ASEAN+3 BOND MARKET GUIDE 2017

PHILIPPINES

ASIAN DEVELOPMENT BANK

ADB

YEARS

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JAPAN
Official Development Assistance

YEARS

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In this report, international standards for naming conventions—International Organization for Standardization (ISO) 3166 for country codes and ISO 4217 for currency codes—are used to reflect the discussions of the ASEAN+3 Bond Market Forum to promote and support implementation of international standards in financial transactions in the region. ASEAN+3 comprises the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China, Japan, and the Republic of Korea.
The economies of ASEAN+3 as defined in ISO 3166 include Brunei Darussalam (BN; BRN); Cambodia (KH; KHM); the People's Republic of China (CH; CHN); Hong Kong, China (HK; HKG); Indonesia (ID; IDN); Japan (JP; JPN); the Republic of Korea (KR; KOR); the Lao People's Democratic Republic (LA; LAO); Malaysia (MY; MYS); Myanmar (MM; MMR); the Philippines (PH; PHL); Singapore (SG; SGP); Thailand (TH; THA); and Viet Nam (VN; VNM).
The currencies of ASEAN+3 as defined in ISO 4217 include the Brunei dollar (BND), Cambodian riel (KHR), Chinese renminbi (CNY), Hong Kong dollar (HKD), Indonesian rupiah (IDR), Japanese yen (JPY), Korean won (KRW), Lao kip (LAK), Malaysian ringgit (MYR), Myanmar kyat (MMK), Philippine peso (PHP), Singapore dollar (SGD), Thai baht (THB), and Vietnamese dong (VND).

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Foreword

The Asian Development Bank (ADB) is working closely with the Association of Southeast Asian Nations (ASEAN) and the People's Republic of China, Japan, and the Republic of Korea—collectively known as ASEAN+3—to develop local currency bond markets and facilitate regional bond market integration under the Asian Bond Markets Initiative to strengthen the resilience of the region's financial systems.

Thanks to the efforts of member governments, local currency bond markets in ASEAN, the People's Republic of China, and the Republic of Korea have grown rapidly, with the total outstanding amount of bonds reaching more than USD10 trillion in 2016. Despite this remarkable development, intraregional investment in bond markets has remained subdued. As ADB has estimated that developing Asia will need to invest USD26 trillion from 2016 to 2030 (or USD1.7 trillion per year) in infrastructure for its continued growth, it is critical to mobilize the region's vast savings for the enormous investment needs. As an essential platform for such resource mobilization, the financial markets in ASEAN+3 need to be more harmonized and integrated. Also, the regional efforts should support the developing member countries at early stages of market development.

The ASEAN+3 Bond Market Forum (ABMF) was established with the endorsement of the ASEAN+3 Finance Ministers in 2010 as a common platform to foster the standardization of market practices and harmonization of regulations relating to cross-border bond transactions in the region. As an initial step, ABMF published the ASEAN+3 Bond Market Guide in 2012, which was welcomed as the first official information source offering a comprehensive explanation of the region's bond markets.

Since publication of the ASEAN+3 Bond Market Guide, bond markets in the region have continued to develop. ABMF recognizes the need for revisions to the guide to reflect these changes, though it is never an easy task to keep up with rapid changes in the markets. This report is an outcome of the strong support and kind contributions of ABMF members and experts, particularly from the Philippines. The report should be recognized as a collective good to support bond market development among ASEAN+3 members. It is our hope that the revised ASEAN+3 Bond Market Guide will facilitate further development of the region's bond markets, contribute to increased intraregional bond transactions, and promote efficient allocation of capital within the region.

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Acknowledgments

The Philippines Bond Market Guide was first published in 2012 as the initial output of Phase 1 of the ASEAN+3 Bond Market Forum (ABMF).[1] Across the region, domestic bond markets, including the Philippine bond market, have experienced tremendous development over the past 5 years. Now in Phase 3, ABMF would like to share, in the public domain, information on these developments by publishing an update to the Philippines Bond Market Guide.

The ABMF Sub-Forum 1 team—comprising Satoru Yamadera (Principal Financial Sector Specialist, Asian Development Bank, Economic Research and Regional Cooperation Department); Kosintr Puongsophol (Financial Sector Specialist, Asian Development Bank, Economic Research and Regional Cooperation Department); and Asian Development Bank consultants Shigehito Inukai and Matthias Schmidt—would like to stress the significance and magnitude of the contributions made by ABMF national members and experts for the Philippines, including the Bankers Association of the Philippines, Bangko Sentral ng Pilipinas, Bureau of the Treasury, Philippine Dealing & Exchange Corporation, and Securities and Exchange Commission of the Philippines. These policy bodies, regulatory authorities, and market institutions generously gave their time for market visit meetings, discussions, and follow-up. They have also reviewed and provided inputs on the draft Philippines Bond Market Guide over the course of ABMF Phase 3.

The Philippines Bond Market Guide would not be complete without the excellent input from colleagues at DTCC (Philippines) who on numerous occasions patiently detailed and clarified features of the Philippine market.

The ABMF team also would like to express its thanks to the ABMF international experts who contributed significantly to the research and discussions on Philippine bond market developments and to the implementation of the ASEAN+3 Multi-Currency Bond Issuance Framework in the Philippine bond market. In addition, the ABMF team acknowledges the inputs from Philippine bond market participants that are not ABMF members—including Smetrix Fixed Income Partners and law firm SyCip Salazar Hernandez & Gatmaitan—who contributed their time and expertise in support of market visits and specific topics of discussion.

No part of this report represents the official views or opinions of any institution that participated in this activity as an ABMF member, observer, or expert. The ABMF Sub-Forum 1 team bears sole responsibility for the contents of this report.

August 2017

ASEAN+3 Bond Market Forum

[1] ASEAN+3 refers to the 10 members of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China, Japan, and the Republic of Korea.

Abbreviations

AAB	authorized agent banks
ABMF	ASEAN+3 Bond Market Forum
ADAPS	Automated Debt Auction Processing System
ADB	Asian Development Bank
ALBI	Asian Local Bond Index
AMBIF	ASEAN+3 Multi-Currency Bond Issuance Framework
ASEAN	Association of Southeast Asian Nations
ASEAN+3	Association of Southeast Asian Nations plus the People's Republic of China, Japan, and the Republic of Korea
BIR	Bureau of Internal Revenue
BSFI	BSP-supervised financial institution
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of the Treasury
CD	certificate of deposit
CNH	offshore Chinese renminbi
CP	commercial paper
CRA	credit rating agency
CSD	central securities depository
DST	documentary stamp tax
DTA	double taxation agreement
FX	foreign exchange
FRIA	Financial Rehabilitation and Insolvency Act, 2010
FRN	floating rate note
GMRA	Global Master Repurchase Agreement
GOCCs	government-owned or -controlled corporations
GSED	Government Securities Eligible Dealer
IDB	inter-dealer broker
IFRS	International Financial Reporting Standards
IOD	International Operations Department
IRC	interest rate corridor
IRR	Implementing Rules and Regulations
LCY	local currency
LGU	local government unit
MORB	Manual of Regulations for Banks
NBFI	non-bank financial institution
OTC	over-the-counter
PD	primary dealer
PDEx	Philippine Dealing & Exchange Corporation
PDF	portable document format
PERA	Personal Equity Retirement Act
PHP	Philippine peso
RoSS	Registry of Scripless Securities
RRP	reverse repurchase
RTB	Retail Treasury Bonds
SF1	Sub-Forum 1 of ABMF
SRC	Securities Regulation Code
SRO	self-regulatory organization
SSF	Single Submission Form
S&P	Standard and Poor's
TEI	Tax-Exempt Institution
USD	United States dollar

USD1 = PHP51.166 as of 31 August 2017 (BSP published rate)

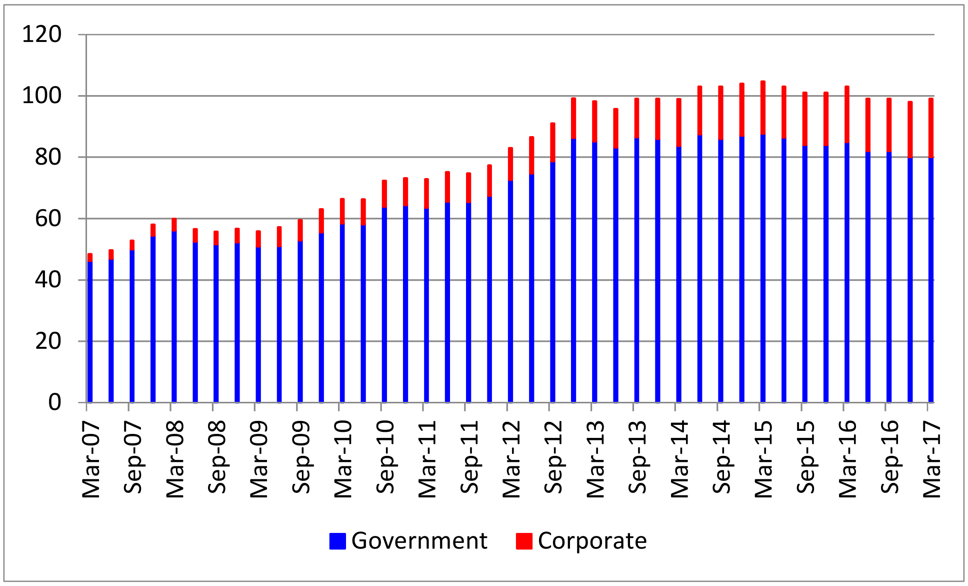
Overview

A. Introduction

The Philippine domestic bond market consists of short- and long-term bonds, mainly issued by the Government of the Philippines. The Philippine bond market is dominated by Treasury Bills and Treasury Bonds. Although the size of the Philippine corporate bond market is still small relative to government bonds, it has been growing rapidly over the years.

On 3 June 2016, the Bangko Sentral ng Pilipinas (BSP) formally adopted an interest rate corridor (IRC) system as a framework for conducting its monetary operations. The IRC is a system for guiding short-term market rates toward the BSP policy interest rate, which is the overnight reverse repurchase (RRP) rate. It consists of a rate at which the central bank lends to banks (typically an overnight lending rate) and a rate at which it takes deposits from them (deposit rate).

Figure 1.1: Local Currency Bonds Outstanding in the Philippines
(USD billion)



Note: Data as of 31 March 2017 and include bonds issued by nonresidents.
Source: *AsianBondsOnline*. Philippines Bond Market.
https://asianbondsonline.adb.org/philippines/data/bondmarket.php?code=LCY_Bond_Market_USD

The BSP, like other central banks, offers term deposits as one of its monetary tools to absorb liquidity. With the adoption of the IRC system in 2016, the term deposit facility serves as the liquidity absorption facility used by the BSP for liquidity management. The term deposit facility replaces the Special Deposit Accounts facility, which was used by the BSP from November 1998 until June 2016.

This regulatory environment is also conducive to the implementation of the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) developed by the ASEAN+3 Bond Market Forum (ABMF) under the guidance of the Asian Development Bank (ADB). The key features of the Philippine market are further enhanced by the acceptance of (i) governing law other than the laws of the Philippines for professional issuances, and (ii) documentation and disclosure standards that are closer to those found in international markets. Further details on AMBIF can be found in Chapters IX and X.

B. Regional Cooperation

The Philippines is committed to regional discussions that would allow the domestic bond market to expand its reach. In this regard, it contributes to the dialogue opened by ABMF and hopes for sustained cooperation on the notion that domestic issuers of debt securities can access foreign investors and that the trading community can extend their activities in organized markets offshore. A central premise of this endeavor is the ability to go beyond local borders while preserving the domesticity of Philippines-issued debt securities. In this regard, support is given to initiatives that focus on:

a. Regulatory Harmonization

Any endeavor to cooperate on a regional level must institute measures to ensure that appropriate regulation is in place to safeguard the activity. Hence, the thrust to look outward and join the regional discussion may result in focusing on harmonizing regulatory frameworks to the extent possible. This assures a level playing field among countries that desire a cooperative relationship and predictability in the way a regional market will operate, which is essential to building a stable and sustainable market.

b. Tax Treaty Implementation

While tax treaty implementation has been underway to enforce treaty obligations between bound states, the authorities are seeking to streamline the process to be responsive to the needs of a fast-paced and dynamic marketplace without compromising the taxing authority's verification requirements for the application of preferential treaty rates.

c. Institutionalization of Market Access

As markets unite and link with each other, the notion of organization and order remains at the forefront of the vision for regional cooperation. The organized markets within the region are envisioned to create the links that would give life to a regional trading venue that proceeds on the basis of order and cooperative processes for trading, clearing, and settlement.

The Philippines is also party to free trade agreements involving financial services liberalization, which includes ongoing negotiations on the Regional Comprehensive Economic Partnership Agreement comprising the members of ASEAN and Australia, the People's Republic of China, India, Japan, the Republic of Korea, and New Zealand; the ASEAN–Hong Kong, China Free Trade Agreement; the ASEAN–People's

Republic of China Free Trade Agreement; the ASEAN–Japan Comprehensive Economic Partnership Agreement; and the ASEAN Framework Agreement on Services.

For more information on recent initiatives and developments with relevance for the Philippine bond market, kindly also refer to Chapters IX and X.

II

Legal and Regulatory Framework

A. Legal Tradition

The legal system in the Philippines originates from civil law principles, such as the codification of law, established under Spanish rule. This has over time been augmented by common law principles influenced largely by United States law, including the practice to establish precedent rulings by the courts.

B. English Translation

The Government of the Philippines, its policy bodies, and its regulatory authorities officially publish laws (acts and codes), regulations, and notices in English. As such, an English translation does not apply.

C. Legislative Structure

The Philippines feature a multi-tiered legislative structure to govern the financial and capital markets, guided by the Constitution of the Philippines, also known as the 1987 Constitution, as the supreme law:

[1st tier] The Constitution of the Philippines, 1987
- [2nd tier] Republic Acts and Presidential Decrees (key legislation for the securities market)
  - [3rd tier] Regulations (rules and manuals, issued by regulators)
    - [4th tier] Memorandum circulars and guidelines (issued by regulators)
      - [5th tier] Self-Regulatory Rules

For easy reference, Table 2.1 illustrates the legislative structure described above by giving significant examples of relevant securities market legislation and regulation for each of the individual tiers.

Key legislation is the summary term for those laws specifically aimed at a particular market, such as the securities market or capital market. These laws establish and govern securities markets or market segments, including the bond market, its institutions, and its participants. These laws are enacted by the Congress of the Philippines, signed by the President, and take effect upon publication in the Official Gazette, which is the official journal of the Government of the Philippines, and/or in two newspapers of general circulation. The Securities Regulation Code, 2000 (SRC), also known officially as Republic Act No. 8799, represents the cornerstone of the key legislation for the Philippine capital market.

Table 2.1: Examples of Securities Market Legislation by Legislative Tier

Legislative Tier	Content or Significant Examples
Constitution of the Philippines	Principles, Rights, and Obligations
Republic Acts and Presidential Decrees (key legislation)	• Securities Regulation Code, 2000 (Republic Act No. 8799) • Investment Houses Law, 1973 (Presidential Decree 129) • New Central Bank Act, 1993 (Republic Act No. 7653) • General Bank Law, 2000 (Republic Act No. 8791)
Regulations (including rules and manuals)	• Rules Governing the Trading of Securities Over-the-Counter, 2006 • Implementation Rules and Regulations of the Securities Regulation Code, 2015 • BSP Manual of Regulations for Banks • BSP Manual of Regulations for Non-Bank Financial Institutions • BSP Manual of Regulations on Foreign Exchange Transactions, as amended
Memorandum circulars and memoranda, including guidelines	• BSP Guidelines on the Electronic Submission of the Securities Brokering Transaction Report, 2015
Self-Regulatory Organization Rules	• PDEx Fixed Income Securities Market Rules, as amended • Rules of the Philippine Depository & Trust Corporation • PDEx Trading and Settlement Guidelines for Holders Subject to 25% or 30% Final Withholding Tax for Listed Corporate Securities, 2016

BSP = Bangko Sentral ng Pilipinas, PDEx = Philippine Dealing & Exchange Corporation.
Source: Compiled by ADB consultants for SF1 and based on publicly available information.

Regulations are issued by the authorities charged with the overall supervision and governance of the securities and capital markets, including the Securities and Exchange Commission of the Philippines (SEC) and the Bangko Sentral ng Pilipinas (BSP). For key legislation, the SEC issues Implementing Rules and Regulations (IRR) to help industry participants comply with the relevant laws.

The BSP, on its part, is set to implement a package of initiatives that will boost the trading of local bonds and make it more attractive to raise capital from the local debt market. These include enabling local banks to monetize their idle inventory of securities and engage in legal short selling as part of the new scheme on repurchase (repo) agreements (please see Chapter IV.G for details on repo business). Additionally, the BSP is finalizing guidelines for the overnight index swap system, which will result in more accurate and transparent interest rates for both borrowers and lenders.

The BSP also issues memorandum circulars to govern deposit-taking institutions and their activities, and manuals that govern the major activities related to banking and foreign exchange (FX) transactions. Other official BSP issuances include circular letters on nonregulatory matters addressed to particular entities or categories of institutions, as well as memoranda, which contain guidelines and procedural requirements, clarifications, explanations, and interpretations of the provisions of laws and of BSP circulars. The SEC issues memorandum circulars with guidelines for market participants and to exercise its function as the corporate regulator.

In the case of the Philippine bond market, self-regulatory organization (SRO) rules refer to the issuance of rules by the Philippine Dealing & Exchange Corporation (PDEx), as the SRO for and market operator of the organized secondary fixed income market. These are rules applicable to its members or to entities that make use of its platform or facilities.

D. Philippine Bond Market Regulatory Structure

The capital market in the Philippines, and in particular the bond market, is governed by the regulations, rules, and guidelines issued, maintained, and enforced by the SEC, BSP, and PDEx. While there is no separate SRO governing all participants of the bond market in the Philippines, the SEC expects more institutions to apply for and become SROs moving forward.

1. Securities and Exchange Commission of the Philippines

The SEC is the principal regulatory body of the primary and secondary debt markets, as well as of the different participants in the Philippine bond market, including the Philippine Dealing Systems Holdings Corporation (PDS Group) as a registered market operator, plus brokers, underwriters, registrars, transfer agents, and accounting firms.

Under Section 5 of the SRC, the SEC shall have, among others, the following powers and functions:

(a) have jurisdiction and supervision over all corporations, partnerships or associations who are the grantees of primary franchises and/or a license or permit issued by the Government of the Philippines;

(b) formulate policies and recommendations on issues concerning the securities market, advise Congress and other government agencies on all aspects of the securities market and propose legislation and amendments thereto;

(c) approve, reject, suspend, revoke, or require amendments to registration statements, and registration and licensing applications;

(d) regulate, investigate, or supervise the activities of persons to ensure compliance;

(e) supervise, monitor, suspend, or take over the activities of exchanges, clearing agencies, and other SROs;

(f) impose sanctions for the violation of laws and the rules, regulations, and orders issued pursuant thereto;

(g) prepare, approve, amend, or repeal rules, regulations, and orders, and issue opinions and provide guidance on and supervise compliance with such rules, regulations, and orders;

(h) enlist the aid and support of and/or deputize any and all enforcement agencies of the Government of the Philippines, civil or military, as well as any private institution, corporation, firm, association, or person in the implementation of its powers and functions under this code;

(i) issue cease and desist orders to prevent fraud or injury to the investing public;

(j) punish for contempt of the [SEC], both direct and indirect, in accordance with the pertinent provisions of and penalties prescribed by the Rules of Court;

(k) compel the officers of any registered corporation or association to call meetings of stockholders or members thereof under its supervision;

(l) issue subpoena duces tecum and summon witnesses to appear in any proceedings of the [SEC], and in appropriate cases, order the examination, search, and seizure of all documents, papers, files, and records, tax returns, and books of accounts of any entity or person under investigation as may be necessary for the proper disposition of the cases before it, subject to the provisions of existing laws;

(m) suspend or revoke, after proper notice and hearing, the franchise or certificate of registration of corporations, partnerships, or associations, upon any of the grounds provided by law; and

(n) exercise such other powers as may be provided by law as well as those which may be implied from, or which are necessary or incidental to the carrying out of, the express powers granted the [SEC] to achieve the objectives and purposes of these laws.

