



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

MEMORANDUM NO. M-2025-025

To : **ALL BANKS**

Subject : **Philippine Sustainable Finance Taxonomy Guidelines Frequently Asked Questions Series 1.2**

To further provide clarity and guidance on the provisions and application of the Philippine Sustainable Finance Taxonomy Guidelines (SFTG), the BSP is issuing the attached Frequently Asked Questions (FAQ) Series 1.2, in addition to earlier issued memoranda, as follows:

1. Memorandum No. M-2024-028 dated 27 September 2024 on FAQ on the Financing of Excluded Activities and Coal-Fired Power Plant Projects; and
2. Memorandum No. M-2024-035 dated 8 November 2024 on User Guide for Circular No. 1187 on the Adoption of the Philippine Sustainable Finance Taxonomy Guidelines.

The SFTG FAQ Series 1.2 provides the rationale for the development of the taxonomy and its related governance and oversight framework. It likewise clarifies key SFTG provisions in relation to the scope of application, assessment of economic activities, traffic light classification system, and the current regulatory incentives supporting financing of eligible green or sustainable projects/activities.

The foregoing supplementary guidance does not supersede any provision of the SFTG. Banks are expected to refer to Circular No. 1187 dated 21 February 2024 for detailed guidance on the taxonomy and its implementation.

The SFTG FAQ Series 1.2 is a result of the continuous engagement and consultation with banking industry associations towards its consistent implementation.

For information and guidance.

ELI M. REMOLONA, JR.
Governor

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FREQUENTLY ASKED QUESTIONS ON THE SUSTAINABLE FINANCE TAXONOMY GUIDELINES (Series 1.2)

OVERVIEW

1. What is a sustainable finance taxonomy?

- ✓ *A sustainable finance taxonomy serves as a classification tool to determine whether an economic activity is environmentally and socially sustainable. It promotes transparency and credibility of sustainability disclosures and minimize greenwashing risks; thus, enabling investors to make informed decisions.*

Under Circular No. 1149, “greenwashing” refers to deceptive marketing used to persuade the public that an organization’s products, aims, and policies are environmentally friendly. It also covers the dissemination of misleading information, whether intentional or not, regarding a company’s environmental strategies, goals, motivations, and actions that can induce false positive perception of a company’s environmental and social performance.

2. What is the rationale for developing the Philippine Sustainable Finance Taxonomy Guidelines (SFTG)?

- ✓ *The development of the SFTG is among the recommendations in the Philippine Sustainable Finance Roadmap that was released by the Inter-agency Technical Working Group on Sustainable Finance (ITSF).*

The SFTG serves as a reference guide to direct and increase domestic and foreign capital flows towards priority sectors and activities that support climate and sustainability objectives of the National Government.

The SFTG is anchored on national strategy documents such as the Philippine Development Plan, Nationally Determined Contributions, National Adaptation Plan, and the Republic of the Philippines (ROP) Sustainable Finance Framework, among others.

3. Who is responsible for the governance and oversight of the taxonomy?

- ✓ *The governance and oversight of the SFTG is a collaborative effort involving several members of the ITSF which is co-chaired by the Department of Finance and the Climate Change Commission.*

The development, consultation, and finalization of the SFTG version 1 is led by the BSP, the Securities and Exchange Commission (SEC) and the Insurance Commission (IC) under the auspices of the Financial Sector Forum (FSF)¹.

The SFTG development benefitted from extensive consultations with various stakeholders such as banks, publicly-listed companies, insurance companies, government agencies and other interest groups.

The BSP and the SEC issued their respective regulations adopting the SFTG for their supervised entities in February 2024.

4. What are the features of the SFTG?

- ✓ *The SFTG is largely aligned with the Foundation Framework of the ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy). It was developed with interoperability in mind as it adopted the design elements of the ASEAN Taxonomy such as environmental objectives, essential criteria and the traffic light classification system.*

While largely aligned with the ASEAN Taxonomy, the SFTG has unique features, including an option for a period longer than 5 years to institute transition measures (RMT) and a simplified approach in assessing activities of micro, small and medium enterprises (MSMEs).

The Foundation Framework of the ASEAN Taxonomy is a principles-based or qualitative assessment of activities. It uses a traffic light system, guided by a sector-agnostic decision flow to classify economic activities. The economic activities must fulfil at least one of the environmental objectives and all essential criteria.²

SCOPE OF APPLICATION

5. Which BSP supervised financial institutions (BSFIs) are covered by the SFTG?

- ✓ *The SFTG currently applies to banks. Nonetheless, other financial institutions under the supervision of the BSP may also use this tool if they are starting to adopt sustainability principles and practices in their lending or financing activities.*

¹ The FSF is a voluntary interagency body comprised of the BSP, SEC, IC, and the Philippine Deposit Insurance Corporation (PDIC) aimed at (i) facilitating consultations and exchange of information among its members on matters relating to the supervision and regulation of financial institutions, and (ii) coordinating the regulatory and supervisory policies and efforts of the member agencies.

