Securities and Exchange Commission
PHILIPPINES

SEC MEMORANDUM CIRCULAR NO. 9

Series of 2019

SUBJECT: ***GUIDELINES ON THE ISSUANCE OF SOCIAL BONDS UNDER THE ASEAN SOCIAL BONDS STANDARDS IN THE PHILIPPINES***

WHEREAS, in recognition of the importance of alternative finance in supporting sustainable development in ASEAN and the increasing amount of global capital seeking green and sustainable investments, the ASEAN Capital Markets Forum developed the ASEAN Social Bond Standards to complement the ASEAN Green Bond Standards;

WHEREAS, the ASEAN Social Bond Standards was developed based on the International Capital Markets Association's (ICMA's) Social Bond Principles and intended to enhance transparency, consistency, and uniformity of ASEAN Social Bonds which will also contribute to the development of a new asset class, reduce due diligence costs, and help investors to make informed investment decisions;

WHEREAS, Section 8 of the SRC provides that securities shall not be sold or offered for sale or distribution within the Philippines, without a registration statement duly filed with and approved by the Commission;

WHEREAS, Section 12 of the SRC, the relevant provisions of the 2015 Implementing Rules and Regulations of the SRC (2015 SRC IRR) and "Annex C" provides for the procedure for registration of securities and non-financial disclosure requirements;

WHEREAS, ASEAN Social Bonds are specific purpose bonds where proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible Social Projects, and that comply with the ASEAN Social Bond Standards;

WHEREAS, the requirements under the ASEAN Social Bond Standards shall be in addition to the applicable requirements under Sections 8 and 12 of the SRC; *unless* there is an available exemption under Sections 9 or 10 of the SRC, where the Issuer shall submit the requirements as prescribed by the Commission;

WHEREAS, to assist issuers of debt instruments to register and issue bonds that are compliant with the ASEAN Social Bond Standards, the Commission deems it necessary to issue the subject guidelines;

WHEREAS, the subject Guidelines should be read in conjunction with subsequent amendments/updates which the Securities and Exchange Commission (SEC or Commission) may issue from time to time.

NOW, THEREFORE, pursuant to the foregoing, the Commission hereby adopts and issues the following Guidelines to supplement the requirements under Section 8 and 12 of the SRC.

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GUIDELINES ON THE ISSUANCE OF SOCIAL BONDS UNDER THE ASEAN SOCIAL BOND STANDARDS IN THE PHILIPPINES

ARTICLE ONE: GENERAL PROVISIONS

CHAPTER ONE: Definitions

Section 1. Applicability – This shall be known as the "Guidelines on the Issuance of Social Bonds Under the ASEAN Social Bond Standards in the Philippines." It shall primarily govern the issuance of the 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.

Section 2. Definition of Terms – For purposes of these Guidelines, the following definition of terms shall apply, unless the context otherwise requires:

A. *ACMF* refers to the ASEAN Capital Markets Forum.

B. *ASEAN* refers to the Association of Southeast Asian Nations.

C. *ASEAN GBS* refers to the ASEAN Green Bond Standards as applicable and as revised from time to time.

D. *ASEAN Issuer* refers to an Issuer that is incorporated in any of the ASEAN countries.

E. *ASEAN SBS* refers to the ASEAN Social Bond Standards as applicable and as revised from time to time.

F. *ASEAN Social Bonds* refers to bonds and *sukuk* which comply with the ASEAN SBS, where the proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible Social Projects. In the case of Islamic bonds or *sukuk*, it must also comply with the relevant laws and requirements applicable for the issuance of Islamic bonds or *sukuk*. In such instances, the Islamic bonds or *sukuk* may be labelled as ASEAN Social *Sukuk*.

G. *Issuer* refers to a corporation that issues ASEAN Social Bonds and includes both an ASEAN Issuer and a Non-ASEAN Issuer.

H. *Look-back period* refers to a maximum period in the past that an Issuer will look back to identify assets/earlier disbursements to such eligible Social Projects that will be included in the social bond reporting.

I. *Non-ASEAN Issuer* refers to an Issuer other than an ASEAN Issuer.

J. *Social Bond Principles (SBP)* refers to the voluntary process guidelines issued by the International Capital Market Association (ICMA), as revised from time to time, that recommend transparency and disclosure, and promote integrity in the development of the social bond market.

K. *Social Projects* refer to the broad categories of eligible Social Projects as listed in the ASEAN SBS. The list of eligible Social Projects is not an exhaustive list.