The Markets and Securities Regulation Department plays a key role for the supervision and licensing of the activities in the Philippine bond market. Its roles and functions are described on the SEC website as follows:[2]

(a) register securities and grant exemption from registration such as but not limited to equity securities, bonds, commercial paper issued by the issuer of registered equities and bonds, real estate investment trusts, and other alternative investment products, and supervise and monitor the compliance by the issuers of such securities with legal and regulatory requirements;

(b) register and supervise securities markets and market institutions such as exchanges, alternative trading systems, over-the-counter (OTC) markets and other trading markets, SROs, clearing agencies, securities lending agencies, depositories, custodians, central trade reporting systems, registrars of qualified buyers, and other securities-related organizations for their compliance with legal and regulatory requirements;

(c) supervise intermediaries and market professionals such as brokers, dealers, government securities eligible dealers, government securities brokers, associated persons and salespersons of brokers dealers, transfer agents, investment houses, investment company advisers, mutual fund distributors, compliance officers and certified investment solicitors of investment company advisers or mutual fund distributors, and other securities market participants for their compliance with legal and regulatory requirements;

[2] See http://www.sec.gov.ph/about/departments-and-offices/

(d) review proposed rules of SROs and other market participants and proposed products and services in the market to ensure their consistency with securities laws, regulations, policies, and global best practices;

(e) review existing regulatory frameworks of the securities industry, conduct market-related research, and recommend rules and/or reforms;

(f) establish linkages with national and international organizations (e.g., ASEAN and Asia–Pacific Economic Cooperation) and regulatory agencies with regard to the securities market, including cross-border products, services, and arrangements;

(g) act as National Numbering Agency for all securities issued in the Philippines; and

(h) issue show cause orders and assess and impose penalties for noncompliance with rules and regulations implemented by the department.

To fulfill these functions, the department consists of three divisions: (i) Securities Registration Division, (ii) Markets and Intermediaries Division, and (iii) Investment Products and Services Division.

The SEC registers or licenses Capital Market Institutions, including brokers, dealers, investment houses, underwriters, and transfer agents (see also section I in this chapter).

2. Bangko Sentral ng Pilipinas

The BSP is the central bank of the Philippines. It was established on 3 July 1993 pursuant to the provisions of the 1987 Constitution and the New Central Bank Act, 1993. The BSP took over from the Central Bank of the Philippines, which was established on 3 January 1949, as the country's central monetary authority. The BSP enjoys fiscal and administrative autonomy from the Government of the Philippines in the pursuit of its mandated responsibilities. The BSP functions as the banker, financial advisor, and official depository of the Government of the Philippines, including its political subdivisions and instrumentalities, and government-owned or -controlled corporations (GOCCs).

As mandated in its charter, the BSP itself does not issue debt instruments, other than in specific cases defined in the New Central Bank Act, 1993.

The BSP supervises banks and exercises regulatory powers over non-bank financial institutions (NBFIs) that perform quasi-banking functions. It also supervises the registration of foreign investments in the country and monitors the inflow and outflow of capital. In the context of the bond market, the BSP may apply its rules on the issuance of bonds or notes depending on whether the issuer is a resident or nonresident, and whether the bonds or notes are denominated in Philippine pesos or a foreign currency. In addition, if the issuer is a financial institution, other prudential considerations may apply. Some of the applicable rules are further illustrated in the relevant chapters of the Philippines Bond Market Guide.

3. Department of Finance—Bureau of the Treasury

The Department of Finance regulates the primary issuance of government securities in the market while the department's Bureau of the Treasury (BTr) monitors daily activities in the government securities market.

The BTr is authorized to carry out the following functions under Executive Order No. 449:

- assist in the formulation of policies on borrowing, investment, and capital market development;
- formulate adequate operations guidelines for fiscal and financial policies;
- assist in the preparation by the government agencies concerned of an annual program for revenue and expenditure targets, borrowing levels, and cash balances of the Government of the Philippines;
- maintain books of accounts of cash transactions;
- manage the cash resources, collect taxes made by the Government of the Philippines, and guarantee forward cover fees due to the Government of the Philippines;
- control and service its public debt, both foreign or domestic;
- issue, service, and redeem government securities for the account of the Government of the Philippines as may be authorized by the President pursuant to law;
- administer the Securities Stabilization Fund by purchase and sale in the open market of government bills and bonds to increase liquidity and stabilize the value of said securities in order to promote private investment in government securities;
- act as principal custodian of financial assets of the Government of the Philippines, its agencies, and instrumentalities;
- bond all accountable public officials and employees pursuant to the provisions of the Public Bonding Law, and issue appropriate guidelines therefore; and
- perform such other related functions as may be assigned to it by competent authorities.

The above responsibilities are in addition to other assigned functions under separate laws, executive orders, and presidential degrees.

In the context of the Philippine bond market, the BTr manages the auction and issuance process of government securities and accredits the Government Securities Eligible Dealers (GSEDs) who can participate in these auctions. The BTr also operates the Registry of Scripless Securities (RoSS) as the sole registry for debt instruments issued onshore by the Government of the Philippines.

4. Philippine Dealing Systems Holdings Corporation and its Subsidiaries

The PDS Group manages an electronic platform for trading, clearing, settlement, depository, registry, and custody of fixed income securities and derivatives. The PDS Group has three operating subsidiaries that comprise the market infrastructure for the bond market in the Philippines:

(i) PDEx—an entity that operates the electronic trading platforms for securities, providing price discovery and transparency services, conducting self-regulatory functions, and linking to the settlement systems. As the market operator in the fixed income market, it has the capability to manage its liquidity programs for the market—the Securities Lending Transactions Program (PDS SLTP) and the Inter-Professional Repurchase Agreement Market Program (PDS Repo).

(ii) Philippine Depository & Trust Corporation (PDTC)—an entity that provides central securities depository services for both the equities and fixed income markets, and registry services for the fixed income market. It is likewise engaged in PDEx liquidity programs as Collateral Manager.

(iii) Philippine Securities Settlement Corporation (PSSC)—the company that provides electronic settlement facilities with straight-through-processing and delivery-versus-payment capabilities.

Among the PDS Group entities, PDEx is an SRO that makes and enforces its own rules for its Fixed Income Securities Market (see also section H in this chapter).

E. Regulatory Framework for Debt Securities

In the Philippines, the regulatory framework for the bond market is based on the need to register debt instruments—save for government securities issued by the Government of the Philippines through the BTr—with the SEC prior to their issuance, while making use of possible exemptions such as offers of debt instruments intended only to professional investors, referred to as Qualified Buyers under the SRC (please see Chapter III.M for details on the Qualified Buyers concept). The emphasis in the SRC is on provisions related to investor protection for offers to the public, while allowing avenues for issuance to professional investors who can make their own informed decisions, also pursuant to their licensing for specific capital market activities. The SEC approves applications for registration or accepts the filing of so-called Notices of Exempt Transaction to satisfy these regulatory requirements. In addition, the SEC registers bond market participants, from brokers and dealers to investment houses and transfer agents, to carry out their respective activities.

In turn, PDEx admits these market participants to the organized market for debt securities. In addition, PDEx lists or enrolls issuers of such securities who are bound by initial and continuous disclosure requirements. PDEx makes and enforces its rules, which include rules for listing, related disclosure, and trading, for both debt securities offered to the public and those offered only to Qualified Buyers.

The BSP will apply its rules and regulations on the issuance of bonds or notes in the domestic market depending on (i) residency, as defined under the Manual of Regulations on Foreign Exchange Transactions (FX Manual), and type of issuer; and (ii) currency denomination of the bonds or notes. Nonresident issuers may issue bonds, notes, or similar instruments in the Philippine market subject to prior approval by the BSP.[3] The BSP evaluates the transaction on a case-by-case basis, taking into consideration all information provided on such transactions, including justifications stated by the applicant and/or benefits to be derived from the transaction. Issuance by banks of bonds as capital instruments is subject to relevant rules and regulations and requires prior BSP approval.[4] Quasi-banks desiring to issue bonds or long-term commercial paper shall apply for registration with the SEC and notify the BSP within 3 days of the approval by the SEC of the bond issue.[5]

The SEC updated the IRR for the SRC in 2015 (2015 SRC Rules) to reflect recent market and regulatory developments. Key among the changes were the practical ability for issuers to take advantage of the enhanced shelf-registration process and other measures that implement global and regional best practices in the bond market (for details, see Chapter X).

The processes that are particularly relevant for registration with the SEC, or the exemption of debt securities from such registration requirements, and the necessary applications to and approvals from the BSP and PDEx, are explained in greater detail in the following section.

[3] Section 31.3 of the FX Manual.
[4] Section X119 of the Manual of Regulations for Banks.
[5] Section 4239Q of the Manual of Regulations for Non-Bank Financial Institutions.

F. Debt Securities Issuance Regulatory Processes

To issue bonds and notes in the Philippines, a number of regulatory processes must be observed, depending on the type of offering and other considerations.

An issuer will have to register debt securities to be offered to the public with the SEC for approval. To issue bonds and notes to professional investors in the Philippines under an Exempt Transaction, a Notice of Exempt Transaction may be filed with the SEC, regardless of the type of issuer. No approvals need to be obtained for such issuances, but the SEC reserves the right to request a confirmation of the eligibility of an Exempt Transaction at any time.

As for the purview of the BSP, the rules applied to the issuance of bonds or notes may vary depending on whether the issuer is a resident or nonresident, and whether the bonds or notes are denominated in Philippine pesos or a foreign currency. In addition, if the issuer is a financial institution, other prudential considerations may apply. Under Section 1 of the BSP FX Manual, a resident shall refer to

(i) an individual citizen of the Philippines residing therein;
(ii) an individual who is not a citizen of the Philippines but is permanently residing therein;
(iii) a corporation or other juridical person organized under the laws of the Philippines; or
(iv) a branch, subsidiary, affiliate, extension office, or any other unit of corporations or juridical persons organized under the laws of any country and operating in the Philippines, except Offshore Banking Units.

The term nonresident shall refer to an individual, a corporation, or other juridical person not included in the definition of a resident.

In addition, the listing or enrollment of issued bonds and notes on PDEx enables visibility and/or trading, and continuous disclosure and pricing.

1. Regulatory Processes by Issuer Type

Table 2.2 provides an overview of these regulatory processes by issuer type and identifies which regulatory authority or market institution will be involved. In order to make the issuance processes by issuer type more comparable across ASEAN+3 markets, the table features common issuer type distinctions that are evident in regional markets. Not all markets will distinguish all such issuer types or prescribe approvals. Sovereign issuers are typically exempt from corporate issuance approvals but, at the same time, may be subject to different regulatory processes.

Table 2.2: Authorities Involved in Regulatory Processes by Issuer Type

Type of Issuer	SEC (public offers only)	SEC	BSP	PDEx
Resident issuer				
Resident nonfinancial institution	X	O		
Resident financial institution[a, b]			X	X[c]
Resident issuing FCY-denominated bonds and notes	X	O	X	
Nonresident issuer				
Nonresident nonfinancial institution	X	O	X	
Nonresident financial institution			X	X[d]
Nonresident issuing FCY-denominated bonds and notes	X	O	X	

BSP = Bangko Sentral ng Pilipinas, FCY = foreign currency, PDEx = Philippine Dealing & Exchange Corporation, SEC = Securities and Exchange Commission.
Notes: O indicates the requirement in principle to file a Notice of Exempt Transaction or Single Submission Form; X indicates approval required.
[a] Financial institutions may issue bonds and notes, subject to regulations governing the borrowing of banks under the provisions of the Manual of Regulations for Banks.
[b] Resident financial institutions in the Philippines include branches of nonresident financial institutions that fall under the supervision of the BSP.
[c] PDEx requires that all necessary approvals from the BSP and SEC are to be obtained prior to a listing or enrollment of bonds or notes.
[d] All matters related to nonresidents should abide by the BSP- and SEC-prescribed framework for nonresidents prior to PDEx approval.
Source: ADB consultants for SF1.

Issuance of securities, whether by a financial or nonfinancial institution, is within the jurisdiction of the SEC. The IRR of the SRC exempt from registration the securities issuances of financial institutions that are licensed by the BSP to engage in banking and quasi□banking functions. For other transactions, however, such as swaps or repo, the SEC still exercises regulatory power.

2. Regulatory Process Overview

The regulatory process map shown in Figure 2.1 is designed to help with the navigation of the applicable regulatory processes in the Philippines to be applied to a given proposed bond or note issuance. Individual processes are explained in detail in the subsequent sections.

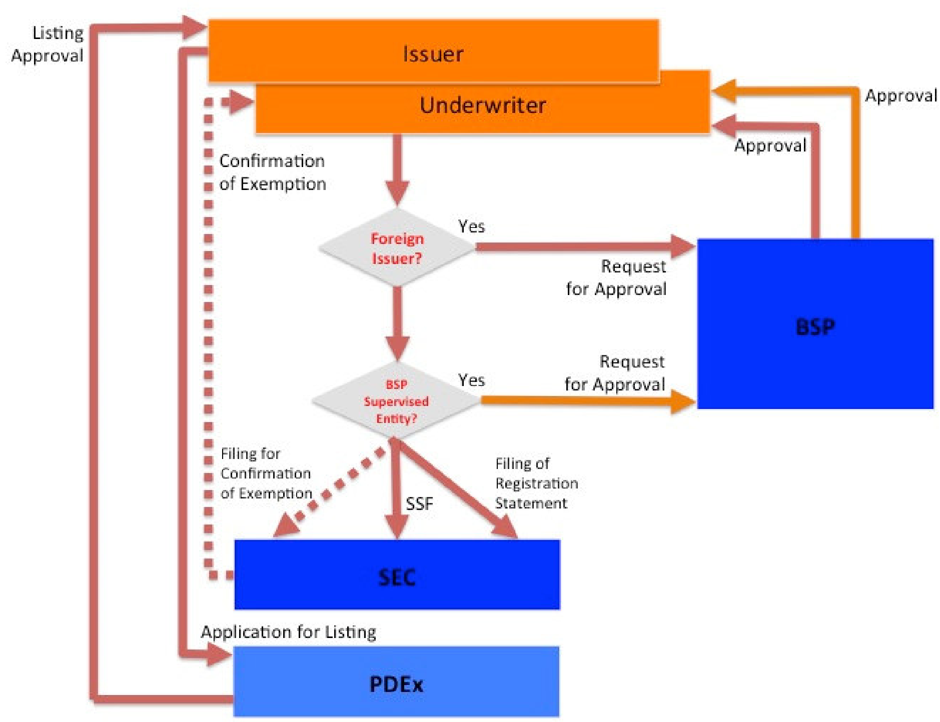
The issuer will need to appoint an underwriter in case of a public offer. There is no requirement on the use of an underwriter for a bond or note offering to Qualified Buyers. However, if an issuer wants to appoint an underwriter, then the underwriter must be licensed by the SEC. At the same time, the issuer is typically represented by an underwriter who will file or submit the necessary application for approval or relevant documentation to the respective regulatory authority and market institution on the issuer’s behalf.

Issuers may make use of the shelf-registration concept (under SRC Rule 8.1.2, known officially as Delayed and Continuous Offering and Sale of Securities), which was enhanced by the SEC in terms of features and flexibility as part of the revised 2015 SRC Rules.

The issuance approval process for public offers is distinct from issuances as Exempt Transactions (e.g., those aimed at Qualified Buyers). For details, please see sections 4 and 5 in this chapter, respectively.

Foreign (nonresident) issuers may issue bonds and notes in the Philippines in Philippine pesos or in foreign currencies. In both cases, the approval of the BSP is required and the issuer may submit an application for such approval at the same time as submitting the Registration Statement or a possible Notice of Exempt Transaction to the SEC. The BSP does not distinguish between public offers and those offers under Exempt Transactions. Section 3 below gives further details on the application and approval process involving the BSP.

Figure 2.1: Regulatory Process Map—Debt Securities Issuance in the Philippines

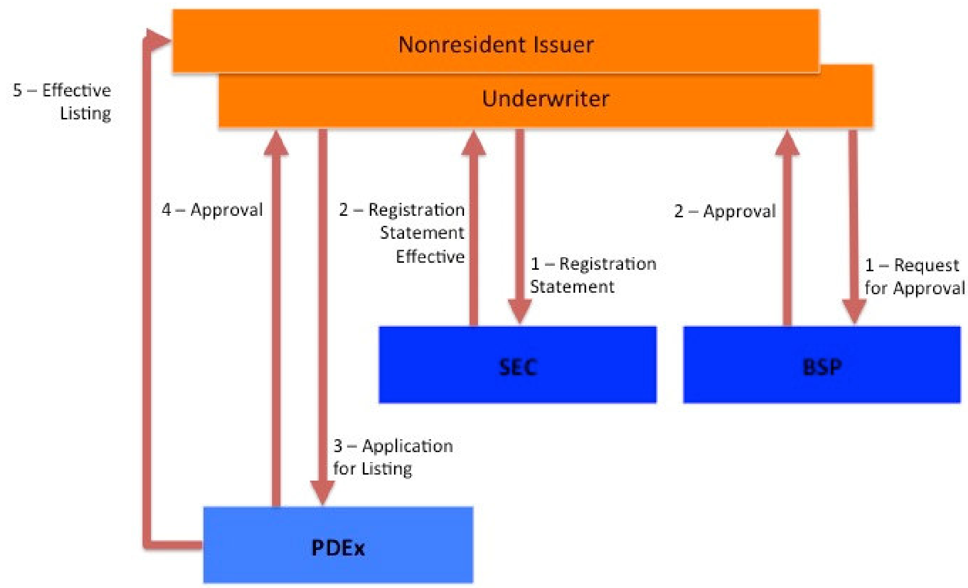


BSP = Bangko Sentral ng Pilipinas, PDEx = Philippine Dealing & Exchange Corporation, SEC = Securities and Exchange Commission, SSF = Single Submission Form.
Note: Application for Listing on PDEx may be made only once the necessary approvals from the BSP and SEC have been obtained.
Source: ADB consultants for SF1.

3. Regulatory Process for Nonresident Issuer (other than Financial Institution)

The process of issuing bonds or notes to the public or as an Exempt Transaction, such as to professional investors (Qualified Buyers), involves multiple regulatory authorities if the issuer is a nonresident corporate issuer (Figure 2.2).

Figure 2.2: Regulatory Process Map—Issuance by Nonresident



BSP = Bangko Sentral ng Pilipinas, PDEx = Philippine Dealing & Exchange Corporation, SEC = Securities and Exchange Commission.
Source: ADB consultants for SF1.

