limited to, the following:

- Renewable energy;
- Energy efficiency;
- Pollution prevention and control;
- Environmentally sustainable management of living natural resources and land use;
- Terrestrial and aquatic biodiversity conservation;
- Clean transportation;

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<sup>5</sup> Please see SEC Memorandum Circular 4 s.2019 at <https://www.sec.gov.ph/corporate-governance/sustainability-report/> for reference.

<sup>6</sup> Please see SEC Memorandum Circular No. 12 s.2018 at <https://www.sec.gov.ph/wp-content/uploads/2019/11/2018MCNo12.pdf> for reference.

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- Sustainable water and waste water management;
- Climate change adaptation;
- Eco-efficient and/or circular economy adapted production technologies and processes; and
- Green buildings which meet regional, national or internationally-recognized standards.

Green Projects may relate to more than one category. Fossil fuel power generation projects are excluded from the *ASEAN Green Bonds Standards*.

On the other hand, the SEC's *Guidelines on the Issuance of Social Bonds Under the ASEAN Social Bond Standards in the Philippines*<sup>7</sup> govern the issuance of ASEAN Social Bonds where proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible "Social Projects". Eligible Social Project categories include, but are not limited to, the following:

- Affordable basic infrastructure;
- Access to essential services;
- Affordable housing;
- Employment generation;
- Food security; and
- Socioeconomic advancement and empowerment.

Social Projects may relate to more than one category. Projects which involve activities that pose a negative social impact related to alcohol, gambling, tobacco and weaponry are excluded from the *ASEAN Social Bond Standards*.

Lastly, the SEC's *Guidelines on the Issuance of Sustainability Bonds Under the ASEAN Sustainability Bond Standards in the Philippines*<sup>8</sup> govern the issuance of ASEAN Sustainability Bonds where proceeds will be exclusively applied to finance or refinance a combination of both Green and Social Projects that respectively offer environmental and social benefits.

According to the SEC, the Philippines is a leader in the issuance of ASEAN-labelled Green, Social and Sustainability Bonds,<sup>9</sup> with Philippine companies accounting for 35% of such issuances as of May 31, 2021.<sup>10</sup>

### Insurance Commission

Following the lead of the SEC, the Insurance Commission issued the *Revised Code of Corporate Governance for Insurance Commission Regulated Companies*<sup>11</sup> (ICRCs) in June 2020. Like the CG-PLC, the *Revised Code of Corporate Governance for ICRCs* incorporates the concepts of stakeholder governance and sustainability reporting in the governance framework of

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<sup>7</sup> Please see SEC Memorandum Circular No. 9 s.2019 at <https://www.sec.gov.ph/wp-content/uploads/2019/10/2019MCNo09.pdf> for reference.

<sup>8</sup> Please see SEC Memorandum Circular No. 8 s. 2019 at <https://www.sec.gov.ph/wp-content/uploads/2019/10/2019MCNo08.pdf> for reference.

<sup>9</sup> Keynote Address of SEC Commissioner Ephyro Luis B. Amatong at the webinar on "Green Social Sustainable Bonds (GSSBs): Launching the Philippine Initiative" held on February 24, 2021.

<sup>10</sup> Sustainable Finance Market Update As of May 31, 2021 available at <https://www.sec.gov.ph/cm-sustainable/finance-market-update-9/>.

<sup>11</sup> Please see IC Circular Letter No. 2020-71 at [https://www.insurance.gov.ph/wp-content/uploads/2020/06/CL2020\\_71.pdf](https://www.insurance.gov.ph/wp-content/uploads/2020/06/CL2020_71.pdf) for reference.

ICRCs. It mirrors the definitions of “corporate governance” and “stakeholders” in the CG-PLC, and its principles and recommendations on the disclosure of non-financial and sustainability issues, and on a company’s duties to its stakeholders.

### **Bangko Sentral ng Pilipinas**

In April 2020, the *Bangko Sentral ng Pilipinas* (the Philippine Central Bank or *BSP*) issued *Circular No. 1085* or the *Sustainable Finance Framework*.<sup>12</sup> It requires banks to embed sustainability principles, including those covering environmental and social risk areas, in their corporate governance framework, risk management systems, and strategic objectives consistent with their size, risk profile and complexity of operations. It imposes corresponding obligations on the board of directors and senior management of a bank. It also requires banks to disclose matters relating to their sustainability strategy, standard and practices, and environmental and social risks in their Annual Report. Banks were given a period of three years from the issuance of the Circular within which to comply with its provisions.

Very recently, the BSP issued a press release<sup>13</sup> stating that it will engage banks in discussions during the three-year transitory period before the full implementation of Circular No. 1085. Within that period, banks are expected to identify and execute specific actions on the implementation of board-approved strategies and policies on the integration of sustainability principles into their strategic objectives, corporate governance, risk management systems, and operations.

The BSP is also working closely with the Department of Finance and other government agencies to embark on the development of a principles-based taxonomy to facilitate the mobilization of funds towards green or sustainable projects. Meanwhile, the industry associations, in collaboration with the World Wide Fund for Nature Philippines, are developing an analytical framework to assess the impact of climate physical risks on the loan portfolio of banks.

### **Conclusion**

It is widely expected that the flow of capital towards undertakings that contribute to sustainable development will further intensify in the foreseeable future. Many international investors have long acknowledged that companies must not only deliver financial performance, but also make a positive contribution to society. On the other hand, Philippine regulators have more than amply demonstrated their willingness to use their regulatory powers to encourage companies to align their activities with environmental, social and sustainability goals, and to direct investors towards companies that do so. Together, the international investment climate and local policy environment present tremendous growth opportunities for Philippine companies. However, market analysts have noted that, at present, very few companies in the Philippines integrate sustainability goals into their business operations.<sup>14</sup> It would therefore serve Philippine companies well to take steps re-assess their business model and strategies to examine how they can address sustainability goals and “produce profitable solutions to the problems of people and planet.”<sup>15</sup>

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<sup>12</sup> Please see BSP Circular No. 1085 at <https://bsp.gov.ph/regulations/issuances/2020/c1085.pdf> for reference.

<sup>13</sup> Please see BSP’s Press Release at <https://pia.gov.ph/news/articles/1076543> for reference.

<sup>14</sup> *The Philippines sees first SDG-focused fund* by Francis Nikolai Acosta available at <https://esgclarityasia.com/the-philippines-sees-first-sdg-focused-fund/>.

<sup>15</sup> This view on corporate purpose is espoused by Prof. Colin Mayer of the Said Business School, University of Oxford.

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