CHAPTER TWO: Scope of ASEAN Social Bond Standards

Section 3. Coverage of ASEAN Social Bond Standards – The Guidelines on the Issuance of Social Bonds Under the SBS shall apply to the issuance of ASEAN Social Bonds in the Philippines.

Section 4. Suppletory Application of ICMA Social Bond Principles – The ASEAN Social Bond Standards are aligned with the ICMA Social Bond Principles. Any guidance issued by ICMA on the SBP should also be considered, where relevant.

Section 5. Classification of Bonds with Environmental Co-Benefits – It is understood that certain Social Projects may also have environmental co-benefits, and that the classification of a use of proceeds bond as an ASEAN Social Bond should be determined by the Issuer based on its primary objectives for the underlying projects. Bonds that combine Green and Social Projects based on the ASEAN GBS and ASEAN SBS are referred to as ASEAN Sustainability Bonds, and specific guidance for these is provided separately in the ASEAN Sustainability Bond Standards.

ARTICLE TWO: ELIGIBILITY REQUIREMENTS

CHAPTER ONE: Eligibility of Issuer

Section 6. Requirements for Eligible ASEAN Social Bond Issuer – The Issuer:

A. ***Must*** be an ASEAN Issuer, as defined under these Guidelines; or

B. In case of a Non-ASEAN Issuer, the eligible Social Projects ***must*** be located in any of the ASEAN countries.

CHAPTER TWO: Eligibility of Issuance

Section 7. Requirements for Eligible ASEAN Social Bond Issuance – ASEAN Social Bonds issuances ***must*** be originated from any of the ASEAN member countries.

ARTICLE THREE: CORE COMPONENTS OF THE ASEAN SOCIAL BOND STANDARDS

CHAPTER ONE: Use of Proceeds

Section 8. Requirements for Eligible Social Projects – All designated Social Projects ***must*** provide clear social benefits, which will be assessed and, where feasible, quantified by the Issuer.

Section 9. Eligible Social Project Categories – Social Projects directly aim to help address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially, but not exclusively, for a target population(s). The following list of project categories, while indicative, captures the most commonly used types of projects supported or expected to be supported by the social bond market. Social Project categories include other related and supporting expenditures such as research and development in relation to these Social Project categories, and may relate to more than one category.

The categories, listed in no specific order, include, but are not limited to, providing and/or promoting:

A. Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, energy);

B. Access to essential services (e.g. health, education and vocational training, healthcare, telecommunication, financing and financial services);

C. Affordable housing (e.g. construction, renovation and maintenance, provision of housing loans, development and provision of rental housing);

D. Employment generation (e.g. SME financing, microfinance, skills development for employability and entrepreneurship);

E. Food security (e.g. sustainable farming and fishery, agricultural credit and insurance, crop innovation, infrastructure development for agriculture and aquaculture); and

F. Socioeconomic advancement and empowerment (e.g. targeted financing schemes such as loans to women-based business; social support services such as rehabilitation, counselling and integration programmes; development of community centres and facilities.

Section 10. Social Projects Covering Two or More Categories – Social Projects may relate to more than one category.

Section 11. Ineligible Social Projects – Projects which involve activities that pose a negative social impact related to alcohol, gambling, tabacco, and weaponry are excluded from the ASEAN SBS. Issuers are also encouraged to develop a list of additional ineligible projects for the issuance of their Social Bonds, if applicable.

Section 12. Target Populations of ASEAN Social Bonds – Examples of target populations of the ASEAN Social Bonds include, but are not limited to, those that are:

A. Living below the poverty line;

B. Excluded and/or marginalised populations and/or communities;

C. Vulnerable groups, including as a result of natural disasters;

D. Unemployed;

E. People with disabilities;

F. Migrants and/or displaced persons;

G. Undereducated; and

H. Underserved, owing to lack of quality access to essential goods and services.

It is noted that the definition of target population can vary across ASEAN and that, in some cases, such as target population(s) may also be served by addressing the general public.

Section 13. Disclosure of Use of Proceeds in Offering Documents – The utilization of proceeds from the ASEAN Social Bonds ***must*** be described in the documentation for issuance of the ASEAN Social Bonds. The Issuer ***must*** disclose the following information:

A. The categories of eligible Social Projects to which the ASEAN Social Bonds proceeds will be allocated; and/or

B. The information on specific Social Projects in the case where the Issuer has identified the specific Social Projects to which the ASEAN Social Bonds proceeds will be allocated.