The following steps need to be observed when a nonresident issuer wants to issue bonds or notes to the public or under an Exempt Transaction (e.g., to professional investors [Qualified Buyers]) in the Philippines.

As agreed among the regulatory authorities, the filing for approval with the BSP and the submission of the Registration Statement to, or the filing of the Notice of Exempt Transaction or a Single Submission Form (SSF) with, the SEC can be undertaken at the same time. The nonresident issuer will, however, need to obtain the necessary approval from the BSP before proceeding with the issuance.

The listing or enrollment on PDEx completes this regulatory process.

Step 1—(BSP): Filing for Approval with the Bangko Sentral ng Pilipinas

Pursuant to Section 31.3 of the FX Manual, a nonresident's issuance of bonds, notes, or other similar instruments in the domestic market shall require BSP approval before execution thereof. There is no quota or allocation of issuance amounts in Philippine pesos for nonresident issuers.

Prior BSP approval shall also be obtained by the nonresident issuer should it seek to access the domestic banking system in the Philippines (e.g., in the form of collection of issuance proceeds through underwriters, and activities in the FX or swap market). Annex D.2 of the FX Manual contains the actual application form for approval and data requirements for submission to the BSP.

The nonresident issuer or their underwriter must apply with the BSP International Operations Department (IOD) using the prescribed forms specified in Annex D.2 of the FX Manual and providing other relevant documents as may be required, including a

i. term sheet;
ii. process flow;
iii. flow chart of fund raising process, including parties involved; and
iv. plan for funding repayments.

The AMBIF SSF may be used to submit relevant issuance documentation and other information to the BSP-IOD in the event of an offer as an Exempt Transaction, such as those aimed at Qualified Buyers (see also Chapters IX and X).[6] The filing for approval from the BSP is presently conducted by submitting physical forms and documents.

Step 1—(SEC): Submission of Registration Statement to, or Filing of a Notice of Exempt Transaction, with the Securities and Exchange Commission

At the time of the filing for BSP approval, the nonresident issuer or the underwriter of a bond or note will need to submit a Registration Statement to the SEC (in the case of public offer) or may file a Notice of Exempt Transaction with the SEC (in the case of, for example, an offer to professional investors [Qualified Buyers] only).

The submission of a Registration Statement to the SEC and its requirements follow the regulatory process detailed in section 4. In turn, the filing of a Notice of Exempt Transaction with the SEC follows the regulatory process described in section 5.

Step 2—(BSP): Approval from the Bangko Sentral ng Pilipinas

The BSP-IOD will review the application and relevant documents and may, at its discretion, ask for clarification or additional information.

In its review, the BSP will focus on the purpose of the issuance and use of proceeds, and any applicable prohibitions and planned activities in the FX or swap market resulting from the proceeds or funding of interest and redemption payments.

To ensure thorough verification and analysis of the documents and information submitted to the BSP-IOD, requests for foreign loan approvals are processed within a maximum of 30 banking days from the date when all BSP requirements have been submitted or complied with by the applicant.[7]

[6] AMBIF, which is promoted by ABMF, offers the use of standardized documentation and disclosure information—in the form of the SSF—for the submission of requests for approval, or statutory filings, to the regulatory authorities, as may be required. AMBIF is applicable only to offers of debt securities to professional investors and the use of the SSF is presently only available in Hong Kong, China; Japan; Malaysia; the Philippines; Singapore; and Thailand.

[7] The issuance of bonds and notes by a nonresident issuer to resident investors may be classified as a foreign loan by the BSP.

In the event of an inquiry from an issuer or underwriter on the status of a review, or the regulatory process and other matters in general, the BSP is committed to respond within 15 business days.

Provided that the documents are in order, the necessary information has been provided, and the review is satisfactory, the BSP-IOD will issue the approval (letter) for the bond or note issuance.

Should the issuance or transaction partake the nature of a foreign loan, a processing fee will be charged pursuant to Appendix 20 of the FX Manual.

Step 2—(SEC): Registration Statement Declared Effective by the Securities and Exchange Commission

SEC approval is only required when an offer is made to the public and a Registration Statement has been filed by the nonresident issuer or its underwriter with the SEC. This approval step is explained in detail in section 4.

Step 3—(Next Step) Onward: Application for Listing or Enrollment with the Philippine Dealing & Exchange Corporation

PDEx has a checklist for the listing or enrollment of exempt securities for resident issuers. The authority to issue and the compliance with regulatory requirements (BSP and SEC) for such issuance would be, among others, that which will be requested from the prospective issuer. For nonresident issuers, the requirements shall rely on and be amended accordingly based on the framework of the Philippine regulators (SEC and BSP) for domestic PHP-denominated issuances of nonresident issuers of securities.

The detailed steps for the listing (or enrollment) of a bond or note on PDEx follow the process outlined in Chapter III.I. Foreign governments and multilateral organizations are also eligible.

4. Regulatory Process for Public Offers

Under Rule 8.1 of the SRC, no securities shall be sold or offered for sale, or distributed by any person or entity within the Philippines unless such securities are duly registered with the SEC. This includes debt securities. The SEC needs to declare the Registration Statement effective before the actual issuance can be undertaken.

Exemptions from the need to file a Registration Statement are allowed under Sections 9 and 10 of the SRC, for Exempt Securities and Exempt Transactions, respectively. Please see section 5 for a description of the regulatory process applicable to such exemptions.

The need to file a Registration Statement and obtain SEC approval in the case of a public offer applies regardless of the domicile of issuer or the currency denomination of such bonds or notes. For a description of the complete regulatory process applicable to nonresident issuers, please see section 3. For the regulatory process for bonds or notes to be issued in a foreign currency, please refer to section 8.

No information relating to an offering of securities to the public shall be disseminated unless a Registration Statement has been filed with the SEC and the written communication proposed to be released contains the required information under SRC Rule 8.3.

The offer of debt securities requires the issuer to appoint an underwriter (SRC Rule 12.1.1) and a trustee to safeguard the interests of the bondholders (see Chapter III.R for details on the trustee). The following steps describe the actions to be taken by the relevant parties in the course of the issuance application and approval process.

Step 1—Filing of Registration Statement with the Securities and Exchange Commission (Application for Issuance Approval)

The issuer or underwriter for debt securities to be offered to the public needs to file a Registration Statement for said debt securities with the SEC. The Registration Statement is to be accompanied by a prospectus.

The form and sequence of the information in the prospectus are to follow the items contained in SEC Form 12-1, which represents the Registration Statement. The prospectus needs to contain the information required by SRC Rule 12.1 and Form 12-1, and shall be prepared in accordance with the requirements of SRC Rule 72.1. The contents of the prospectus will need to be worded in a way that can be understood by an ordinary person. According to SRC Rule 12.2.4, information contained in a prospectus shall not be incorporated by reference.

The Registration Statement shall include a copy of the trust indenture or trust agreement executed between the company and the trustee, as well as a description of the circumstances under which the trustee is required to act on behalf of the bondholders.

In the event that the issuer is planning to issue debt securities under the shelf-registration concept, the securities may be registered for an offering to be made on either a continuous or delayed basis in the future for a period not exceeding 3 years from the effective date of the Registration Statement under which they are being offered and sold. For a shelf-registration, the issuer will need to file a Registration Statement using SEC Form 12-1SR.

Part I of the Form 12-1 contains the items that are required in the prospectus, including the

(i) risk factors and other information (Item 3),
(ii) use of proceeds (Item 4),
(iii) determination of offering price (Item 5),
(iv) plan of distribution (Item 8),
(v) description of securities to be registered (Item 9), and
(vi) information with respect to the registrant (Item 11).

The individual subjects are further detailed in Annex C to the form.[8] Part II contains items required for the Registration Statement but not required in the prospectus, such as additional information.

The issuer or underwriter will need to file three copies of Form 12-1(SR), each with the necessary supporting documents.

If the (debt) securities contained in the Registration Statement are intended to be listed on PDEx, a copy of the Registration Statement and all other pertinent documents, including any amendments, shall also be filed with PDEx. Two copies of the application for listing shall subsequently be filed with the SEC. For a description of the listing process, please refer to Chapter III.I.

[8] Form 12-1, Form 12-1SR, and Annex C may be downloaded from the SEC website at http://www.sec.gov.ph/forms-and-fees/secondary-license/

Upon filing a Registration Statement, a filing fee of 10 basis points of the issued value of each tranche of securities shall be paid. The filing fees of the subsequent tranches shall be payable within 7 business days prior to commencement of the offer or sale of the securities.

The filing of the Registration Statement is to be announced by the issuer in national newspapers and certain other conditions need to be complied with (SRC Rule 12.5 [b]).

Step 2—Approval from the Securities and Exchange Commission (Registration Statement Effective)

The SEC will declare the Registration Statement effective or rejected within 45 days after the date of its filing, or by such later date to which the issuer has consented, unless the applicant is allowed to amend the Registration Statement. Within this timeframe, the SEC may, at its discretion, ask the issuer or underwriter for additional documents or information. The 45 days represent the SEC's obligation to act within that period under the regulations.

The SEC will review the Registration Statement (Form 12-1), the attached prospectus, and any additional information and documents provided, and may provide feedback as necessary. The SEC will declare the Registration Statement effective if it and the documents submitted are complete and the stipulated requirements have been complied with. At the same time, the SEC may impose such terms and conditions as may be necessary or appropriate for the protection of the investors.

The SEC will issue a Permit to Sell (the securities) and an Order of Registration (as evidence of the effective Registration Statement) to the issuer or underwriter, as the case may be, when the Registration Statement has been declared effective.

Step 3—Actual Offer for Sale or Subscription to the Public

Once the SEC has declared the effectivity of the Registration Statement, the issuer and the underwriter (or selling agents) may undertake the actual offer for sale or subscription to the public.

However, the (debt) securities contained in the Registration Statement shall not be offered for sale or sold unless the prospectus, or any information material which has been filed with the Registration Statement and containing the required disclosure information, has been widely disseminated and sufficient copies have been made available to interested parties. SRC Rule 8.1.3.4 defines what constitutes widely distributed.

According to SRC Rule 8.1.1.5, the sale of the (debt) securities contained in the Registration Statement may commence within 10 business days from the date of the effectivity of the Registration Statement, and continue until the end of the offering period or until the sale is terminated by the issuer. In the case of debt securities issuance under a shelf-registration, the issuance of a first tranche of securities is to commence within 10 business days from the date the Registration Statement becomes effective. Securities registered under the shelf-registration rule may be offered anytime and in multiple instances if such an offering is made within 3 years from the effective date of the Registration Statement.

If the sale is not commenced within 10 business days, the Registration Statement shall be cancelled. Likewise, if the remaining registered but unsold securities are to be offered after the completion or termination of the sale, an updated Registration Statement needs to be filed with the SEC prior to said offering or sale.

5. Regulatory Process for Exempt Transactions

This section describes the issuance processes for PHP-denominated bonds and notes as an Exempt Transaction, which refers to issuances that do not require the submission of a Registration Statement to the SEC. Exempt Transactions include private placements under the 19-lender rule (see Chapter III.E) and offers aimed at professional investors, which are also referred to as QB bonds (see Chapter III.N for the definition of Qualified Buyers). Offers of QB bonds and notes represent the wholesale, or professional, bond market in the Philippines. Qualified Buyers are expected to be able to make their own informed investment decisions despite the availability of limited or defined disclosure information. In contrast to the requirements for a public offering, the regulatory processes for QB bond and note issuances are fairly streamlined.

Section 10.3 of the SRC prescribes that in order for an issuer to secure an exemption from the official registration of debt instruments with the SEC (in the case of a public offer), an issuer must file a notice on which exemption under Section 10 is relied upon to qualify as an Exempt Transaction. This process is called Filing of a Notice of Exempt Transaction. A Notice of Exempt Transaction must be filed with the SEC, regardless of the type and nationality of the issuer.

However, as part of its measures to improve the bond market practices, the SEC no longer requires a Notice of Exempt Transaction to be filed, on the assumption that all public offers would require a Registration Statement. Nonresident issuers who have issued or plan to issue bonds under AMBIF, which has been adopted by the SEC, may file the AMBIF SSF instead of a Notice of Exemption.

No approvals need to be obtained but the SEC reserves the right to request a confirmation of the eligibility of an Exempt Transaction at any time. Applicable provisions for Exempt Transactions are contained in Section 10 of the SRC.

With respect to the BSP, the applicable rules and regulations on the issuance of bonds or notes in the domestic market depend on the (i) residency and type of issuer (whether financial or nonfinancial institution), and (ii) denomination of the bonds or notes.

In addition, the listing or enrollment of issued bonds and notes on PDEx enables visibility and/or trading, and continuous disclosure and pricing. For more details on listing or enrolling with PDEx, please refer to Chapter III.I.

There is no requirement on the use of an underwriter for a bond or note offering to Qualified Buyers. However, if an issuer wants to appoint an underwriter, the underwriter must be licensed by the SEC as a Capital Market Institution. At the same time, the issuer is typically represented by an underwriter who will file for exemption or submit applications for any BSP approvals and relevant documentation on the issuer’s behalf.

The following steps will need to be observed when a resident issuer wants to issue bonds or notes to professional investors (Qualified Buyers) in the Philippines.

Step 1—Filing of a Notice of Exempt Transaction with the Securities and Exchange Commission (in Principle)

The issuer or underwriter of a bond or note aimed at professional investors (Qualified Buyers) in the Philippines may file a Notice of Exempt Transaction with the SEC (see earlier paragraphs for the latest SEC measures).

If the issuance of a bond or note is considered a repeat issue under a shelf-registration or other bond or note issuance program, a separate Notice of Exempt Transaction would not need to be filed.

If a filing is pursued, the cover letter for the filing of a Notice of Exempt Transaction is SEC Form 10.1. Further details are contained in the 2015 SRC Rules. However, not all fields in Form 10.1 relate to a Notice of Exempt Transaction.

The issuer or its underwriter would need to file five copies of SEC Form 10.1 with the SEC, one of which would need to be manually signed by a duly authorized person who, in case of a juridical person, shall be the president or equivalent in the jurisdiction of a nonresident issuer.

No fee is applicable for the filing of a Notice of Exempt Transaction to the SEC (please refer to Chapter VI for further information).

In the case of an issuance under AMBIF, the SEC has confirmed that the SSF may be used for the filing of the Notice of Exempt Transaction with the SEC, since the SSF was reviewed by the SEC and contains all relevant information required for the Filing of a Notice of Exempt Transaction, as detailed above. However, in line with the SEC measures to improve bond market practices, the filing of an SSF remains optional.

The SEC will not issue a confirmation of a Notice of Exempt Transaction, an SSF, or an approval letter unless a certification is specifically requested by the issuer (see section 9 for details). Instead, the issuer and/or underwriter may proceed with the bond or note issuance or offer for sale to Qualified Buyers following a cooling-off period of 2 business days.

Step 2—Offer of an Exempt Transaction

A cooling-off period of 2 business days from the filing of a Notice of Exempt Transaction, if so practiced, will need to be observed before the issuer or its agent(s) may offer the bonds or notes for sale and commence to procure the listing of the bonds or notes simultaneously.

6. Obligations after Approval and after Issuance

Postissuance obligations to the SEC apply mostly to the offers of debt securities to the public, and are detailed below. The reporting obligations to the BSP apply regardless of the type of issuance, in cases of the issuer being a BSP-regulated entity, or if a nonresident issuer or nonresident investors are part of the transaction.

a. Public Offers

The issuer or their underwriter will need to file a written notification of completion or termination of the offering with the SEC within 3 business days from the completion or termination of the offer of the securities. The SEC does not specify a specific format for the notice, but any report must contain the actual amount of securities sold and a breakdown of securities taken up by individual and institutional buyers.

b. Exempt Transactions

The SEC does not require any filing or reporting once an offer under an Exempt Transaction, such as an offer to Qualified Buyers, is completed with the issuance of the bond or note. However, a domestic issuer is expected to report in its annual report that an offer to Qualified Buyers was made during the reporting period. In addition, underwriters are also expected to include in their quarterly reports all securities underwritten, whether the offer made was as an Exempt Transaction or not.

At the same time, if an offer is made as an Exempt Transaction, the issuer has the burden of proof that the resulting bond or note issuance qualifies as an Exempt Transaction under Section 10 of the SRC throughout the lifecycle of the bond or note. Under Section 10 of the SRC and its related IRR (6.1), the SEC has the right to challenge such an exemption at any time. The SEC also has the right to demand a certification, if necessary.

To further ensure compliance with the exemption claimed by an issuer under Section 10.1 of the SRC, the SEC looks to the underwriter—licensed by the SEC—to observe the applicable provisions and selling and transfer restrictions under the law.

If the event that specific postissuance reporting provisions to investors or other parties have been agreed between parties involved in the issuance, such obligations would need to be observed according to agreements reached.

Should an offer to Qualified Buyers or Exempt Transaction be listed or enrolled on PDEx, the reporting requirements after listing or enrollment follow the prescriptions in the PDEx Rules (Rule 7, Listing and Enrollment). For relevant details, please see section G on disclosure requirements and Chapter III.I for the provisions relating to listing and enrollment with PDEx.

c. Reporting Obligations to the Bangko Sentral ng Pilipinas

The BSP requires submission of mandated reporting from institutions under its supervision. Reports specifically under the purview of the IOD involve data on FX transactions and are listed under Part Six of the FX Manual.[9] These reporting requirements include, among others, the Consolidated Report on FX Assets and Liabilities, Foreign Trade Transactions, and Foreign Currency Loans and Related Transactions.

The following are the reporting requirements for cross-border deals involving the purchase and sale of bonds issued by residents regardless of denomination:

- Resident companies and/or entities intending to obtain medium- and long-term foreign loans or issue bonds, notes, or other debt securities offshore shall submit to the BSP, through the IOD, their Annual Foreign Borrowings Plan using the prescribed form (Annex D.3 of the FX Manual). The timetable and any changes to the submitted plan shall be communicated to the BSP-IOD within 2 weeks upon the availability of information for monitoring and programming purposes (Section 22.2 of the FX Manual).

[9] The FX Manual may be downloaded from the BSP website at http://www.bsp.gov.ph/downloads/Regulations/MORFXT/MORFXT.pdf

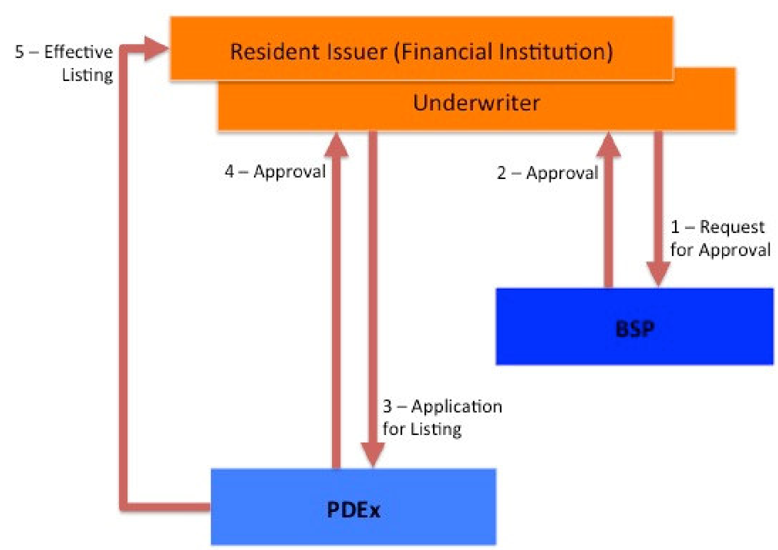
- All foreign borrowings—regardless of maturity, creditor, source of FX funds, and whether or not they are approved or registered by the BSP (in the case of private sector loans)—are required to be reported monthly to the BSP-IOD using the prescribed forms (Annexes E.1, E.2, E.3, and E.4 of the FX Manual) within the required deadline until the obligations are fully extinguished (Section 22.4 of the FX Manual).

