

More Risks or More Opportunities?

DOMESTIC AND INTERNATIONAL ENERGY TRANSITION IMPLICATIONS ON THE FIDUCIARY RESPONSIBILITIES OF CORPORATE DIRECTORS IN THE PHILIPPINES

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Transcript

Updates on the Sustainable Finance Framework of BSP and the Banking Sector's Shift to Paris Alignment

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So let me begin by echoing what Sara, Ellie, and Jamie mentioned a while ago about the strong call for more regulators to embrace the sustainability agenda. The BSP responded to this call because we believe that ESG related risks, not just climate risks, pose safety and soundness concerns to individual banks and threaten our financial stability.

Now, while the Philippines only contributes around less than 1% or .03% of the total greenhouse gas emissions, we are still among the most vulnerable countries in the world. So we consistently rank, I think we're the 6th among the most vulnerable countries in the world.

Now, the BSP adopted the two-prompt approach in our campaign in adopting the sustainability agenda. We started with an awareness-building campaign, that's five years back. We collaborated with various development partners in terms of building awareness on ESG related principles. And in 2020, we now mainstreamed our expectations in adopting the sustainability agenda through the issuance of Circular No. 1085 on the Sustainable Finance Framework. That issuance is deliberately timed; we issued that April 2020 amid stringent economic lockdown because we thought this is the best time to consider ESG-related principles as the Board of Directors reviews, rethinks, and reset their strategies considering what's happening in the environment.

One critical element of Circular No. 1085 is about understanding risk. When we understand risk, we are more equipped in terms of embedding it in the risk management systems. When we know risks, we also see the opportunities behind investing in sustainable projects. What the BSP did is we followed our usual approach in issuing risk management guidelines. That is to set the tone of good governance from the top - to set out our expectations from the Board of Directors and the responsibilities and expectations from the three lines of defence.

Now, let me go over some of the general expectations from the Board of Directors. We expect the board to institutionalise the adoption of sustainability principles within the organisation, promote a culture that fosters environmentally and socially responsible business decisions, enhance risk management by looking beyond the traditional sources of

risks, also look and consider climate-related risk because this would go beyond the usual time horizons in planning for strategies and business operations of the bank. We also expect the board to uphold transparency and provide adequate disclosures to various financial institution stakeholders. Finally, we hope them to upskill, retool, and reskill their personnel regarding the sustainability agenda.

After issuing those guidelines, after the issuance of Circular No. 1085. We have already exposed the second phase of our issuance for comments, which provides more granular risk management guidelines covering credit and operational risk. We are targeting to issue this circular before the end of the year. So in that issuance, we explicitly state that the board should consider the short, medium, and long term strategies that support sustainability principles. We wanted to see that their portfolio towards renewable or sustainable related exposures progressively increases as well. We've exposed that for comments, we are now finalising the document, and we're looking at issuing it by the end of Q3 or Q4 of this year.

One of the... I think there are two points in the KEEP report that pertains to regulators. One is on disclosure and bond issuances. The other one is. It's not part of the recommendation, but it was mentioned in the report about project financing. For the bond issuance disclosure, the approach of the BSP in this space, to promote capital market development, is actually to leverage on the requirements of the SEC.

So in 2018, we lifted all BSP requirements for bond issuances of banks. What we did was send out eligibility criteria for banks. Suppose they qualify based on those eligibility criteria. In that case, they have to notify the BSP about these issuances and follow the requirements of the SEC.

Now, we do understand that there's a need to enhance disclosures in this case further. In Circular No. 1085, we again leverage the disclosure requirements of the SEC for publicly listed companies. But we see that we need to provide further guidance to clarify the expectations under the TCFB. As well as focus on risk exposures and promote comparability across the banking system. So that's one of the policy agenda or policy items of the BSP moving forward.

In terms of project financing, the key here is to understand the cash flows coming from these businesses and the risk attendant to this exposure. So again, we go back to understanding the risk to be able to tap the opportunity. So there's a window for this one; the BSP has a regulation on project finance that provides its own singular borrower's limits. So we will not add this exposure to exposures of other related parties in determining the ceiling for project finance loans. Also, as part of the relief measures of the Bangko Sentral amid the pandemic, we increased the single borrower's limit from 25% of net worth to 30%, so that's on the project finance space.

Let me also share another important initiative of the BSP; we are part of an intergovernmental agency collaboration called the Green Force. The Green Force is co-chaired by the Bangko Sentral ng Pilipinas and the Department of Finance. Essential products of the Green Force are the roadmap and the guiding principles. The guiding principles provide specific activities for industries that contribute to the sustainability

agenda and identify actions and sectors that are inconsistent or do not adhere to the sustainability principles. The British Embassy Manila supports those outputs or the Green Force initial output. We thought that the issuance of the guiding principles would further facilitate investments into activities aligned with the sustainability goals.

Another initiative of the BSP, which will be launched this month, is the conduct of the vulnerability assessment and stress testing exercises. Again Ellie and Jamie mentioned this earlier in the banking industry. So, it involves all types of banks, from the big universal and commercial banks to the stand-alone thrift and rural banks. So the vulnerability assessment will be supported by the WWF Philippines and the World Bank.

We'll also be looking at scenarios provided by the network for greening the financial system. So NGFS scenarios and see how we could further shape this to apply to the domestic setting. We will also be using the Hazard Hunter tool, which was mentioned by Jo Ann earlier. We are pretty sensitive than smaller banks might not have this exposure to co-related projects and minimal exposure to stranded assets. Still, they are the most vulnerable to physical risks.

Finally, the BSP has its own Sustainable Central Banking Program, which we launched last 2020. So, the SCB provides activities of the BSP on how we could embed sustainability principles in our practices and policies. So, now, we're also conducting our vulnerability assessment of BSP branches to reuse the Hazard Hunter tool physically.

The second phase would be to assess, to conduct self-assessment or gap analysis in areas of operations of the BSP, including the supervision sector where we could embed the sustainability agenda.

Now, we envision the BSP's role as an enabler, mobiliser, and doer. Enabler means issuing and enabling regulation to promote and support growth and promote sustainability in the financial system, which is part of the supervision sector. Mobilizer, in terms of being a champion for sustainability. The BSP has invested 550 million dollars in the BIS green fund. We're also looking at areas where this could be incorporated into some of our monetary policy operations. That's a study that we will also be conducting. Finally, as the doer, how do we practice and walk the talk and apply in our operation the sustainability principles.

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