
**FSF Concludes Review of
Corporate Governance Requirements
on Sustainable Finance**

The Financial Sector Forum (FSF) completed the review of corporate governance requirements issued by its member-agencies in relation to advancing the sustainability agenda across the financial sector. The said review is in line with the commitment of the FSF member-agencies to align the sustainable finance-related regulations in the areas of corporate governance, risk management, and disclosure as provided under the Philippine Sustainable Finance Roadmap.

Based on the results of the review, the corporate governance requirements set out by the FSF member-agencies adequately cover the expectations in promoting sustainable finance. The existing regulations highlight the importance of the “tone at the top” in recognizing the adverse effects of environmental, social and governance (ESG) risks and in taking action to manage and help mitigate these risks.

Bangko Sentral ng Pilipinas (BSP) Governor and FSF Chairman Felipe M. Medalla highlighted that “Corporate governance expectations are universal. We recognize that ESG may be considered as a new risk trigger but our expectations from the board of directors to consider the impact of the related risks in their strategies and risk management systems are the same. All these are aimed at promoting the long-term viability of their respective institutions and contributing to the sustained resilience of the financial system.”

The FSF member-agencies conducted a stock-taking exercise on the issued corporate governance regulations and an assessment of the relevance of the rules issued in relation to sustainable finance. The Securities and Exchange Commission (SEC) has issued the Code of Corporate Governance in 2019 and amendments to the Code have been made to ensure that the same would remain responsive to the changes in the business environment. The Code¹ provides that the board of directors should ensure that the SEC supervised entities disclose material and reportable non-financial and sustainability issues with the latter emphasizing the

¹ Increasing Focus on Non-Financial and Sustainability Reporting, Principle 10, Recommendation 10.1, under SEC Memorandum Circular No. dated 19 December 2019.

management of environmental, economic, social and governance issues in their businesses.

The Insurance Commission (IC) has directed its covered entities to, among others, adopt the Own Risk and Solvency Assessment (ORSA) Framework aligned with the Insurance Core Principles including the establishment by insurance companies, within their respective risk management systems, of an Enterprise Risk Management Framework for solvency purposes to identify, measure, report and manage insurers' risks in an ongoing and integrated manner. The ORSA report includes, among others, information on the governance of the ORSA process.

Meanwhile, the BSP issued Circular No. 1085 dated 29 April 2020 or the Sustainable Finance Framework that provided expectations from 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. This was followed by other guidelines on the Environmental and Social Risk Management (ESRM) Framework; Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks; and Guidance on the Implementation of the ESRM System², all of which highlight the important roles of the board of directors in overseeing the effective implementation of a sustainable finance framework.

The FSF created the Technical Working Group (TWG) on Sustainable Finance tasked to ensure alignment of sustainable finance-related regulations in the financial sector. The TWG is also developing a taxonomy, which will initially focus on climate risk mitigation and adaptation and will draw from the Philippine Sustainable Finance Guiding Principles and the ASEAN Taxonomy.

The FSF is a voluntary inter-agency body comprised of the BSP, SEC, IC, and the Philippine Deposit Insurance Corporation (PDIC). It provides a platform for discussion of supervisory approaches and issues as well as emerging risks in the financial sector.

² Under BSP Circulars No. 1128 dated 26 October 2021 and No. 1149 dated 23 August 2022; and BSP Memorandum to All Banks No. 2022-042 dated 29 September 2022, respectively.