- The BSP also requires that a report shall be made as well on the disposition of bonds and/or notes proceeds under the Monthly Report on Disposition of Bonds and/or Notes Proceeds within 3 banking days from the end of each reference month until the bond and/or note proceeds are fully utilized and the obligation is fully paid.

7. Issuance Process for a Domestic Financial Institution

While the SEC is the principal regulatory authority for the securities market, Section 9.1(e) of the SRC exempts debt securities issued by banks from the need to file a Registration Statement with the SEC.

Figure 2.3: Regulatory Process Map—Issuance by Resident Financial Institution



BSP = Bangko Sentral ng Pilipinas, PDEx = Philippine Dealing & Exchange Corporation.
Source: ADB consultants for SF1.

BSP-supervised financial institutions (BSFIs) are allowed to issue bonds or notes without prior BSP approval except in cases when said bonds or notes are issued as capital instruments. The BSP approval process for issuance of bonds as capital instruments is described below and in Figure 2.3.

Step 1—Filing for Approval with the Bangko Sentral ng Pilipinas

BSFIs shall submit to the appropriate supervising department of the BSP a request for approval of the intended bond issuance, together with all necessary documents and information specified in the relevant Manual of Regulations for Banks (MORB) provisions.

Step 2—Approval from the Bangko Sentral ng Pilipinas

The appropriate supervising department under the BSP Supervision and Examination Sector shall evaluate the application and may, at its discretion, ask for clarification or additional information from the BSFI. The said department shall also evaluate the compliance of the parties chosen by the BSFI to act as underwriter or arranger, registry, selling agent, market maker, and public trustee with the BSP-prescribed qualification requirements.[10] If in order, the appropriate supervising department shall elevate the application to the Monetary Board for approval. The BSFI shall be notified of the Monetary Board's decision.

There is no fee charged for this BSP approval process.

Step 3—(Next Step) Onward: Application for Listing or Enrollment with the Philippine Dealing & Exchange Corporation

PDEx has a checklist for the listing or enrollment of exempt securities for resident issuers. The authority to issue and compliance with (BSP) regulatory requirements for such issuance would be, among others, that which will be requested from the prospective issuer.

The steps for the listing or enrollment of a bond or note with PDEx follow the process as described in Chapter III.I.

Long-term negotiable certificates of time deposit issued by banks are required to be listed on an organized market, pursuant to BSP regulation.

8. Regulatory Process for Foreign-Currency-Denominated Debt Instruments

The issuance of bonds and notes in currencies other than Philippine pesos is possible in the Philippines; for example, a number of USD-denominated bonds and notes have been issued by the Government of the Philippines. Foreign currency bonds and notes require prior approval by the BSP.

The following steps will need to be observed when a resident issuer wants to issue bonds or notes in a foreign currency in the Philippines.

[10] Subsection X119.4(c) of the MORB emphasizes that "the issuing bank shall be held accountable for ensuring the continuous compliance by its chosen participant [financial institutions] with the qualification requirements prescribed by the Bangko Sentral [ng Pilipinas]. As such, the issuing bank shall make a careful and diligent evaluation of the parties whom it shall engage to act as underwriter [or] arranger, unsecured subordinated debt registry, selling agent, market maker, and public trustee of its [unsecured subordinated debt registries]."

Step 1—Filing for Approval with the Bangko Sentral ng Pilipinas

Please refer to the regulatory process under section 2, Issuance Process for Nonresident Issuer (other than Financial Institution). The governing BSP department is the IOD.

Step 2—Approval from the Bangko Sentral ng Pilipinas

Please refer to the regulatory process under section 2, Issuance Process for Nonresident Issuer (other than Financial Institution). The review and issuance of the approval is handled by the BSP-IOD.

Step 3—Filing of Registration Statement or Notice of Exempt Transaction with the Securities and Exchange Commission

The filing of a Registration Statement (for public offers) or the in-principle filing of a Notice of Exempt Transaction (e.g., for offers to Qualified Buyers) with the SEC follows the regulatory process described in sections 4 and 5, respectively.

Step 4—(Next Step) Onward: Application for Listing or Enrollment with the Philippine Dealing & Exchange Corporation

The steps for the listing (or enrollment) of a bond or note on PDEx follow the process, which is detailed in Chapter III.I. The PDS Group is currently only able to clear and settle USD-denominated bonds.

The regulatory process for nonresident issuers issuing bonds or notes in a foreign currency is principally the same as for resident issuers, since all relevant regulatory authorities and PDEx (as the market institution and listing place) are already involved. For more details, please refer to section 2, Issuance Process for Nonresident Issuer (other than Financial Institution).

9. Possible Additional Process: Confirmation of Qualified Buyer Bond Eligibility by the Securities and Exchange Commission

As referenced in section 5 of this chapter, the confirmation of QB bond eligibility is a potential additional regulatory process specific to the Philippines and to the issuance of bonds or notes to Qualified Buyers under the Exempt Transactions provided for in Section 10.1 of the SRC.

Although in principle this potential process would be a direct continuation of the Filing of a Notice of Exempt Transaction described above, it should be seen as a distinctly separate step in the overall regulatory process for the issuance of bonds or notes since it is an optional regulatory process and carries a significant fee. In addition, the distinction was made clearer by the SEC no longer requiring the filing of a Notice of Exempt Transaction itself (see section 5).

The function of the confirmation process is to confirm to the issuer or underwriter, as well as potential Qualified Buyers, intermediaries, and the market at large, the eligibility of the bonds or notes as an Exempt Transaction under Section 10 of the SRC, and the reduced obligations on the issuer and underwriter in terms of initial and continuous disclosure. In such cases, the issuer and/or underwriter no longer carry the burden of proof to stakeholders that the QB bond or note qualifies as such.

The process of confirmation by the SEC carries a fee, as stipulated in Section 10.3 of the SRC, which is presently calculated as "…one-tenth of 1% of the maximum aggregate price or issued value of the securities."[11] This formula could amount to a substantial expense for the issuer. However, the recent Financial Sector Neutrality Act may result in the fee being converted to a flat amount. The SEC is now looking at applying the provisions in this act for its purposes.

The decision to obtain a confirmation of the QB bond status lies with the issuer and/or underwriter, and is not mandatory for enrollment on PDEx. The individual regulatory processes for QB bond issuance have been described in the earlier sections, according to issuer type and other considerations.

At the same time, the SEC may challenge a claimed exemption at any time, and may also insist on a confirmation of said exemption, if necessary.

Step 1—Request for Confirmation of Eligibility of Qualified Buyer Bond by the Securities and Exchange Commission

Any resident or nonresident issuer, regardless of issuer type, may opt to request a confirmation of the eligibility of a bond or note issued as a QB bond or as an Exempt Transaction.

The issuer or underwriter will need to file SEC Form 10.1 (Confirmation of Exempt Transaction) with the SEC, indicating the claimed exemption, as well as request for the confirmation of the stated exemption.

The SEC charges a fee for a request of confirmation, equivalent to 10 basis points on the face value of the bond or note.

Step 2—Securities and Exchange Commission Provides Confirmation of Eligibility for a Qualified Buyer Bond

The SEC reviews the request for Confirmation of Exempt Transaction and any relevant documents and may, at its discretion, ask for clarification or additional information.

Provided that the request for the Confirmation of Exempt Transaction and supporting documents are in order, the necessary information has been provided, and the review is satisfactory, the SEC will issue a Confirmation of Exemption for the bond or note issuance to the issuer and/or underwriter.

G. Continuous Disclosure Requirements in the Philippine Bond Market

Disclosure requirements for public offers are prescribed in the SRC as part of the prospectus requirements. The SRC and the 2015 SRC IRR also provide for specific information disclosure as part of Exempt Transactions (e.g., offers to Qualified Buyers).

Continuous disclosure—for both public offers and offers to Qualified Buyers—is ensured through the obligations of the issuer to observe the 2015 SRC IRR and the disclosure requirements of PDEx.

[11] Securities and Exchange Commission. Securities Regulation Code. www.sec.gov.ph/laws/srcode.html

1. Public Offers

For public offers of debt securities in the Philippines, the prospectus is the key disclosure document. The prospectus requirements follow Rule 12-1 of the SRC, including Annex C, and contain all necessary information for the investing public to make an informed decision on the investment.

After the SEC declares effective the Registration Statement, and with it the submitted prospectus, some of the key information in the prospectus is required to be updated on a periodic basis. Updates on key information in the Registration Statement are made through SEC Form 17-C (Current Report), SEC Form 17-Q (Quarterly Report), and SEC Form 17-A (Annual Report), which are filed with the SEC as part of corporate reporting requirements. This includes the filing of financial statements to the SEC and also applies for issuances under shelf-registration. Securities registered under this rule may be offered anytime and in multiple instances as long as such is made within 3 years from the effective date of the Registration Statement. However, the issuance of succeeding tranches will require an updated prospectus.

As part of the revised 2015 SRC Rules, the SEC promulgated the use of financial statements that can remain valid for 180 days as part of the disclosure information in a prospectus in line with the typical practice in other ASEAN markets. The submission of financial statements is part of the reporting requirements of companies registered with the SEC.

At the same time, Rule 12.2.4 of the SRC prohibits any information being incorporated into the prospectus by reference. As such, material changes to the circumstances or business of the issuer will need to be made available to investors via an updated offer document.

In the event that an issuer is a company with securities issued and listed on PDEx or the Philippine Stock Exchange, the issuer is already subject to the rules for the disclosure of financial and other material information under the Listing Requirements of PDEx or similarly applicable listing and disclosure requirements of the Philippine Stock Exchange or other exchanges.

2. Exempt Transactions (Private Placements)

A typical instance of a private placement is the issuance of bonds or notes to professional investors under exemptions or concessions from full disclosure or defined regulatory processes. These issuances, which also take into account the 19-lender rule, are called Exempt Transactions, pursuant to the provisions of Rule 10 of the SRC.

Bonds or notes issued as Exempt Transactions, including those offers aimed at Qualified Buyers, which are referred to in the market as QB bonds, typically fulfill the traditional expectations of the private placement concept in which the target group is professional investors and the issuance is subject to exemption from full disclosure under applicable regulations and, in the case of the Philippines, registration with the SEC. Hence, the issuance of QB bonds can be considered a private placement. The previous definition for private placement in regulations and market practice is no longer in use in the Philippines.[12] While the term private placement is not mentioned in the 2015 SRC IRR, the term continues to be used in market practice.

[12] Originally, the term “private placement” was only used in regulations and market practice in case of an issuance to a maximum number of 19 investors, regardless whether professional or not, owing to specific concessions existing for distributions to no more than this number of investors in the relevant tax regulations. Subsequently, market practice adopted the term “corporate notes” for such private placements. The Bureau of Internal Revenue ruled in 2012 that issues with 19 investors or fewer are subject to a 20%

For more information on private placement as an issuing method for bonds or notes in the Philippines, and the criteria for exemption from full disclosure, please refer to Chapter III.E.

Information and disclosure requirements for Exempt Transactions, including QB bonds, are defined in line with expectations from market participants on private placements. The IRR related to Section 10.1(k) of the SRC (Subsection 4.d) prescribe the Restrictions for Exempt Transactions, such as QB bonds, and require that the following information be provided to potential investors:

(i) the exact name of the issuer and its predecessor, if any;
(ii) address of its principal executive offices;
(iii) place of incorporation;
(iv) exact title and class of the security;
(v) par or stated value of the security;
(vi) number of shares or total amount of securities outstanding at the end of the issuer’s most recent fiscal year;
(vii) name and address of the transfer agent;
(viii) nature of the issuer’s business;
(ix) nature of products or services offered;
(x) nature and extent of the issuer’s facilities;
(xi) name of the chief executive officers and members of the board of directors;
(xii) issuer’s most recent balance sheet and profit and loss and retained earnings statement for each of the preceding 2 fiscal years, or such shorter period as the issuer (including its predecessor) has been in existence;
(xiii) whether the person offering or selling the securities is affiliated, directly or indirectly, with the issuer;
(xiv) whether the offering is being made directly or indirectly on behalf of the issuer, or any director, officer, or person who owns directly or indirectly more than 10% of the outstanding shares of any equity security of the issuer and, if so, the name of such person; and
(xv) information required under paragraph 1 of the relevant IRR.

In cases where the issuer is a reporting company under Section 17 of the SRC, a copy of its most recent annual report (SEC Form 17-A) may be used to provide any of the required information. In contrast to public offers, the incorporation by reference of financial and other information into the offer document to Qualified Buyers is permitted.

In addition to the offer document—such as an information memorandum, offering memorandum, or term sheet, as well as related correspondence to Qualified Buyers—an issuer must make explicit reference to Section 10.1 (L) of the SRC and give their commitment that said offer is limited to Qualified Buyers, thereby constituting an Exempt Transaction under the law. The IRR related to Section 10.1 (1.c) of the SRC prescribe the following statement in boldface and prominent type:

> The securities being offered or sold have not been registered with the [SEC] under the [SRC], any future offer or sale thereof is subject to registration requirements under the [SRC] unless such offer or sale qualifies as an Exempt Transaction.

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creditable withholding tax. The SEC, in its revised IRR for the SRC introduced in 2015, stopped using the term private placement.

3. Disclosure for Securities Listed on the Philippine Dealing & Exchange Corporation

The issuer of debt securities listed or enrolled on PDEx needs to disclose all material information, which may affect the price or value of issue or the decision to buy, sell, or hold the admitted security during the tenor of the debt securities. The obligations include the submission of periodic reports such as the annual report, quarterly report, and audited financial statements, as the case may be.

H. Self-Regulatory Organizations in the Philippine Bond Market

In the Philippines, an SRO is an organized exchange, registered clearing agency, or any organization or association registered as an SRO under Section 39 of the SRC to enforce compliance with relevant provisions of the code and its rules and regulations. It is mandated to make and enforce its own rules, which have been approved by the SEC, its members, and/or its participants. It is an organization that enforces fair, ethical, and efficient practices in the securities and commodity futures industries, including securities and commodity exchanges. PDEx is an SEC-registered SRO for the Philippine bond market.

1. Philippine Dealing & Exchange Corporation

PDEx was incorporated in 2003 to provide the trading infrastructure for the fixed income market. As an SEC-registered exchange and an OTC market operator, PDEx operates the organized secondary market for the trading of fixed income securities, which includes both government and corporate securities.

PDEx, as an SRO, has been given authority by the SEC under the IRR of the SRC to make and enforce its own rules; monitor and enforce compliance with securities laws and regulations; and enforce fair, ethical, and efficient practices in the securities market with the primary objective of investor protection. It enables the maintenance of a level playing field among players in the market to assure investors of fairness and safety in the marketplace.

Under Section 39 of the SRC, the SEC granted PDEx the license to act as an SRO for the inter-dealer, inter-professional, and public markets. As an SRO, PDEx has promulgated the PDEx Rules to govern all transactions conducted on the PDEx trading platform for fixed income securities.

In July 2006, the SEC formally recognized PDEx as an SRO in the inter-dealer market. In the same year, the SEC issued Memorandum Circular No. 14 on Rules Governing the OTC Markets (OTC Rules), which included government securities. The OTC Rules directed that “no broker or dealer shall participate in an OTC market unless said broker or dealer is a member of an SRO that has been registered with the [SEC] for the purpose of regulating and supervising the activities of the broker or dealer in an OTC market.”

In November 2007, the SEC expanded the SRO registration of PDEx to cover the inter-professional market. In January 2008, PDEx was granted SRO status for the OTC market, which resulted in the coverage of all government securities trading activities.

More information on PDEx and its organized bond market can be found in other sections in Chapters II, III, and IV in the Philippines Bond Market Guide that deal with the listing, trading, and reporting of debt securities.

I. Rules Related to Market Participant Registration, Licensing, and Trading Participants

Licensing in the context of the Philippine bond market takes on more than one meaning. In addition, the licensing or registration of market participants in the Philippine bond market depends on the nature of the participants and the activities they undertake, as explained in the following sections.

Being the corporate regulator, the SEC initially licenses a company to conduct its business upon its corporate registration. This is also referred to as the primary license and applies to all institutions active in the Philippines, including banks.

1. Registration and Licensing of Bond Market Participants

As the regulatory authority for the Philippine capital market, the SEC registers participants in the bond market who are buying and selling securities, engage in market-making activities, or act as transfer agents. In addition, the SEC also specifically licenses the underwriting of securities. This is referred to as a secondary license—the primary license being the company registration—in domestic market terms. Individuals acting on behalf of these Capital Market Institutions are also required to be registered or licensed, and are collectively referred to as Capital Market Professionals. The provisions for registration and licensing of institutions and individuals, respectively, are contained in Chapter VIII of the SRC (Regulation of Securities Market Professionals). The SEC maintains a list of institutions and individuals on its website.[13]

At the same time, the BSP grants license for authority to engage in banking and quasi-banking functions as provided under Section 6 of the General Bank Law. This is also referred to as a secondary license. While the license allows BSFIs to participate in the bond market, additional BSP accreditation and/or SEC authorization (registration or licensing) is required for certain capital market activities including but not limited to securities registry, securities custodianship, central securities depository, and becoming a GSED.

2. Admission as Trading Participants

In turn, PDEx admits capital market intermediaries as Trading Participants to its Fixed Income Securities Market. According to the PDEx Rules, as amended, a Trading Participant shall be any person that has been qualified to trade on the PDEx trading system. There are three types of Trading Participants:

i. Dealing Participants who may be market-making participants as defined in the PDEx Rules;
ii. Qualified Investor Participants who may opt not to be members of the SRO, and hence are not bound by the PDEx Rules but rather by the pertinent agreements; and
iii. Brokering Participants.

At the time of the compilation of this Bond Market Guide, PDEx had admitted 41 Fixed Income Dealer Members, 32 Fixed Income Broker Members and an additional 4 Broker Members that were accredited as Voice Brokers, and 3 Qualified Investor Participants.

[13] http://www.sec.gov.ph/public-information-2/registered-firms-individuals-and-statistics/registered-firms-and-individuals/

Trading Participants may be admitted to the PDEx markets under the applicable PDEx Rules listed below:

> Rule 1.3-1.d: All Trading Participants should, in cases where the applicant is a member of another [SRO] and/or duly accredited broker–dealer association, have a certificate from such other SRO and/or broker–dealer association certifying its good standing thereat and absence of derogatory record for 3 years immediately prior to the application for admission.
>
> Rule 1.7.b: A Trading Participant shall appoint an Associated Person if the Trading Participant is a Trading Participant of another SRO and the Associated Person is an officer even with respect to such other SRO; they must be in good standing at such other SRO.

J. Philippine Dealing & Exchange Corporation Rules Related to Bond Listing, Disclosure, and Trading

PDEx has issued a comprehensive set of rules for the listing, related disclosure, and trading of bonds and notes on its market. The PDEx Rules are divided into main rules that serve as chapters and each has a number of specific individual prescriptions.