Section 14. Disclosures in Case the Proceeds are Used for Refinancing – In the event that all or a proportion of the proceeds are or may be used for refinancing, it is recommended that Issuers—

A. provide an estimate of the share of financing and refinancing;

B. clarify which investments or project portfolios may be refinanced if appropriate; and

C. state the expected look-back period for refinanced Social Projects, to the extent relevant.

CHAPTER TWO: Process for Project Selection and Evaluation

Section 15. Framework for Project Evaluation and Selection Process – The Issuer ***must*** establish the process for project evaluation and selection prior to the issuance of the ASEAN Social Bonds. Issuers are encouraged to position this information within the context of the Issuers' overarching objectives, strategy, policy, and/or processes relating to environmental sustainability.

Section 16. Disclosure of Process for Project Evaluation and Selection Process in Offering Documents – The Issuer ***must*** disclose the process for project evaluation and selection process to investors in the documentation for the issuance of ASEAN Social Bonds.

Section 17. Other Disclosures to Investors – In connection with *the immediately preceding Section,* the Issuer of ASEAN Social Bonds ***must*** clearly communicate to investors—

A. the social objectives;

B. the process by which the Issuer determines how the projects fit within the eligible Social Project categories identified under *Section 9*; and

C. the related eligibility criteria, including, if applicable, exclusion criteria or any other process applied to identify and manage potentially material social and environmental risks associated with the Social Projects.

Issuers are also encouraged to disclose any social standards or certifications referenced in project selection.

Section 18. Disclosures on Project Evaluation and Use of Proceeds – The Issuer ***must*** make the following publicly available on a website designated by the Issuer at the time of the issuance and throughout the tenure of ASEAN Social Bonds—

A. the process for project evaluation;

B. the use of proceeds; and

C. External review report on the process (if any).

CHAPTER THREE: Management of Proceeds

Section 19. Treatment of Net Proceeds – The net proceeds of the ASEAN Social Bonds, or an amount equal to these net proceeds, ***must*** be credited into a sub-account, moved to a sub-portfolio, or otherwise tracked by the Issuer in an appropriate manner and attested to by a formal internal process linked to the Issuer's lending and investment operations for Social Projects.

Section 20. Non-Simultaneous Deployment of Net Proceeds – The total amount deployed from the net proceeds for the eligible Social Projects need not occur simultaneously.

Section 21. Periodic Adjustment of Net Proceeds Balance – As long as the ASEAN Social Bonds are outstanding, the balance of tracked net proceeds ***must*** be periodically adjusted to match allocations to eligible Social Projects made during the period.

Section 22. Disclosures of the Management of Proceeds in Offering Documents– The Issuer ***must*** disclose to investors in the documentation for the issuance of the ASEAN Social Bonds—

A. the process for managing the net proceeds from the ASEAN Social Bonds; and

B. the intended types of temporary placement for the balance of unallocated proceeds.

CHAPTER FOUR: Reporting Requirements

Section 23. Continuous Reporting on the Use of Proceeds – Issuers ***must*** report to investors at least on an annual and are encouraged to make more frequent reporting on the use of proceeds until full allocation, and on a timely basis in the case of material developments. The annual report should include—

A. a list of the projects to which the ASEAN Social Bonds proceeds have been allocated;

B. brief description of the projects; and

C. the amounts allocated and their expected impact.

It is recommended that Issuers use qualitative performance indicators, and where feasible, quantitative performance measures and disclose of the key underlying methodology and/or assumptions used in the quantitative determination.

Section 24. Documentation in Case of Confidential Agreements, Competitive Considerations, or Large Number of Underlying Projects – Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the Issuer may present the information in generic terms or on an aggregated portfolio basis.

Section 25. Quantitative Performance Measures – In relation to *Section 23* of these Guidelines, the following quantitative performance[1] measures may be employed by the Issuer:

A. number of beneficiaries;

B. reduction in unemployment;

C. increase in number of public transport users;

D. increase in literacy rate; and

E. increase in life expectancy.

Section 26. Form of Annual Reporting and External Review – The Issuer ***must*** provide to investors the annual reports and the external review on the annual reports, if any, through a website designated by the Issuer and/or through annual reports throughout the tenure of the ASEAN Social Bonds.

ARTICLE FOUR: EXTERNAL REVIEW

CHAPTER ONE: Engagement of External Review

Section 27. Voluntary Engagement of External Review – Issuers are recommended to appoint external review providers for their ASEAN Social Bonds issuances of programmes.

Section 28. Coverage of External Review — The external review may be ***Partial***, covering only certain aspects of the Issuer's ASEAN Social Bonds framework or ***Full***, assessing alignment with all four core components as stated in the ASEAN SBS.