² <https://www.theacmf.org/images/downloads/pdf/ASEAN%20Taxonomy%20FAQ-20Dec2024.pdf>.

6. How would the SFTG be applied to banks' lending or investment portfolio?

- ✓ *Pursuant to Circular No. 1187 dated 21 February 2024, banks should use the SFTG in designing sustainable financial products or services, or in financing activities that are environmentally and socially sustainable, among others.*

Consistent with this provision, the BSP will adopt a phased approach to implementation as banks deepen understanding in applying the SFTG to their credit portfolio. The assessment procedures under the SFTG shall be applied initially to corporate loans, specifically loans to non-financial private corporations as well as to small and medium enterprises as defined in the Financial Reporting Package (FRP).

7. If activities were previously classified as eligible green or sustainable activities, will these be reassessed under the SFTG?

- ✓ *BSP Memorandum No. M-2022-042 dated 29 September 2024 provides guidance or references to regulations, standards, or frameworks which banks can use in evaluating for potential financing of green or sustainable activities.*

If said references were adopted leading to a classification of an activity or product as 'green' or 'sustainable', such classification may be retained.

ASSESSMENT OF ECONOMIC ACTIVITIES

8. What are the activities or sectors covered by the current version of the SFTG?

- ✓ *The SFTG version 1 currently covers climate change mitigation and climate change adaptation as environmental objectives (EOs). Considering this, the SFTG version 1 primarily focuses on the sectors covered in the Philippine Nationally Determined Contributions and National Adaptation Plan. These include, among others, energy; transport; waste; industry; agriculture, forestry, and other land use; coastal and marine resources.*

Enabling sectors such as information technology, technical research and studies, and carbon capture, utilization, and storage (CCUS) are likewise covered in the SFTG.

9. Can banks finance activities that fall outside the scope of the SFTG version 1?

- ✓ *Generally, banks may finance activities that (i) are part of the list of Excluded Activities under the SFTG; or (ii) do not contribute to currently covered EOs. Financing such activities is considered outside of the scope of the SFTG version 1. Hence, the activity should not be labeled as “Green”, “Amber” or “Red”.*

10. If the economic activity substantially contributes to both Climate Change Mitigation and Adaptation, what EO will be used? What is the threshold to be used to determine substantial contribution?

- ✓ *The bank may choose any of the two EOs as the ‘primary’ objective taking into consideration the following factors: (i) Activity Relevance and Strategic Alignment; (ii) Investors/Financial Institutions’ Priority; and (iii) Government and Industry Guidance. Guide questions on the said factors are provided in the SFTG. While banks are currently not required to provide quantitative justifications in determining substantial contribution to a particular EO, they are expected to exercise sound judgment in making such assessment.*

11. An activity will be conducted in the Philippines but a subsidiary or subcontractor of the Philippine company carrying out said activity is based abroad. How will the Minimum Social Safeguards (MSS) criteria be applied?

- ✓ *Since the economic activity will be conducted in the Philippines, the SFTG should be used to assess potential financing by Philippine banks. The MSS essential criteria shall apply to the Philippine company directly involved in carrying out the activity and its subsidiary directly involved in the delivery of the activity. The participation of the latter is crucial to the completion of the activity. Hence, these two companies shall be subject to the national social legislations of their respective home countries.*

For suppliers or subcontractors directly involved in carrying out the activity, the MSS criteria shall be assessed against the codes of conduct required for them to observe or sign.

- 12. An activity that will be conducted in the Philippines contributes to EO other than climate change mitigation or adaptation. Can a foreign bank branch operating in the Philippines refer to other frameworks in assessing such activity for potential financing?**
- ✓ *In financing activities that contribute to other EOs not currently covered by the SFTG (e.g., biodiversity protection, circular economy transition or social objectives), banks may refer to or use other taxonomies (e.g., ASEAN Taxonomy for Sustainable Finance) or acceptable frameworks used by their head office, in the case of foreign bank branches in the Philippines, in the assessment of subject activities. The frameworks used should be generally aligned with the SFTG in terms of the essential criteria, among others.*
- 13. Is a third party/independent party verification mandatory under the SFTG?**
- ✓ *Third party or independent external party verification³ is required only for economic activities that will undertake remedial measures to transition of more than 5 years but not exceeding 10 years to address the harm of such activities to another EO.*
- 14. Will the BSP provide a list of accredited third party or independent verifiers?**
- ✓ *The BSP does not accredit third party or independent verifiers. In choosing however for the same, users of the SFTG may refer to the following minimum requirements for an independent verifier:*
- a) Must be able to assess and verify the credibility of the remediation timeline and plan confirming a maximum of 10 years to remediate, with specification of the expected number of years;*
 - b) Should have relevant expertise; and*
 - c) Must disclose their relevant credentials and expertise and the scope of the verification conducted in an assurance report.*
- 15. What are the documents that banks can use in assessing an economic activity under the SFTG?**
- ✓ *The SFTG does not prescribe specific documents which banks or other users can utilize when assessing an economic activity. Consistent with existing sustainability-related regulations of the BSP, banks are*