The PDEx Rules govern Trading Participants and their trading activities. Trading conventions are referenced only and are separately agreed among Trading Participants and PDEx. Rule 5 is dedicated to investor protection, including in the event of the failure of a Trading Participant. The listing and enrollment of debt instruments and the related initial and continuous disclosure is prescribed in Rule 7 and its provisions, which contain admission criteria for issuers and eligible securities. Provisions on compliance, market surveillance, and disciplinary measures are contained in Rule 15. PDEx Rules likewise contain provisions on how transactions conducted on the trading platform proceed to settlement.

PDEx has also issued distinct rules for the repo and securities lending programs, officially known as the PDEx Inter-Professional Repurchase Agreement Market Program Rules and Securities Lending Transactions Program Rules, respectively. These rules are available from the PDS Group website.[14]

In addition to the PDEx Rules, the PDS Group has also issued the PDTC Rules, which govern the depository services provided for debt securities.

K. Market Entry Requirements (Nonresidents)

1. Nonresident Issuers

Pursuant to Section 31.3 of the FX Manual, a nonresident's issuance of bonds, notes, or other similar instruments in the domestic market shall require BSP approval before execution thereof. There is no quota or allocation of issuance amounts in Philippine pesos for nonresident issuers.

Prior BSP approval shall also be obtained by the nonresident issuer should it seek to access the domestic banking system in the Philippines (e.g., in the form of collection of issuance proceeds through underwriters, and activities in the FX or swap market). Annex D.2 of the FX Manual contains the actual application form for approval and data requirements for submission to the BSP.

[14] See http://www.pds.com.ph/index.html%3Fpage_id=852.html

The SEC does not differentiate between resident and nonresident issuers. Nonresident issuers wishing to use the proceeds from a PHP-denominated bond or note aimed at Qualified Buyers in a foreign currency may require a policy decision by the SEC prior to filing a Notice of Exempt Transaction (see also section F in this chapter).

Nonresident issuers may list or enroll their debt instruments aimed at Qualified Buyers on PDEx, depending on the SEC framework. For more details on PDEx and the regulatory processes of the BSP and SEC, please refer to the relevant sections in this chapter.

2. Foreign Investors

There are no restrictions on nonresident investors purchasing bonds, money market instruments, or other portfolio investments. There is no investor registration concept.

Nonresidents who want to invest in the domestic bond market must make their transactions via inward FX remittances converted into Philippine pesos through a local bank, an existing peso account, or from funds held in a resident foreign currency account converted into pesos.

To ensure that repatriation of the invested amounts and related income may be done without delay, the inward FX remittance should be registered with the BSP in the form of a Bangko Sentral Registration Document. Typically, the custodian or the bank handling the inward remittance will process the Bangko Sentral Registration Document on behalf of the investor and retain the document for future use.

L. Market Exit Requirements (Nonresidents)

1. Nonresident Issuers

Regulatory approval and registration (see also section M.2) are required if the foreign exchange needed to service the repatriation or outward remittance of dividends, profits, and earnings is sourced from domestic authorized agent banks (AABs) and AAB-foreign exchange corporations (AAB-forex corps).

2. Foreign Investors

Section 40 of the FX Manual prescribes that inward foreign investments duly registered with the BSP, or with a custodian bank duly designated by the foreign investor, shall be entitled to full and immediate repatriation of capital and remittance of dividends, profits, and earnings using FX to be purchased from AABs and AAB-forex corps.

Moreover, FX may be purchased from AABs and AAB-forex corps for outward remittance in an amount equivalent to the peso sales or divestments proceeds (including dividends, profits, or earnings thereon) of BSP-registered foreign investments in accordance with the procedures outlined in Appendix 11 of the FX Manual and supported by the documents prescribed under Items C.1 and C.2 of Appendix 1 thereof.

M. Regulations and Limitations Relevant for Nonresidents

Nonresidents are principally free to invest in the Philippine bond market but need to be aware of a number of relevant investment, currency, and FX provisions. More information may be found on the BSP website and at *AsianBondsOnline*.[15]

1. Investment

In general, there are no restrictions on foreigners purchasing bonds, money-market instruments, or other portfolio investments. Nonresidents seeking to invest in the local bond market are required to finance their transactions through inward FX remittances or from withdrawals against their foreign currency accounts. They must effect transactions through an authorized securities dealer or broker licensed by the SEC. Transactions can be initiated either locally or abroad.

2. Cross-Border Portfolio Investment

BSP regulations covering the inward foreign portfolio investments in the following instruments are found in Sections 32–43 of the FX Manual:

(a) PHP-denominated securities issued onshore by the Government of the Philippines and other public sector entities;
(b) securities of resident and nonresident enterprises listed at the Philippine Stock Exchange;
(c) peso time deposits with an [AAB] with a maturity of at least 90 days; and
(d) other PHP-denominated debt instruments issued onshore by private resident firms (such as bonds or notes, bills payables, or nonparticipatory preferred shares) [that are] not covered by Section 23 (Loans Requiring Prior BSP Approval) of the FX Manual.

These investments may be registered with the BSP through the IOD (item d) or with custodian banks in the Philippines (items a–c) to allow capital repatriation and remittance of profits, dividends, and earnings to be funded with FX purchased from AABs or AAB-forex corps**.** For this purpose, the procedures and documentary requirements for the registration of these investments are detailed in Appendix 10 of the FX Manual. Such minimum requirements include the original Certificate of Inward Remittance of Foreign Exchange, which contains information on the inward remittance of FX and/or its conversion to pesos through an AAB. A Bangko Sentral Registration Document shall be issued by the BSP evidencing registration of such investments.

However, the registration of inward investments with BSP is optional; that is, the investment need not be registered if FX will be not sourced from AABs or AAB-forex corps to fund repatriation of capital or remittance of earnings.

For purposes of opening an account with a broker or dealer, nonresident investors are required to disclose their true and full identity by accomplishing a Customer Account Information Form (or its equivalent) and specimen signature cards, and by submitting valid identification cards in accordance with the know-your-customer, or Customer Identification Program, of the broker or dealer in compliance with the requirements of the SRC and the Anti-Money Laundering Act, as amended.

Nonresidents may purchase and sell bonds on PDEx through their intermediaries and are free to repatriate their investment proceeds and income generated from the investments, subject to the prevailing FX provisions mentioned below.

[15] See https://asianbondsonline.adb.org/philippines/structure/rules/investment_management.php

3. Currency and Foreign Exchange

The BSP-IOD implements and monitors rules and regulations on FX transactions and investments.

Nonresidents may purchase FX, or use FX to purchase Philippine pesos, from AABs, AAB-forex corps, and other non-bank entities operating as FX dealers or money changers, subject to specific requirements. The sale of FX is governed by the FX Manual, as amended, issued under Circular No. 645 dated 13 February 2009.[16]

Further practical information on FX rules is contained in the Frequently Asked Questions on BSP Rules on Foreign Exchange Transactions, which may be obtained from the BSP website.[17]

In addition to settlement for bonds and notes issued in Philippine pesos, the PDS Group is able to settle bonds and notes denominated in US dollars that are registered in the Philippines and listed on PDEx, as the Philippines features a domestic US dollar clearing and settlement system.

4. Import and Export of Currencies

Local currency. Previously, for amounts above PHP10,000, prior authorization was required from the BSP to import or export, bring into or take out of the country, or electronically transfer legal tender Philippine peso notes and coins, checks, money orders, or other bills of exchange drawn against banks operating in the country. Effective 15 September 2016, the BSP increased the amount of legal tender Philippine currency that may be brought into or out of the country from PHP10,000 to PHP50,000 to provide greater convenience to travelers to and from the Philippines.[18]

Foreign currency. There are no limits or restrictions on the amount of foreign currency or other foreign-currency-denominated bearer monetary instruments (e.g., traveler's checks) that may be brought into or out of the Philippines. However, for amounts exceeding USD10,000 or its equivalent, submission of a duly completed Foreign Currency and Other Foreign Exchange-Denominated Bearer Monetary Instruments Declaration Form (Annex K of the FX Manual) is required. The form is available at the Bureau of Customs desk at all international airports and seaports.

5. Bank Accounts in Domestic and Foreign Currency

Residents may open and maintain bank accounts in a foreign currency. Effective 15 September 2016, the BSP lifted the prohibition on the sale of FX by banks and their forex corporations for resident-to-resident transactions, including investments in foreign-currency-denominated investment instruments issued onshore by residents (except foreign currency bank deposits).

Nonresidents may open and operate accounts in Philippine pesos and foreign currencies with authorized banks in the Philippines, in line with prevailing bank operational requirements.

All peso deposit accounts of nonresidents, including foreign banks, opened and maintained with AABs operating in the Philippines shall be funded only by the following allowable sources listed under Section 3.1 of the FX Manual:

[16] Copies of the FX Manual and its corresponding amendments, respectively, may be downloaded at http://www.bsp.gov.ph/downloads/Regulations/MORFXT/MORFXT.pdf and http://www.bsp.gov.ph/regulations/reg_MORFXT_amendments.asp

[17] See http://www.bsp.gov.ph/downloads/Publications/FAQs/faqfxreg.pdf

[18] As revised under BSP Circular 922 dated 23 August 2016.

(a) inward remittances of convertible FX;
(b) peso income of nonresidents from, or peso sales proceeds of, properties in the Philippines allowed to be owned by nonresidents under existing laws;
(c) onshore peso receipts of nonresidents from residents for services rendered by the former to the latter, for which the resident would have been entitled to buy FX from AABs and AAB-forex corps for remittance to the nonresident service provider;
(d) peso receipts of expatriates working in the Philippines with contracts of less than 1 year representing salary, allowances, or other benefits;
(e) onshore peso funds of foreign students enrolled for at least one semester in the Philippines, and nonresident Filipinos; and
(f) peso proceeds from the onshore sale by nonresident issuers of their Philippine Stock Exchange-listed equity securities.

Depository AABs may sell FX of up to USD60,000 per day for the balance of peso deposit accounts of nonresidents that are funded by items (b)–(e) without the need for prior BSP approval, subject to the submission of a duly completed application to purchase FX (Annex A of the FX Manual).

6. Borrowing and Lending

There are no restrictions on domestic borrowing by foreign companies. In line with international standards for classifying loans, domestic borrowings include foreign currency loans obtained from domestic sources.

The BSP regulates foreign currency loans to ensure that principal and interest owed to creditors can be serviced in an orderly manner and with due regard to the economy's overall debt serving capacity.

Section 24 of the FX Manual indicates that loans of nonresidents from Foreign Currency Deposit Units and Expanded Foreign Currency Deposit Units, irrespective of maturity, do not require prior BSP approval unless such loans will be serviced using FX purchased from the AABs and/or AAB-forex corps in the country.

On the other hand, nonresident issuance of notes, bonds, or similar instruments in the domestic market shall require BSP approval before execution thereof, as prescribed under Section 31.3 of the FX Manual.

N. Regulations on Credit Rating Agencies

This section covers the regulations and requirements applicable to credit rating agencies (CRAs) operating in the Philippines and their business. For the actual credit rating requirements in the Philippine market and the application of such credit ratings in the issuance of bonds and notes, please refer to Chapter III.O.

In its Memorandum Circular No. 7 released in March 2014, the SEC announced the Guidelines on the Accreditation, Operations, and Reporting of Credit Rating Agencies, which govern the two domestic CRAs, Philippine Rating Services (PhilRatings) and Credit Rating and Investors Services Philippines (CRISP), in addition to the acceptance of international CRAs.

The relevant guidelines contain eligibility criteria for CRAs and detail the accreditation process, including the application procedure, as well as operating requirements including rating definitions.[19] With regard to the latter, the guidelines make reference to ADB's Handbook on International Best Practices in Credit Rating issued in December 2008. The handbook considered, among others, the International Organization of Securities Commissions' Statement of Principles Regarding the Activities of Credit Rating Agencies, which include principles on quality and the integrity of the rating process, independence and conflicts of interest, transparency and timeliness of rating disclosure, and confidential information.

The BSP recognizes and derecognizes domestic CRAs for bank supervisory purposes, in particular with regard to the risk-based capital adequacy ratio. Section X931 of the MORB provides the regulations governing the recognition and derecognition of domestic CRAs for bank supervisory purposes.

1. Philippine Rating Service Corporation

PhilRatings is the only domestic CRA in the Philippines recognized by the BSP and accredited by the SEC. The rating agency is also an affiliate of Standard and Poor's.

PhilRatings started providing credit rating services in 1985. It is 70%-owned by Motan Corporation and 30%-owned by CIBI Foundation, Inc. It was initially part of a company known as the Credit Bureau, Inc., which was established by the SEC, and the Financial Executives Institute of the Philippines in 1982 to serve as a third-party source of business and credit information. The credit rating function in the Philippines started in 1985 when Credit Information Bureau, Inc. began rating commercial paper as a requirement for registration with the SEC. BSP recognizes PhilRatings as a domestic CRA for bank supervisory purposes. PhilRatings was also accredited by the SEC as a CRA after compliance with the requirements under SRC Rule 12.1, subject to faithful compliance with the reporting and other requirements of said rule, applicable laws, circulars, rules, regulations, and further orders of the SEC. PhilRatings is a BSP-recognized domestic external credit assessment institution that can rate domestic debt issuances in relation to BSP's implementing guidelines of Basel II. A basic profile of PhilRatings can be found on its website.[20]

2. Credit Rating and Investors Services Philippines

CRISP, a domestic CRA in the Philippines, was launched and received its accreditation as a CRA from the SEC in 2008. CRISP evaluates the creditworthiness of corporate entities who issue debt instruments that are offered to the public. Further information on CRISP is available from its website.[21]

[19] See http://www.sec.gov.ph/wp-content/uploads/2015/11/sec-memo-no.-7-s2014.pdf
[20] See http://www.philratings.com
[21] See http://www.crisp.com.ph

III

Characteristics of the Philippine Bond Market

The Philippine bond market enjoys the strong support of the SEC. In its 2015 SRC Rules, the SEC established an easier and more flexible debt securities issuance framework, while also bringing regional and international practices to the market, offering to issuers and investors a more comparable and easily recognizable issuance environment.

Public offers of debt securities encapsulate a focus on investor protection and the framework for offers to Qualified Buyers, representing the professional bond market segment in the Philippines that is comparable to mature international markets. As a result of the latter, the Philippines is one of the original markets for the implementation of AMBIF, which is promoted by ABMF. (For details, please refer to Chapters IX and X).

The organized secondary market for debt securities, guided by the regulatory framework set in place by the SEC and represented by the listing or enrollment and trading on PDEx, is a specific feature of the Philippine bond market, but also ensures comprehensive initial and continuous disclosure for all investor classes.

While issuance in the bond market is still dominated by government securities, the corporate bond market has picked up significantly in recent years. In turn, the BSP itself does not issue debt instruments. Foreign-currency-denominated issuances have also been observed in the Philippines, mainly in US dollars. At the same time, the tax treatment of certain types and tenors of debt securities and transactions continues to have a bearing on the growth of, and activities in, the bond market.

This chapter aims to describe in detail some of these and other characteristics of the Philippine bond market. Additional characteristics are explained in the context of the other chapters of this Philippines Bond Market Guide.

A. Definition of Securities

The definition of securities in the Philippines can be found in the SRC, the key legislation for the bond market, while a further definition for the purposes of the PDEx market is contained in the PDEx Rules.

In contrast, the OTC Rules, which effectively are dedicated to the fixed income market, do not contain a separate or distinct definition of securities or fixed income securities, but instead, in Section 8, only specify “Eligible Securities” in terms of certain qualities with references to the SRC.

At the same time, fixed income securities are not specifically defined or referenced in the Corporation Code of the Philippines (National Legislation 68).

1. Definition in the Securities Regulation Code

Chapter 1 (Title and Definitions), Section 3 (Definition of Terms) of the SRC contains the definition verbatim as follows:

> 3.1. "Securities" are shares, participation, or interests in a corporation or in a commercial enterprise or profit-making venture and evidenced by a certificate, contract, instrument, whether written or electronic in character. It includes
>
> > (a) shares of stocks, bonds, debentures, notes, evidences of indebtedness, and asset-backed securities;
> >
> > (b) investment contracts, certificates of interest or participation in a profit sharing agreement, and certificates of deposit for a future subscription;
> >
> > (c) fractional undivided interests in oil, gas, or other mineral rights;
> >
> > (d) derivatives like option and warrants;
> >
> > (e) certificates of assignments, certificates of participation, trust certificates, and voting trust certificates or similar instruments;
> >
> > (f) proprietary or nonproprietary membership certificates incorporations; and
> >
> > (g) other instruments as may in the future be determined by the [SEC].

2. Definition in the Philippine Dealing and Exchange Corporation Rules

The PDEx Rules for the Fixed Income Securities Market, as amended on 9 July 2014 (PDEx Rules), define securities as "fixed income securities, including Government Securities insofar as the same may be applicable."[22] In turn, government securities are further defined as "[T]reasury bills and bonds issued by the National Government."[23]

B. Types of Bills and Bonds

The Philippine domestic bond market consists of short- and long-term bonds, mainly issued by the Government of the Philippines. Treasury Bills and Treasury Bonds dominate the bond market, and although the size of the Philippine corporate bond market is still small relative to government bonds, it has been growing rapidly over the years. Taxation treatment and different objectives by issuers and investors have given rise to a variety of forms and tenures of debt instruments.

1. Government Securities

The issuance of government securities is chiefly regulated under Republic Act No. 245 (An Act Authorizing the Secretary of Finance to Borrow to Meet Public Expenditures Authorized by Law and for Other Public Purposes), as amended, as well as Republic Act No. 1000 (An Act Authorizing the President of the Philippines to Issue Bonds to Finance Public Works Projects for Economic Development, Authorized by

[22] http://www.pds.com.ph/wp-content/uploads/2014/05/PDEx-Rules-for-the-Fixed-Income-Securities-Market-as-Amended-Revised-09-June-20141.pdf
[23] Footnote 22.

Law, and for Other Purposes), as amended. The issuance of government securities in other markets than the Philippines is also authorized under Republic Act No. 245.

The Government of the Philippines issues two kinds of government securities: Treasury Bills and Treasury Bonds, so-called because it is the BTr that originates their sale to the investing public through a network of licensed dealers. The BTr is an agency of the Department of Finance that issues securities on behalf of the Government of the Philippines. More details on the BTr and its functions can be found in Chapter II.D.

Government agencies, local governments, and GOCCs can also issue securities but these are not labeled as Treasuries. Government securities are issued in scripless form (i.e., not as physical certificates) and feature a range of types and formats as described below.

a. Issuances by the Government of the Philippines through the Bureau of the Treasury

i. Treasury Bills

Treasury Bills are short-term securities issued by the BTr on behalf of the Government of the Philippines.[24] Treasury Bills are used for the effective management of short-term funding needs of the government.

Treasury Bills are government securities issued in Philippine pesos that mature in less than 1 year. There are three principal tenors of Treasury Bills: 91, 182, and 364 days. The actual number of days is based on the universal practice of ensuring that the bills mature on a business day. All maturity dates traditionally fall on a Wednesday (unless said day is a holiday). The computation of the selling price is based on the number of days remaining until the maturity of a series.

Treasury Bills are quoted either by their yield rate, which is the discount, or by their price based on 100 points per unit. Treasury Bills that mature in less than 91 days are called Cash Management Bills (e.g., 35-day and 42-day issuances).