In reference to the ASEAN SBS, the ASEAN SBS specifically recommends that—

A. the Issuer's process for project evaluation and selection be supported by an external review;

B. the Issuer's management of proceeds be supplemented by the use of an auditor, or other third party, to verify the internal tracking method and allocation of funds from the ASEAN Social Bonds proceeds; and

C. the Issuer's annual reporting on the use of proceeds be supplemented by a confirmation of such use of proceeds by an external review along with any relevant updated of the external review.

[1] Quantitative performance measures as provided by ICMA GBP

CHAPTER TWO: Qualifications of External Review Providers

Section 29. — Expertise and Experience Requirement – The external review provider ***must*** have the relevant expertise and experience in the components of the ASEAN Social Bonds which they are reviewing.

CHAPTER THREE: Coverage and Types of Review

Section 30. Level and Types of Review — There are a variety of ways for Issuers to obtain outside input into the formulation of their ASEAN Social Bonds process and there are several levels and types of review that can be conducted. An Issuer can seek advice from consultants and/or institutions with recognised expertise in social issues or other aspects of the issuance of the ASEAN Social Bonds. It may cover areas such as the establishment of an Issuer's ASEAN Social Bonds framework or the reporting of an ASEAN Social Bonds Issuer. Consultancy or advisory services entail collaboration with the Issuer and differ from independent external reviews. The ASEAN SBS encourage independent review of social features of the (types of) assets or activities associated with the ASEAN Social Bonds or ASEAN Social Bonds programme, where applicable.

Independent external reviews may vary in scope and may address an ASEAN Social Bonds framework/programme, an individual ASEAN Social Bonds issuance, the underlying assets and/or procedures. They are broadly grouped into the following types, with some providers offering more than one type of service, either separately or combined:

A. Second-Party Opinion;

B. Verification;

C. Certification; and

D. Social Bond Scoring/Rating

Section 31. Second Party Opinion — An institution with social expertise that is independent from the Issuer may issue a Second Party Opinion. The institution should be independent from the Issuer's adviser for its ASEAN Social Bonds framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the ASEAN SBS. In particular, it can include an assessment of the Issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the use of proceeds.

Section 32. Verification — An Issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the Issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an Issuer's internal tracking method for use of proceeds, allocation of funds from ASEAN Social Bonds proceeds, statement of social impact or alignment of reporting with the ASEAN SBS, may also be termed verification.

Section 33. Certification — An Issuer can have its ASEAN Social Bonds or associated ASEAN Social Bonds framework or use of proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.

Section 34. Social Bond Scoring/Rating — An Issuer can have its ASEAN Social Bonds, associated ASEAN Social Bonds framework, or a key feature such as use of proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, the process relative to the ASEAN SBS, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

CHAPTER FOUR: External Review Report

Section 35. — Disclosure of External Reviewers' Expertise and Scope - The external reviewers' credentials under *Section 29* and scope of review conducted in the external report ***must*** be disclosed in the external review report and made publicly accessible from a website designated by the Issuer throughout the tenure of the ASEAN Social Bonds.

Section 36. Accessibility Requirement — The Issuer ***must*** make the External Review Report publicly available on a website designated by the Issuer at the time of issuance and throughout the tenure of the ASEAN Social Bonds, which includes, but is not limited to:

A. The external review report on the process of project evaluation and selection;

B. The auditor or other third party report verifying the Issuer's management of proceeds; and

C. The external review on the annual reporting.

ARTICLE FIVE: APPLICABILITY ON EXISTING SOCIAL BONDS

Section 37. Applicability on Existing Eligible Social Bonds — In certain circumstances, and at the discretion of the Commission, outstanding bonds issued by Philippine-Based issuer and/or in instances where the proceeds were used in the Philippines, will be considered for eligibility under the ASEAN Social Bond Standards, *Provided* the issuance is compliant with the requirements of *these Guidelines*, and has received certification from an internationally-recognised certifying body.

ARTICLE SIX: LIMITATIONS ON ASEAN SOCIAL BOND LABEL

Section 38. Limitation on the Use of ASEAN Social Bond Label — Consistent with public interest and protection of investors, the call for transparency, as well as to ensure integrity of the ASEAN

Social Bonds, the Commission reserves the right to direct any Issuer from using the "ASEAN Social Bond" label.

ARTICLE SEVEN: EFFECTIVITY

Section 39. Effectivity – These Guidelines shall take effect immediately upon its publication in two (2) newspapers of general circulation.

25 April 2019, Pasay City Philippines.

EMILIO B. AQUINO
Chairperson