³ This may include, but not limited to, certifications obtained from relevant government agencies which are considered experts in their respective sectors.

encouraged to have proactive engagement or dialogue with their clients to inform assessment of lending or investing transactions.

During the assessment, banks may consider looking at documents such as but not limited to, the company's project plans, environmental impact assessment reports, due diligence reports, government-issued certifications, press releases or news articles involving the company or the subject project or activity.

16. Are consumer loans included in the assessment of the SFTG?

- ✓ *Loans extended to consumers or individuals are generally not classified as to any productive economic activity per Philippine Standard Industrial Classification (PSIC).*

Hence, loans to consumer or individuals for personal use purposes such as credit cards, salary-based general purpose consumption loans, and others as reflected in the FRP, are currently not assessed under the SFTG.

TRAFFIC LIGHT CLASSIFICATION SYSTEM

17. What are the differences of “Red” classification and “out of scope”?

- ✓ *In the context of the SFTG, a “Red” classification refers to activities that are intended to provide significant contribution to any of the EOs of the SFTG version 1 but (i) pose significant harm to another EO that cannot be mitigated within the remediation period prescribed in the SFTG; or (ii) are carried out by a company that does not meet the MSS essential criterion.*

An “Out of scope” covers activities that are (i) among the list of excluded activities, unless specified otherwise; or (ii) non-compliant with Philippine laws. Activities considered “out of scope” are not evaluated or assessed against the SFTG’s essential criteria.

Activities that contribute to EOs not yet covered by the SFTG version 1 such as biodiversity protection or circular economy transition are considered “out of scope” but could be included in future updates to the taxonomy. An “out of scope” activity should not be classified as “Red”.

18. Does a “Red” classification connote that the activity cannot be financed?

- ✓ *Banks may still finance activities even if classified as “Red”.*

SFTG AND REGULATORY INCENTIVES

19. How will the taxonomy be used in relation to compliance with Agriculture, Fisheries and Rural Development (AFRD) financing?

- ✓ *Sustainable finance in the form of loans and debt or equity securities are among the modes of compliance with the mandatory AFRD financing.⁴ To qualify, banks should ensure that these instruments are directed towards eligible green or sustainable projects or activities following the SFTG or other regional/global frameworks acceptable to the market.*

In extending new AFRD financing, banks are expected to use the SFTG to assess whether economic activities aimed at climate change mitigation or climate change adaptation are environmentally and socially sustainable, and therefore, eligible for sustainable financing. Activities classified in the SFTG as 'Green' or 'Amber' are considered eligible mode of compliance with the mandatory AFRD financing.

If an activity serves other environmental or social objectives not covered by the current version of the SFTG, banks may use the references⁵ to evaluate potential financing of sustainable projects or activities:

- a. SEC Guidelines on the issuance of green, social, sustainability and sustainability-linked bonds;*
- b. Philippine Nationally Determined Contributions;*
- c. Philippine Sustainable Finance Guiding Principles;*
- d. Regional taxonomy such as the ASEAN Taxonomy for Sustainable Finance; and*
- e. Internationally-accepted frameworks such as the Green Bond Principles, Green Loan Principles, Equator Principles and UNEP Financial Institutions.*

20. If an activity falls in the “Amber” classification, can the bank utilize the additional 15% single borrower’s limit (SBL) allowed under Circular No. 1185?

- ✓ *Yes. A bank may utilize the additional 15% SBL in financing an activity that falls under the “Amber” classification, which means that the activity is in transition towards “Green” or is addressing the harm to the environmental objective.*

⁴ The eligibility of all forms of sustainable finance should meet the definition as provided under the AFRD Law, Circular No. 1159, as amended, and Circular No. 1085, as amended.

⁵ As provided in Memorandum No. M-2022-042 dated 29 September 2022.

Under Circular No. 1185, the 15% additional SBL can be used for the purpose of financing eligible green or sustainable projects, including transitional activities to decarbonization.

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