Treasury Bills are the most actively traded zero-coupon debt instrument in the Philippine bond market.

ii. Treasury Bonds

Treasury Bonds are government securities issued by the Government of the Philippines via the BTr to raise funds from the domestic financial market. They are denominated in Philippine pesos and have maturities beyond 1 year. At present, there are eight tenures of Treasury Bonds: 2, 3, 4, 5, 7, 10, 20, and 25 years. Treasury Bonds are issued at their face value on origination under a Dutch auction. Auctions for reissued bonds are done via a competitive English auction. The yield is represented by the coupons, expressed as a percentage of the face value on a per annum basis. Interest is payable semiannually.

There are also benchmark bonds, known as large-issued or jumbo bonds, which are the result of bond exchanges or swaps. Under the

[24] For details, see http://www.treasury.gov.ph/?page_id=1430

bond exchange, existing holders of Treasury Bonds are invited to surrender their bond holdings in exchange for a new bond with a longer tenor. The new bond is expected to have better liquidity and depth. Benchmark bond sizes range from PHP30 billion to PHP255 billion.

iii. Retail Treasury Bonds

Retail Treasury Bonds (RTBs) are issuances of the Government of the Philippines with tenors ranging from 3 years to 25 years that primarily cater to the retail market, due to their smaller denominations and frequent (quarterly) fixed-rate coupon payments. RTBs are safe, offer attractive returns to investors, and are liquid instruments as they can be traded in the secondary market before maturity.

Further, RTBs serve as a critical part of the government's program to make government securities available to small investors. They are issued to mobilize savings and encourage retail investors to purchase long-term paper. In contrast to the wholesale market, the minimum denomination of RTBs is PHP5,000.

RTBs are issued to GSEDs and/or selling agents. Issue sizes typically range from PHP20 billion to PHP40 billion.

iv. Multicurrency Retail Treasury Bonds

In April 2010, the government began selling Multicurrency RTBs to enable Filipinos to invest in foreign-currency-denominated government securities at an affordable minimum denomination of USD100 or EUR100. For more details, please refer to the Program Mechanics for the Issuance of Multicurrency Retail Treasury Bonds issued by the BTr in April 2010.[25]

v. Dollar-Linked Peso Notes

Dollar-Linked Peso Notes are interest bearing, issued with a tenor of 2–3 years, and can be traded in the secondary market before maturity. These notes track the movement of the Philippine peso exchange rate to the US dollar. Payments of interest and principal are linked to the movement of the exchange rate and computed based on the FX factor.

vi. Onshore Dollar Bonds

Onshore Dollar Bonds are tax-assumed debt instruments that enable all investors, regardless of tax class, to receive the same yield or interest, with final withholding tax to be assumed by the BTr and trading is possible in an unrestricted environment allowing trading across tax classes to provide additional liquidity for the bonds.

The issuance of USD500 million worth of Onshore Dollar Bonds in December 2012 provided strong domestic foreign currency liquidity, which was sustained by the country's robust foreign currency flows, primarily driven by overseas workers remittance and the business

[25] See http://www.treasury.gov.ph/govsec/puboffering/others/Multicurrency%20RTB%20Program%20Mechanics%20(Final).pdf

process outsourcing industry. The offer was directed to local qualified institutional investors who hold significant portfolios of foreign currency assets. The issuance allowed the Government of the Philippines to address its funding needs, open up a viable dollar source from the domestic market, help relieve the strengthening of the peso, and enhance the Philippines' position among domestic investors by offering another investment vehicle as cover for their US dollar portfolio assets.

b. Issuances by Other Entities

Government debt securities in the Philippines may also be issued by GOCCs as well as by other government agencies. While these debt securities are not labeled Treasuries (i.e., not issued by the BTr), they are still considered government securities.[26]

The authority of GOCCs and government agencies to issue debt securities is subject to the statute or charter of the GOCC or government agency, and to special authority or full presidential powers whenever a sovereign guarantee is required or executed by the President of the Philippines. The specific terms and conditions of the issuance are prescribed in an offering document or prospectus issued by the GOCC or government agency, respectively.

2. Issuance by the Bangko Sentral ng Pilipinas

The BSP typically does not issue its own debt instruments in the Philippine bond market, but is able to do so under its charter, if so required.

Under Section 92 of the New Central Bank Act (Republic Act No. 7653), the BSP may issue (subject to such rules and regulations as the Monetary Board may prescribe and in accordance with the principles stated in Section 90 of Republic Act No. 7653), place, buy, and sell freely negotiable evidences of indebtedness of the BSP only in cases of extraordinary movement in price levels.

3. Corporate Bonds and Notes

With the corporate bond market in the Philippines growing steadily, many types and forms of issuance are observed. The most typical issuance forms are listed below.

a. Corporate Bonds

Corporate bonds are medium- to long-term debt instruments issued by corporations and financial institutions to finance their business activities. The term corporate bond is typically used for issuances via a public offering. The Philippine market has observed straight, interest-bearing bonds, as well as zero-coupon and floating-rate bonds. Financial institutions also issue bonds that are described as bank-unsecured subordinated debt capital securities.

Issuers may be listed or nonlisted domestic corporations, banks, and NBFIs. Foreign corporates may also directly issue bonds or notes in the Philippines, subject to specific approvals (please see Chapter II.F for details).

[26] A list of GOCCs can be found on the website of the Commission on Audit at http://www.coa.gov.ph/Links/links-goccs.asp

b. Commercial Paper

Commercial paper is defined as evidence of indebtedness of any person with a maturity of 365 days or less.

The issuance of commercial paper needs to be registered with the SEC and, hence, is considered a publicly offered instrument that requires a rating from a Philippine credit rating agency. The 2015 SRC IRR introduced the requirement of an issuer credit rating rather than a credit rating for each issuance.

Commercial paper is considered a deposit substitute; consequently, interest due from commercial paper is subject to a 20% final withholding tax for residents and a 30% final withholding tax for nonresidents.

Commercial paper comprises mostly floating rate debt instruments issued by leading companies. Commercial paper is actively used in the Philippine capital market. Prior to the enactment of the new Documentary Stamp Tax Act in February 2004, the private sector preferred issues of commercial paper as a substitute for corporate bonds. These earlier forms of commercial paper had maturities of up to 7 years.

c. Corporate Notes

In contrast, corporate notes are usually private placements (i.e., not registered with the SEC; see also section E) and do not require a rating. Corporate notes are evidence of indebtedness by private corporations and have been actively used in the Philippine capital market. Interest on corporate notes is subject to a creditable withholding tax (see Chapter VI).

d. Securitized Bonds

Securitized bonds are corporate bonds issued under the concept of asset-backed securities. Securitized bonds typically represent the long-term financing of specific projects or company investments with a long payback period, and are secured by assets acquired with the bond proceeds or other company assets or revenue streams.

e. Bonds issued by Multilateral Development Banks

The World Bank defines multilateral development banks as institutions that provide financial support and professional advice for economic and social development activities in developing countries. The term typically refers to the World Bank Group and the four regional development banks:

(i) World Bank,
(ii) African Development Bank,
(iii) Asian Development Bank,
(iv) European Bank for Reconstruction and Development, and
(v) Inter-American Development Bank Group.

In its 2015 SRC IRR, the SEC provided for an easier regime to allow the issuance of bonds by multilateral development bank in the Philippines.

4. Issuance Programs

In principle, bond or note issuance programs, such as MTN programs, may be launched in the Philippines. Section 12 of the SRC defines a shelf-registration concept that may be used for this purpose, and the 2015 SRC Rules have made the shelf-registration concept easy and cheaper to use. At the same time, issuers have not yet applied to list or enroll a note issuance program on PDEx.

C. Money Market Instruments

Money market instruments are short(er)-term debt instruments issued by either the Government of the Philippines through the BTr or by the private sector. Money market instruments generally carry a maturity of less than 1 year. Money market instruments observed in the Philippine capital market can be divided into the following types described below.

1. Issued by the Government of the Philippines through the Bureau of the Treasury

a. Treasury Bills

Treasury Bills are short-term securities issued by the BTr on behalf of the Government of the Philippines (see also section B.1.a). Due to their short-term tenures and very high liquidity—Treasury Bills are the most actively traded instruments in the Philippines—they are used for liquidity management by banks as well as by corporate participants in the money market.

2. Issued by the Corporate Sector

a. Commercial Paper

Commercial paper is an evidence of indebtedness by any person with a maturity of 365 days or less (see also section B.3.b). Commercial paper is issued with original tenors ranging from 1 month to 1 year, and are actively traded in the money market in the Philippines.

b. Repurchase Agreements

A repo agreement is a contract to sell and, subsequently, repurchase securities at a specified date and price. Repo transaction can involve government securities or corporate bonds and notes. The BSP and its bank and non-bank constituents, as well as PDEx participants, engage in repo transactions. Details on the repo market in the Philippines and its practices are provided in Chapter IV.

c. Certificates of Deposit

A certificate of deposit is a debt instrument issued by deposit-taking institutions, such as banks or NBFIs with quasi-banking functions. Certificates of deposit follow bank interest rates and are considered both a banking product and a debt instrument.

The BSP adheres to international standards such as the International Monetary Fund's External Debt Guide, which defines certificates of deposit as "certificates issued by a deposit-taking corporation acknowledging a deposit in that corporation for a specified period of time at a specified rate of interest; [certificates of deposit] are essentially a form of negotiable time deposit."

Moreover, the International Monetary Fund classifies certificates of deposit as debt securities under the broad category of debt instruments. Certificates of deposit with an original maturity of 1 year or less are classified as short-term debt securities, while certificates of deposit with an original maturity of over 1 year are classified as long-term debt securities.

d. Acceptances

Acceptances are typically instruments like bills of exchange or cheques endorsed by their payee or creditor in order to onward trade the instrument for liquidity purposes. Acceptances may arise from the payment for products or services (trade acceptances), or a financing transaction (banker acceptances). Acceptances are typically short-term in nature and, hence, traded in the money market.

D. Segmentation of the Market

To provide a better illustration of the segmentation of the different types of issuers and their types of debt securities in the Philippine bond market, Table 3.1 shows an overview of the outstanding value of government debt securities by issuer type.

More information on the outstanding debt securities issuances or specific statistics on the Philippine bond market can be found on the website of the BTr as well as on *AsianBondsOnline*, a bond information portal operated by ADB under the initiative of ASEAN+3. Appropriate links are provided in Chapter VII.

Table 3.1: Segmentation of the Market: Outstanding Value by Type of Issuer and Instrument

Type of Issuer and Issuance		Type of Instrument	Outstanding Amount (PHP billion)	% of Total
Central Government				
Onshore	Local Currency	Treasury Bills	287.94	5.28%
		Treasury Bonds	3,620.68	66.43%
		Total	**3,908.61**	
	Foreign Currency	Onshore Dollar Treasury Bonds	24.88	0.46%
	Total		**3,933.50**	
Offshore	Local Currency	Global Peso Notes	129.68	2.38%
	Foreign Currency	Global Bonds (USD)	1,169.81	21.46%
		Global Bonds (JPY)	42.44	0.78%
		Total	**1,212.14**	
	Total		1,341.82	
Total Central Government			**5,275.32**	
State-Owned Corporations				
Onshore	Local Currency	NFA Bond	8.00	0.15%
		PSALM Bond	18.68	0.34%
		Total	**26.68**	
	Foreign Currency	PSALM (USD)	122.63	2.25%
		PSALM (JPY)	26.14	0.48%
		Total	**148.77**	
	Total		**175.45**	
Grand Total			**5,450.77**	100.00%

JPY = Japanese yen, NFA = National Food Authority, PHP = Philippine peso, PSALM = Power Sector Assets and Liabilities Management Corporation, USD = United States dollar.
Note: Data as of end-December 2016.
Source: Bureau of the Treasury.

E. Methods of Issuing Bonds and Notes (Primary Market)

A number of different methods to issue debt securities are in use in the Philippine bond market, including auction via the so-called Over-the-Counter method (in contrast to OTC trading), in which noncompetitive bids are accepted from specific institutions only. The issuance mode depends on the type of instrument to be issued and the targeted investor universe. These issuance methods are also commonly referred to as origination of government securities.

Auction settlement is T+2, while OTC transactions in government securities are settled on T+0.

1. Issuance via Auction

Government securities are issued via competitive auctions—both English and Dutch auction methods are employed—and noncompetitive bids from GSEDs (see Chapter III.M for details).

a. Competitive Auction

The BTr offers Treasury Bills and Treasury Bonds through competitive auction methods. The English auction (or price discrimination method) is a method in which successful competitive bidders pay the price for which they have bid; each winning bidder may pay a different price. A Dutch auction (or uniform price method) is a method of pegging a uniform coupon rate at the stop-out level of arrayed amounts of bids with the corresponding yield rate tendered; conventionally, the rate must be divisible by one eighth of 1.0%.

Bids for competitive auctions need to be submitted through the Automated Debt Processing System (ADAPS). GSEDs will submit their bids on the basis of orders from end-investors and proprietary needs, and may on-sell their securities inventory to the market.

b. Noncompetitive Bid

A noncompetitive bid is a tender by a GSED to buy a specified amount of government securities at a primary auction of government securities, without indicating any yield rate, on the understanding that the award shall be at the weighted average yield rate of the competitive bids awarded at the same auction. GSEDs are able to submit one noncompetitive bid for each auction.

A noncompetitive bid also needs to be submitted through ADAPS.

2. Issuance Over-the-Counter

The Over-the-Counter method represents another mode of issuance in which the BTr sells government securities to specific investors. Over-the-Counter is a noncompetitive mode of issuing government securities to a limited group of investors, including GOCCs, Local Government Units (LGUs), and Tax-Exempt Institutions (TEIs) such as pension funds. In contrast to auction, the Over-the-Counter method is available every day.

The applicable yield rates for Treasury Bills issued to GOCCs, LGUs, and TEIs shall be based on the rate of the immediately preceding Treasury Bill auction. For GOCCs, the rate shall be the lowest accepted yield rate; for LGUs, it is the weighted average yield rate; and for TEIs, the yield shall be 90% of the weighted average yield rate.

Treasury Bonds issued to GOCCs, LGUs, and TEIs shall be priced based on the current market yield. The coupon rate for GOCCs and LGUs shall be based on the rate corresponding to the auctioned Treasury Bonds.

3. Bonds Issued by Other Statutory Bodies and Government-Owned or -Controlled Corporations

In the Philippines, bonds and notes issued by other statutory bodies and GOCCs follow the issuance methods and practices of corporate bonds. These institutions use an underwriter and or selling agents to place their issuances in the market. Pricing is determined through book building or in a similar manner and the investors are determined by the type of market into which the debt instruments are placed.

4. Corporate Bond and Note Offering Methods

In the Philippines, corporate bonds and notes are typically offered using either public offers or an offer under the Exempt Transactions provisions in the SRC. In both cases, the issuer may employ an underwriter (though mandatory only for public offers) and use book building to determine the likely success of the offer and achieve price discovery.

Public offers require a prospectus and are subject to the approval of the SEC (see Chapter II.F for details). In turn, Exempt Transactions, such as offers to Qualified Buyers (QB bond issuance), are typically driven by market expectations and practices, including on disclosure. Both public offers and Exempt Transactions may be listed or enrolled, respectively, on PDEx for secondary market trading. In such cases, the issuer needs to observe the PDEx Listing Requirements, which include specific initial and continuous disclosure obligations.

The regulatory framework and its relevant processes for these offering methods are further described in Chapter II.

a. Public Offer

A public offer of debt securities in the Philippines is an offer to 20 or more investors, typically to the public at large without an upper limit on investor groups or numbers. According to the SRC, public offers will need to be registered with the SEC prior to issuance and specific disclosure and other obligations will be observed (also see Chapter II.F).

The public offer of securities requires the appointment of an underwriter by the issuer. The issuer or underwriter may also appoint selling agents, and use book building or other methods to determine the likely success of the issuance, pursuant to the restrictions on advertising and promotion of securities not yet registered with the SEC.

Bonds or notes issued through a public offer may be listed on PDEx, which enables them to be freely tradable in the organized secondary market.

b. Book Building

Book building is a method used to achieve suitable price discovery and a realistic picture of the demand of investors for a particular bond, note, or *sukuk* (Islamic bond) issue or program. It is used only for corporate bonds since the possible investor universe is not limited to GSEDs and their account holders. The issuer appoints an underwriter, such as a bank or investment house, to act as the book runner. The bank or investment house will need to be licensed by the SEC for underwriting activities as a Capital Market Institution.

The book runner collects bids from investors, both institutional and retail, over a limited subscription period and at various prices. The actual issue price is determined once the book has closed, based on specific criteria set out in the offer documentation.

Book building is used for both offers to the public and those to Qualified Buyers, depending on the size of the issuance and other considerations.

c. Exempt Transactions (Private Placements)

While the term “private placement” is no longer used in the 2015 SRC Rules and official materials of the SEC, it continues to be applied in market practice. In a private placement, bonds or notes are issued or offered to a limited target group of investors, typically professional or institutional investors.

In the Philippines, this concept is realized through the Exempt Transactions provided for in Section 10 of the SRC, including offers to Qualified Buyers, which represent the professional investor definition in the Philippines (see also Chapter III.N). Exempt Transactions need not be registered with the SEC and they attract limited disclosure requirements. The time to market is also shorter since no SEC approval is required.

Enrolling in PDEx (in contrast to a listing for public offers) enables a bond or note offered through a private placement to be freely tradable in the organized secondary market. If a bond is listed or enrolled on PDEx, the typical initial and continuous disclosure requirements under the PDEx Rules apply (for further details, please see Chapters II.G or III.I).

F. Governing Law and Jurisdiction (Bond and Note Issuance)

The governing law and jurisdiction for a bond or note issuance may be of significance since potential issuers may consider issuing under the laws or jurisdiction of a country or market other than the place of issuance. The choice of governing law or contractual preferences of stakeholders may affect the accessibility to a specific investor universe that may otherwise not be accessible if a bond or note were issued under the laws of the place of issuance.

The civil code of the Philippines permits the use of governing laws or jurisdictions other than those of the Philippines in contracts, provided that such provisions do not contravene any existing Philippine laws.

Should the parties involved in a bond or note issuance choose to use Philippine law, the jurisdiction of the issuance would fall to Philippine courts by default. If, in contrast, issuance parties agree on another governing law, the parties would also have to specifically determine the jurisdiction of a court in which provisions of the bond or note issuance (e.g., settlement agency) could be enforced and any disputes would be heard and decided.

In the case of issuance of PHP-denominated bonds or notes in the Philippines, even in cases when contract parties choose a governing law other than Philippine law for the contract, it is expected that Philippine law would prevail as the law specific to issuance- and settlement-related matters.

In any case, the actual use of governing laws or jurisdictions other than those of the Philippines may be subject to clarification or legal advice from a qualified law firm, as may be necessary.

G. Language of Documentation and Disclosure Items

In the Philippines, contract, bond or note issuance documentation and disclosure items, as well as all applications to, approvals and correspondence with regulatory authorities and market institutions, if so required, are expected to be in English.

The use of English is prescribed in BSP and SEC regulations, including the provisions related to PDEx.

H. Registration of Debt Securities

The term “registration” is specific to the regulatory process for the approval of debt—and, in fact, all—securities issuance in the Philippines. In contrast to other markets, registration does not typically refer to the provision of bond information, continuous disclosure, and the determination of a fair market price, or the testation of ownership for the investor in debt securities.

Under the SRC, all securities to be issued in the Philippine market via a public offer are to be registered with the SEC; the registration is the seeking of approval for such issuance. Issuers or their agents need to submit a Registration Statement (also referred to as SEC Form 12-1) to the SEC, who will declare the Registration Statement effective after review provided the contents conform to all applicable rules and regulations.

In turn, the provision of information on debt securities, the related disclosure by the issuer and the determination of a fair market price may depend on the type of issuance, and are typically addressed through a listing or enrollment of bonds or notes on PDEx, which enables secondary market trading of these debt instruments. For more information on the listing or enrollment of debt securities, please see section I.

As for the testation of ownership of debt securities, referred to here as the transfer of interest or ownership in securities, please see section L.

I. Listing or Enrollment of Debt Securities

Listing or enrolling a bond or note on PDEx will enable the secondary market trading of these debt instruments in PDEx.

A listing of a bond or note is for debt instruments open to all investors and needs to be initiated by the issuer. In contrast, an enrollment is for bonds and notes aimed at Qualified Buyers (professional investors) only and may be initiated by the issuer or a Trading Participant; the party who enrolls a bond or note on PDEx, also referred to as the sponsor, is responsible for the disclosure of material information as stipulated in the PDEx Rules. Whether listed or enrolled, these securities proceed through the same clearing and settlement processes and practices.

According to the OTC Rules issued by the SEC in 2006, all OTC trading of debt instruments issued in the Philippines needs to comply with the OTC Rules. PDEx has been granted the authority to act as an OTC market operator and as an SRO for the OTC market. For more details on the regulatory framework in general, please refer to Chapter II.E.

1. Listing on the Philippine Dealing & Exchange Corporation

The SEC-approved PDEx Rules require the continuous disclosure of material information from issuers or sponsors of a bond or note listed or enrolled on PDEx.[27]

Under the PDEx Rules (7.2.1), a listing or enrollment is possible for debt instruments issued by resident and nonresident issuers, subject to SEC approval. Foreign governments and multilateral organizations are also eligible. Nonresident issuers need to appoint an issuer representative based in the Philippines who will be responsible for furnishing required information from the issuer and relate any inquiries to the issuer. A listing or enrollment of a note issuance program, such as an MTN program, is principally possible but has not yet been requested in applications to PDEx.

Treasury Bills and Bonds denominated in Philippine pesos, as well as USD-denominated Onshore Dollar Bonds, are listed on PDEx for secondary trading. GOCC and private debt securities offered to public investors may also be listed on PDEx. The listing of debt securities on PDEx is subject to admission criteria, conventions, and other prescriptions of PDEx.

For details on the actual listing process, please refer to section 3.

2. Profile Listing (Listing on the Qualified Board)

A profile listing is a listing without trading on an exchange. The objective of the listing is to make bonds and notes visible and more information available to investors via a recognized listing place, particularly those investors with more restrictive mandates, such as mutual funds and pension funds. A profile listing at a designated listing place can ensure the flow of continuous disclosure of information and possibly even reference pricing in some markets.

While the Qualified Board of PDEx is not the exact equivalent of profile listing as defined above, it offers the flow of the continuous disclosure of information and reference pricing when traded therein.

Both resident and nonresident issuers may enroll their debt instruments aimed at Qualified Buyers on PDEx, depending on the SEC framework and subject to certain FX rules issued by the BSP. Enrollment is done by a sponsor, being either the issuer or a Trading Participant. The sponsor is required to comply with the obligations to continuously disclose material information as may be specified in applicable SEC rules and regulations and the PDEx Rules. At the same time, trading is not compulsory (e.g., in cases when professional investors buy and hold only specific bond or notes).

For details on the actual listing process, please refer to the next section.

3. Actual Listing Process

PDEx does not distinguish between the processes for the listing or the enrollment of a bond or note; the application, approval, and effective listing steps are the same for both and are described below.

Registering a bond or note (for public offers), or filing a Notice of Exempt Transaction with the SEC (Step 1) is a prerequisite for the application for listing (or enrollment) on PDEx.

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[27] PDEx prescriptions regarding listing and enrollment (PDEx Listing Rules) represent Rule 7 of the PDEx Rules for the Fixed Income Securities Market, as amended. The complete PDEx Rules are available at http://www.pds.com.ph/index.html%3Fpage_id=852.html

Step 1—Listing Application to the Philippine Dealing & Exchange Corporation

PDEx prescribes that an issuer or Trading Participant (for enrollment) needs to send to PDEx the application for listing or enrollment as well as the duly executed listing agreement, together with documents and disclosure items stipulated in the applicable PDEx listing checklist.

PDEx has a checklist for the listing or enrollment of exempt securities for resident issuers. The authority to issue and the compliance with (BSP and SEC) regulatory requirements for such issuance would be, among others, that which will be requested from the prospective issuer.

For nonresident issuers, the requirements shall rely on and be amended accordingly, based on the framework of the Philippine regulators (SEC and BSP) for domestic PHP-denominated issuances of nonresident issuers of securities. PDEx does not distinguish between nonresident general corporate and nonresident financial institution issuers.

PDEx may, at any time, request for additional information or disclosure items from the issuer.

Step 2—Listing Approval from the Philippine Dealing & Exchange Corporation

Upon a complete submission of the documentary requirements, and assuming that there are no identified issues, PDEx has a target time frame of responding to the application for listing (enrollment) within 5 business days. The actual review process commences when an issuer or listing applicant starts the submission of the documentary requirements.

If all documents and disclosure items are in order, PDEx will issue an approval letter to the issuer. PDEx may state specific conditions attached to the approval, if necessary.

A fee is payable after the listing; the PDEx schedule of fees for admitting securities applies to both listing and enrollment.

Step 2—Effective Listing (Listing Exercise)

For the listing of the debt securities to take effect, PDEx has a target time frame of 3 business days after an approval is issued, on the assumption that no concerns have been identified and the required securities' details are complete and in order. PDEx Rule 7.6.6 stipulates that PDEx shall announce the admission of new debt securities to its Trading Participants and the SEC, and publish the announcement on its website. A listing exercise shall likewise be held to formally and publicly announce the admission for secondary trading on the PDEx Trading Platform and to commence the trading of such debt securities.

The listing exercise is a brief ceremony held prior to the start of trading, highlighted by the ringing of a ceremonial bell at 9 a.m. (the start of the trading day) by the issuer of the debt securities to mark the start of trading of its newly listed debt securities on the trading platform.

J. Methods of Trading Bonds and Notes (Secondary Market)

Pursuant to the OTC Rules (officially Rules Governing the Over-the-Counter Market) promulgated by the SEC in its Memorandum Circular 14 of 2006, all OTC trading of debt securities—in fact, all securities—in the Philippines has to occur on an organized market. The OTC Rules also introduced the function of an SRO to supervise the activities and participants of such market.

Section 1.D of the OTC Rules states the intentions of the SEC in forming such organized markets in order to ensure full and timely disclosure of material information, protect investors, preserve market integrity and avoid system risk, prevent fraudulent practices, and promote the development of the capital market.

1. Philippine Dealing & Exchange Corporation

As an SEC-registered exchange and SEC-authorized OTC market operator, PDEx operates the organized secondary market for the trading of fixed income securities, which includes both government securities and corporate bonds and notes.

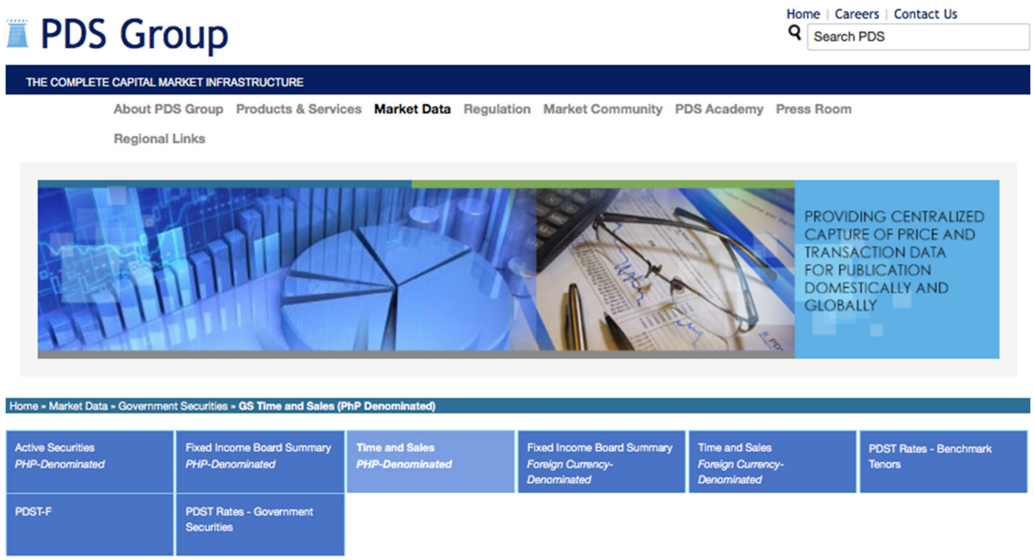
PDEx's electronic trading platform currently supports a bilateral market where trading can occur through either a quote-driven or an order-driven system. Dealing and Brokering Participants are registered by the SEC and subject to the PDEx Rules and Trading Conventions (please see Chapter II.I and Chapter II.J. for further information on PDEx Rules and Trading Conventions, respectively).

K. Bond and Note Pricing

At present, there is no dedicated domestic bond pricing agency active in the Philippines. PDEx, as the calculating agent appointed by the Bankers Association of the Philippines, is responsible for calculating the Philippine Dealing Systems Treasury Reference Rates. This system may be used as the basis for valuing and marking-to-market interest-rate-sensitive instruments (e.g., for investors such as insurance companies and mutual funds.)

The traded prices and reference rates are available from the PDS Group website and may be downloaded in CSV format, including historical data. Figure 3.1 gives an example of the information available for executed trades. Figure 3.2 provides a screenshot of available information for Philippine Dealing Systems Treasury Reference Rates.

Figure 3.1: Philippine Dealing Systems-Executed Trade Information



Time	Tenor	Inst Name	Clean Price	Yield	Face Amount (MM)	Coupon	Days	Years	Maturity
09:26:34 AM	6Y	RTB 10-04	93.6333461	4.4700	0.200000	3.2500	2,181	5.97	2023-08-15
09:25:40 AM	6Y	FXTN 07-58	96.2606375	4.2500	50.000000	3.5000	2,065	5.65	2023-04-21
09:23:54 AM	8.5Y	FXTN 10-60	94.1829936	4.4950	50.000000	3.6250	2,937	8.04	2025-09-09
09:22:13 AM	6Y	FXTN 07-58	96.1700669	4.2700	100.000000	3.5000	2,065	5.65	2023-04-21
09:18:11 AM	8.5Y	FXTN 10-60	94.1829936	4.4950	100.000000	3.6250	2,937	8.04	2025-09-09
09:18:10 AM	8.5Y	FXTN 10-60	94.1829936	4.4950	100.000000	3.6250	2,937	8.04	2025-09-09
09:17:13 AM	8.5Y	FXTN 10-60	94.2152779	4.4900	50.000000	3.6250	2,937	8.04	2025-09-09
09:15:54 AM	8.5Y	FXTN 10-60	94.1829936	4.4950	100.000000	3.6250	2,937	8.04	2025-09-09
09:15:46 AM	2M	TBILL 11.02.17	99.5943605	2.1250	10.000000	-	69	0.19	2017-11-02
09:15:18 AM	8.5Y	FXTN 10-60	94.1829936	4.4950	50.000000	3.6250	2,937	8.04	2025-09-09
09:15:05 AM	8.5Y	FXTN 10-60	94.1829936	4.4950	50.000000	3.6250	2,937	8.04	2025-09-09
09:15:04 AM	8.5Y	FXTN 10-60	94.1829936	4.4950	50.000000	3.6250	2,937	8.04	2025-09-09

Source: Philippine Dealing System Group. Market Data. http://www.pds.com.ph/index.html%3Fpage_id=3881.html

The bond and note pricing data—both transacted and calculated prices—are made available to PDEx participants and commercial information vendors for distribution to their clients and subscribers, respectively. The PDEx website also includes a link to the website of the Bond Pricing Agency Malaysia under a cooperation agreement between ASEAN bond pricing agencies.

Figure 3.2: Philippine Dealing Systems Treasury Reference Rates

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Active Securities *PHP-Denominated*	Fixed Income Board Summary *PHP-Denominated*	Time and Sales *PHP-Denominated*	Fixed Income Board Summary *Foreign Currency-Denominated*	Time and Sales *Foreign Currency-Denominated*	PDST Rates - Benchmark Tenors
PDST-F	**PDST Rates - Government Securities**				

As of **Aug. 24, 2017 01:15 PM**

PDST Rates - Government Securities (Bills)

Tenor	Inst Name	ISIN	Coupon	Days	Years	Maturity	Last Yield	Last Traded Time	Total Volume (MM)	Wtd. Ave. Yield	Simple Average Bid Yield	R1 Tag	PDST-R1	R2 Tag	PDST-R2
<1M	TBILL 08.30.17	PIBL0617C031	-	5	0.01	2017-08-30	-	-	-	-	-	I	2.9629	-	-
<1M	TBILL 09.06.17	PIBL0317F062	-	12	0.03	2017-09-06	-	-	-	-	-	I	2.8980	-	-
<1M	TBILL 09.13.17	PIBL0617C040	-	19	0.05	2017-09-13	-	-	-	-	-	I	2.8331	-	-
1M	TBILL 09.20.17	PIBL0317F071	-	26	0.07	2017-09-20	-	-	-	-	2.7104	B	2.7032	-	-
1M	TBILL 09.27.17	PIBL1216I099	-	33	0.09	2017-09-27	-	-	-	-	2.5700	B	2.7032	-	-
1M	TBILL 10.04.17	PIBL0317G089	-	40	0.11	2017-10-04	-	-	-	-	2.7500	B	2.7032	-	-
2M	TBILL 10.11.17	PIBL0617D058	-	47	0.13	2017-10-11	-	-	-	-	-	I	2.7166	-	-
2M	TBILL 10.18.17	PIBL1216J105	-	54	0.15	2017-10-18	2.0250	10:41:07 AM	5.100000	2.0250	-	I	2.7233	-	-
2M	TBILL 10.25.17	PIBL0617D067	-	61	0.17	2017-10-25	2.0250	10:31:47 AM	1.000000	2.0250	-	I	2.7300	-	-
2M	TBILL 11.02.17	PIBL0317H097	-	69	0.19	2017-11-02	2.1250	11:10:53 AM	26.667000	2.1256	-	I	2.7377	-	-
2M	TBILL 11.08.17	PIBL0617E075	-	75	0.21	2017-11-08	2.1350	10:08:49 AM	0.112008	2.1350	-	I	2.7434	-	-
3M	TBILL 11.15.17	PIBL0317H104	-	82	0.23	2017-11-15	2.1250	10:24:33 AM	0.798000	2.1250	2.7688	B	2.7568	-	-
3M	TBILL 11.22.17	PIBL0617E084	-	89	0.24	2017-11-22	-	-	-	-	2.6850	B	2.7568	-	-
4M	TBILL 12.06.17	PIBL0617F092	-	103	0.28	2017-12-06	2.1750	11:12:20 AM	466.871000	2.1740	-	D	2.1740	-	-

Source: Philippine Dealing Systems. Market Data. http://www.pds.com.ph/index.html%3Fpage_id=15270.html

L. Transfers of Interest in Bonds and Notes

The ownership and transfer of titles or interests in bonds and notes in the Philippine bond market is evidenced through the records maintained by a dedicated transfer agent (corporate bonds) or in RoSS (government securities). The actual process may depend on the nature of the debt securities and the system in which the transfer is effected (see below for details). The basic provisions for the transfer of ownership of securities can be found in Chapter XI of the SRC (Acquisition and Transfer of Securities and Settlement of Transaction in Securities).

1. Transfer of Entitlement and Ownership of Debt Securities

An issuer of a corporate bond or note shall appoint a transfer agent duly registered with the SEC and/or the BSP to keep the Register of Bondholders (or Noteholders) in electronic or physical form. The term “registrar” is not used in this context (please also see Chapter III.H) The names and addresses of bondholders and details of the bonds they hold, as well as all transfers of bonds and notes, shall be entered into the register.

The rules and regulations that govern securities custodianship and the securities registry operations of BSFIs are provided under BSP Circular No. 428 dated 27 April 2004 and BSP Circular Letter dated 4 August 2005, as amended by Circular No. 873 dated 25 March 2015.[28] As indicated in these circulars, the transfer agent shall send each bondholder (or noteholder) a written statement of registry holdings at least quarterly. The cost for such shall be at the issuer's expense, unless specified in the terms and conditions of the bonds or notes. The transfer agent shall also send written advice, at the relevant bondholder's expense, confirming every receipt or transfer of the bonds effected in the transfer agent's system. The statement of registry holdings shall serve as the confirmation of ownership of the bondholder as of the date thereof.

2. Ownership and Transfer of Corporate Debt Securities

PDTC, formerly known as the Philippine Central Depository, is a securities depository operating in Philippines. It has been in operation since 1995 and solely owns a special purpose corporation, PCD Nominee, specifically set up to hold legal title to securities lodged in the depository as a nominee.

PDTC, in addition to the equities market, services the fixed income market segment and has real-time interfaces with its Depository Participants and the BSP to settle fixed income spot and repo trades using central bank money. For cash entitlements such as coupon or redemption payments, PDTC interfaces with cash settlement banks.

Its depository service operates a book-entry system for the transfer of ownership of debt instruments. All trade settlements resulting from the PDEx organized market are done on a gross and real-time trade-for-trade basis. Fixed income securities transactions of Depository Participants on the PDEx Fixed Income Securities Market are sent to the PDTC for settlement, based on PDEx Rules. Settlement is carried out on a delivery-versus-payment basis.

3. Ownership and Transfer of Government Securities

Government securities issued by the Government of the Philippines through the BTr are recorded with RoSS, an electronic book-entry system operated by the BTr, which serves as the final and official record of ownership or interest in government securities. Debt securities issued by GOCCs may also be recorded in RoSS. Appropriate agreements are executed between the issuing GOCC and the BTr on the use of the registry system.

4. Transfer of Government Securities and Tax Status

Transfer provisions vary across different types of bonds and notes, as defined in the terms and conditions for each bond or note issuance. Traditionally, government securities were not allowed to be transferred across different investor tax categories. The BTr has taken several initiatives to unify the investor markets. In 2010, the BTr issued Multicurrency RTBs, which may be transferred between and among investors of different tax categories. This was followed by the issuance of Onshore Dollar Bonds in 2012, a type of government securities denominated in US dollars that is issued and traded onshore.

In May 2015, the BTr implemented the Non-Restricted Trading and Settlement of PHP-denominated coupon-bearing government securities, allowing for secondary

[28] The terms "securities registry" and "transfer agent" are used by the BSP and the SEC, respectively, and are typically applied synonymously in the Philippine market since they represent the same function. However, the term transfer agent is used by the SEC as "registration" and other similar terms have a different meaning in SEC regulations. Transfer agents require a separate registration with the SEC, while securities registries may operate under the existing banking license issued by the BSP.

market transfers across investor groups belonging to the 0% and 20% tax categories. This was a milestone that finally facilitated access to the secondary market for a large segment of bondholders known as TEIs. Treasury Bills and other discounted notes, including zero-coupon bonds, remain in the restricted environment under which they may only be transferred to investors within the same tax category.

Transfers of corporate securities across different tax categories are currently limited to transfers on coupon dates; otherwise, the following is observed:

(i) TEIs trading with non-TEIs are treated as non-TEIs for the interest period within which such transfers occurred, or

(ii) Tax-exempt holders trading across tax categories are considered as tax withheld.

5. Entitlement Perfection against a Third Party (Finality of Transactions)

a. Philippine Depository & Trust Corporation

For secondary market transactions in corporate securities, the settlement of both the securities and cash legs are done on a delivery-versus-payment basis using central bank money. Finality of settlement is achieved when cash has been credited to the buyer's cash account.

b. Registry of Scripless Securities

In the primary market, GSEDs are awarded government securities at auction. Any securities awarded are electronically downloaded to RoSS by the BTr. On the issue date, the Principal Securities Account of a GSED will be credited with the winning bids, and the transfer of ownership, or the acquisition of ownership in this case, will be complete.

For secondary market transactions in government securities, the settlement of both the securities and the cash portion is done on a delivery-versus-payment basis in real-time gross settlement systems. Upon confirmation of the cash transfer, the purchased securities are credited irrevocably to the buyer's account in RoSS.

Details on the institutions and system involved in the transfer (transaction flow) and settlement process can be found on the BTr website.[29]

6. Prohibited Transfers

As described earlier, Treasury Bills and other discounted notes, including zero-coupon bonds, remain in the restricted environment under which these non-coupon-bearing instruments may only be transferred to investors within the same tax category.

M. Market Participants

1. Issuers

The Philippine bond market is still dominated by issuances from the Government of the Philippines, either through the BTr or GOCCs. At the same time, the corporate

[29] See http://www.treasury.gov.ph/?page_id=1430

bond market is growing rapidly. Among key corporate issuers are banks and non-bank corporates, as well as multilateral agencies.

The SEC lists registered issuers of bonds and commercial paper (i.e., those offered to the public) on its website.

2. Investors

The Philippine bond market features a number of significant investor types, which are briefly described below.

a. Investment Houses

Under the Investment Houses Law, an investment house is an enterprise that primarily engages in the underwriting of securities of another person or enterprise, including government securities, whether on a regular or an occasional basis. Investment houses are licensed by and under the supervision of the SEC, and a list of active institutions is available from the SEC website. As of October 2016, the SEC had listed 17 active investment houses and a further 11 specially licensed investment houses engaged in dealing government securities (see also GSEDs in section 3).

b. Universal Banks

Under the General Banking Law, 2000 (Republic Act No. 8791), a universal bank has the authority to exercise the powers of a commercial bank and an investment house as provided in existing laws.

A universal bank also has the power to invest in nonallied enterprises. The operations and activities of universal banks are subject to supervision of the BSP. Such activities include securities business, which must conform with pertinent rules under the SRC as administered by the SEC.

As of 31 July 2016, there were 21 universal banks licensed by the BSP.

c. Insurance Companies

Insurance companies, by the very nature of their purpose, are significant investors in debt securities. Based on 2014 data from the Insurance Commission of the Philippines (the most recent available report), the investment of insurance companies in government securities totaled approximately PHP285 billion, representing about one third of insurance firms' investments; this applied to both the life and nonlife insurance sectors.[30]

d. Asset Managers (Investment Company Advisers)

Asset managers, being referred to as Investment Company Advisors and licensed by the SEC as Capital Market Institutions under Philippine law, invest in debt securities on behalf of collective investment schemes or as mandated by portfolio owners. As of the end of October 2016, the SEC listed 11 active Investment Company Advisers on its website.[31]

[30] Insurance Commission of the Philippines. Key Insurance Indicators. Key Summary from 2010 to 2014. http://www.insurance.gov.ph/_@dmin/upload/statistics/Key_Data_2014.pdf
[31] Securities and Exchange Commission. Capital Market Institutions. http://www.sec.gov.ph/public-information-2/registered-firms-individuals-and-statistics/capital-market-institutions/

e. Mutual Funds

Mutual funds are under the purview of the SEC and require a registration with the SEC to operate. As of August 2016, the SEC listed 20 bond funds, 18 balanced funds, and 1 money market fund on its website.

f. Pension Funds and Provident Funds

Pension and provident funds are significant investors in debt securities. In the Philippines, pension and provident funds are classified into different categories and governed by a number of regulators, depending on their key purpose and stakeholders. The Insurance Commission of the Philippines is the key regulator for corporate pension plans, while unit investment trusts are supervised by the BSP. A key participant in the market is the Social Security System, which is under the supervision of the Social Security Commission.

g. Retail Investors

The Government of the Philippines has targeted a number of issuances of bonds and notes at retail investors to allow for the practical investment of savings. Please refer to section B for more information.

Retail investors may also participate in the government and corporate bond market by, for example, investing in mutual fund products with a focus on debt securities.

3. Parties Involved in Debt Securities Issuance

The following Philippine bond market participants are typically involved in the issuance of debt securities and their main role and functions in this context are briefly reviewed below. In order to participate in the capital market in the Philippines, or the bond market specifically, some of these institutions, which are referred to collectively as Capital Market Institutions, require a secondary license from the SEC for the functions they intend to carry out (see also Chapter II.I for details). Individuals acting for these Capital Market Institutions also need to obtain a corresponding license and are collectively referred to as Capital Market Professionals.

The SEC publishes a list of Capital Market Institutions and Capital Market Professionals, by type of institution, on its website.[32]

a. Government Securities Eligible Dealers

GSEDs are instrumental in the issuance and placement of government securities in the Philippine bond market. GSEDs are SEC-licensed securities dealers belonging to one of the financial service industries supervised or regulated by a government agency such as the BSP, SEC, or the Insurance Commission of the Philippines. GSEDs are required to meet specific criteria to be eligible to participate in the auction of government securities and remain recognized by the BTr:

(i) an unimpaired capital and surplus account of PHP100 million,
(ii) the statutory ratios prescribed for the industry,
(iii) infrastructure for an electronic interface with ADAPS and RoSS, and
(iv) acknowledged by the BTr as eligible to participate in the primary auction of government securities.

[32] See http://www.sec.gov.ph/public-information-2/registered-firms-individuals-and-statistics/registered-firms-and-individuals/

As of 31 December 2016, the BTr had accredited a total of 34 banks and non-banks with or without quasi-banking license as GSEDs.[33] For a description of the primary market issuance methods and the GSEDs' participation, please refer to section E in this chapter.

The current obligations of government securities dealers include regular participation in the electronic auction of government securities at reasonable and current market bid rates as well as position-taking and market-making. However, the BTr is currently in discussion with regulators and market participants in establishing a primary dealer system that will constitute a select pool of primary dealers to act as financial intermediaries in both the primary and secondary markets for government securities. These primary dealers will be tasked to perform specific obligations in exchange for certain privileges.

b. Underwriter

In Section 3.15, the SRC defines "underwriter" as a person or institution who guarantees, on a firm commitment and/or declared best effort basis, the distribution and sale of securities of any kind issued by another company.

Under Presidential Decree No. 129, also known as the Investment Houses Law, the underwriting of securities is the act or process of guaranteeing by a duly licensed investment house or a universal bank licensed as an underwriter of securities by the SEC (for details on these institutions, please see section M.2). It also involves the distribution and sale of securities issued by another person or enterprise, including securities of the government and its instrumentalities.

Under Rule 12.1.1 of the 2015 SRC IRR, an underwriting agreement is required for issuers of registered securities (i.e., in the case of a public offer.) There is no requirement on the use of an underwriter for a corporate bond or note offering aimed at Qualified Buyers. At the same time, the issuer is typically represented by an underwriter who will file or submit the necessary application for approval or exemption and relevant documentation to the respective regulatory authorities and market institution on the issuer's behalf.

An underwriter's fee is higher than that of a selling agent (see next section) to compensate for the additional risk and is based on absorbing the total amount of securities underwritten, regardless of whether the securities are fully sold or not.

The PDS Group does not maintain a list of licensed underwriters on their website.

c. Selling Agent(s)

In contrast, a selling agent, while fulfilling a similar function to an underwriter in the context of placing securities in the Philippine market, does not have the obligation to take up or purchase any unsold securities. The selling agent earns a commission based on the amount of securities sold.

In the Philippine bond market, both underwriters and selling agents, or a combination of both service providers are used for the placement of corporate debt securities. The actual use may depend on the type of debt securities issued and the targeted investor universe.

[33] The list of GSEDs is available at http://www.treasury.gov.ph/wp-content/uploads/2014/04/GSED-list.pdf

Selling agents, including their individual salesmen, must be licensed with and are supervised by the SEC. Similar to underwriters, selling agents may be universal banks or investment houses.

d. Facility Agent

In the Philippine bond market, the facility agent is key among the service providers to an issuer of debt securities. The role and functions of the facility agent is specific to the provisions and practices in the Philippine market and may differ, including in the designation, from similar functions in other markets. For example, the term fiscal agent is typically not used in the capital market in the Philippines. PDEx requires an issuer of debt securities to appoint a facility agent prior to listing or enrolling on its market.

This agent is a third-party entity with fiduciary obligations to manage a debt capital market transaction until maturity. The usual roles include making sure all terms and conditions in relation to a debt issuance are complied with by the issuer, computing interest and principal to be paid by the issuer and monitoring the disbursements of funds, monitoring the compliance of the issuer with representations made and warranties and covenants given. The facility agent also must inform all relevant parties of any event of default and would convene a meeting of bondholders or noteholders in case decisions have to be made. As such, the facility agent fulfills a role that in other markets is inhabited by a bond trustee or bondholder representative. For a detailed description of the trustee function, please see section R in this chapter.

A facility agent enters into an agreement with the issuer as the principal paying agent of the issuer. The issuer pays the interest or the principal to the facility agent and the facility agent instructs other paying agents, if so appointed, to pay the amounts of interest or principal to the bondholders or noteholders, and reimburses the paying agents for the amounts paid out.

It is not uncommon for an underwriter to also perform the role of the facility agent. A facility agent may also act as a transfer agent. The facility agent typically charges a monthly or annual retainer fee for their services.

e. Paying Agent

The function of a paying agent in the Philippine bond market is limited to the disbursement of funds upon the instruction of the facility agent to pay interest and principal to eligible bondholders and noteholders. The facility agent may use one or more paying agents, including himself, depending on the instructions from the issuer, the type of debt instrument, and the investor universe(s) the debt instrument was issued to.

The role of a paying agent for corporate bonds and notes is typically performed by a universal or commercial bank, due to the necessary access to payment system infrastructure.

f. Securities Registries or Transfer Agent

A securities registry, other than the BTr-RoSS, is a BSP-accredited bank or NBFI designated or appointed by the issuer to maintain the securities registry book, either in electronic or printed form. It records the initial issuance of the securities and subsequent transfer of ownership, and issues registry confirmation to buyers and/or holders. Except otherwise provided in existing

BSP regulations, a BSP-accredited securities registry is considered a third party if it has no subsidiary or affiliate relationship with the issuer of securities.

The rules and regulations that shall govern securities custodianship and securities registry operations of BSFIs are provided under BSP Circular No. 428 dated 27 April 2004 and BSP Circular Letter dated 4 August 2005, as amended.

The BTr, as operator of RoSS, which serves as the official registry for government securities, is not subject to BSP accreditation and is exempted from the independence requirement under the circular.

The SEC and the regulations underlying the securities market use the term transfer agent instead of securities registry, partially because registration carries different meanings for the SEC and specific activities under its purview. Under SRC Rule 36.4, no person shall act as a transfer agent for a security listed or traded on an exchange, OTC, or any other trading market without being registered with the SEC in accordance with the provisions of the said rule and the corresponding IRR.

A transfer agent may also act as facility agent.

g. Depository Participants

Depository Participants are those institutions that maintain securities accounts at the designated depositories for the Philippine bond market, namely PDTC and RoSS.

i. Philippine Depository & Trust Corporation

Depository Participants are brokers, dealers, and other institutions accepted as such by PDTC, a subsidiary of the PDS Group, and provide securities services for their clients or own firms. PDTC is the designated central securities depository for the fixed income market in the Philippines, for corporate bonds as well as for government securities held in its participant accounts by choice.

Market participants wanting to trade debt securities must have a participant account with PDTC or maintain a securities account with any of the Depository Participants to settle their transactions.

Depository Participants that are brokers and/or dealers are registered for such functions with the SEC.

Depository Participants and their activities are governed by the PDTC Rules, which are available from the PDS Group upon request.

At the time of the publication of the Philippines Bond Market Guide, PDTC had 60 Fixed Income Depository Participants. The list of Fixed Income Depository Participants may be found on the PDS Group website.[34]

ii. Registry of Scripless Securities

Registry account holders or participants include any person, whether natural or juridical, which has been duly approved by the BTr to open and maintain a RoSS account and maybe any of the following: individuals and juridical persons such as but not limited to banks and other financial

[34] See http://www.pds.com.ph/index.html%3Fpage_id=1072.html

organizations, BSP-accredited third party securities custodians, GSEDs, Government Securities Brokers, insurance companies, investment houses, mutual funds, pension funds, trust companies, and depositories.

h. Cash Settlement Banks

Cash settlement banks are the banking institutions that provide cash payment services for client investors arising from fixed income securities activities in PDS Group subsidiaries. These include activities such as but not limited to delivering or receiving payments for purchases or sales in the PDEx Fixed Income Market, or receiving and paying cash coupon payments to client investors holding bonds and notes at PDTC or directly in RoSS.

Cash settlement bank activities are guided by a Memorandum of Agreement, which they sign as participants.

At the time of the publication of the Philippines Bond Market Guide, 19 banks were acting as cash settlement banks connected to PDTC. A current list of cash settlement banks may be found on the PDS Group website.[35]

i. Legal Adviser (Legal Counsel)

Legal advisers are not considered Capital Market Institutions by the SEC and need not obtain a secondary license from the SEC. As such, law firms are free to provide services in the context of issuance of debt securities.

At the same time, law firms will need to be registered or accredited with their own professional body in the Philippines.

j. Accounting and Audit Firms

Accounting and audit firms are not considered Capital Market Institutions by the SEC and need not obtain a secondary license. Instead, accounting and audit firms require a license from the Professional Regulation Commission to be able to practice. In addition, accounting and audit firms need to be registered with the Philippine Institute of Certified Public Accountants.

At the same time, accounting and audit firms wanting to provide services to public listed companies, such as in the context of issuance of debt securities, need to be accredited with the SEC in its role as the corporate regulator.

N. Definition of Professional Investors

Professional investors are institutions defined by law and licensed or otherwise registered with regulators by law in their economy of domicile and, hence, are subject to governance and inspection based on securities market and/or prudential regulations. In addition, most of them are also subject to the oversight and professional conduct and best practice rules of an SRO such as an exchange or a market association.

1. Qualified Buyers Concept

In the Philippines, Section 10.1 of the SRC describes professional investors as Qualified Buyers. Concessions on disclosure and obligations under the Qualified

[35] See http://www.pds.com.ph/index.html%3Fpage_id=1058.html

Buyers concept are prescribed in this section. At this point in time, the issuance of bonds or notes to Qualified Buyers, generally referred to as QB bonds in the market, constitutes the professional bond market in the Philippines. For regulatory processes specific to QB bond issuance, please refer to Chapter II.F.

The SRC deals with so-called Exempt Transactions—circumstances under which concessions from the full disclosure and approval processes of the SEC are available. Section 10.1(l) prescribes exemptions from full disclosure and the related approval process when issuing bonds or notes to the following institutions, thereby decreeing them as professional investors:

(i) banks;
(ii) registered investment houses;
(iii) insurance companies;
(iv) pension funds, retirement schemes, and BSP-authorized trusts;
(v) investment companies; and
(vi) other institutions as determined by the SEC.

Applicants for Qualified Buyer status need to register with an authorized registrar, pursuant to Rule 39.1.4 of the SRC.

There is no distinction in the SRC, or in the 2015 SRC IRR, between domestic and foreign professional investors.

The definition of Qualified Buyers corresponds closely with the typical scope of professional investors found in other markets and used in the definition of professional bond and note issuance concepts, such as AMBIF (see also Chapters IX and X).

2. Qualified Investors under Philippine Dealing & Exchange Corporation Rules

In turn, PDEx makes reference to "Qualified Investors" in its Rules for the Fixed Income Market:

> "Qualified Investors" shall refer to an investor that is not an SEC-registered securities dealer or broker, and is any one of the Qualified Investors as defined under the relevant SEC rules and regulations.

In effect, this reference is aimed at Qualified Buyers or institutional participants that would otherwise be defined as professional investors.

Investors who do not qualify under the definition of a qualified investor are considered public or retail investors.

O. Credit Rating Requirements

This section covers the applicable credit rating requirements for bonds and notes issued in the Philippine bond market. For details on the underlying regulations on CRAs and their business, please refer to Chapter II.N.

1. Present Credit Rating Requirements

Under SRC Rule 12.1-6, a credit rating from an SEC-accredited CRA is required to issue corporate bonds and commercial paper except when (i) the issuance amounts to not more than 25% of the issuer's net worth, or (ii) there is an irrevocable committed credit line with a bank covering 100% of the proposed issuance. Credit rating requirements are applicable to commercial paper issued by corporations to the public, the offer or sale of which is to be registered under the SRC. The SRC also enumerates the rating criteria that shall be considered by the CRA. Credit rating requirements do not apply to government and government-guaranteed debt securities.

Under the amended PDEx Rules for the Fixed Income Securities Market, the issuer of the securities seeking to be listed or enrolled on PDEx must be rated by a CRA duly recognized by the applicable regulatory authorities at the time of listing—meaning the SEC and BSP in the case of the issuer being a bank or NBFI under the purview of BSP—provided that if such securities are subordinated, the issuer shall also have the securities rated at the time of listing.

Under BSP regulations, unsubordinated debt issued by banks or NBFIs under its purview requires a rating of at least AA on the Philippine domestic credit rating scale.

The BSP requires banks issuing unsecured subordinated debt to the public to be rated by an independent credit rating agency recognized by the BSP, while a Public Trustee shall be appointed for investor protection. Other regulations for banks' public issuance of unsecured subordinated debt are provided under Subsection X119.4 of the BSP MORB. Moreover, long-term negotiable certificates of time deposit are not considered securities, thus no external credit rating assessment is required.

PhilRatings is the first domestic credit rating agency to be recognized by the BSP, based on minimum eligibility criteria for bank supervisory purposes. The BSP also accepts credit ratings from Fitch Ratings, Moody's, and Standard & Poor's, as well as Fitch Singapore. PDEx accepts credit ratings from a credit rating agency duly recognized by the applicable regulatory authorities.

2. Credit Ratings for Issuance to Qualified Buyers (Professional Investors)

Unrated bonds and notes are possible under present regulations. Corporate notes issued via private placement do not require a rating. Unrated notes may be listed on the PDEx Qualified Board; however, it has been observed that professional investors may prefer that bonds and notes have a credit rating.

P. Financial Guarantee Institution

The Philippines' capital of Manila is the home of the Credit Guarantee and Investment Facility (CGIF). CGIF is a trust fund of ADB, established by ASEAN+3 and ADB in 2010 to develop and strengthen ASEAN+3 local currency bond markets. It is operationally independent from ADB. CGIF offers credit enhancement backed by its high credit ratings (both in global and local rating scales) to local currency bonds issued in ASEAN+3 bond markets through its irrevocable and unconditional guarantee for nonpayment of bond principal and coupon. Guarantees are available for up to 100% of the bond principal, and are available to eligible ASEAN+3 companies. CGIF guarantees and supports project financing, securitization, cross-border transactions, first-time issuers, and tenure extensions, and helps issuers reach regional investors (e.g., in the context of a profile listing or targeting investors who are subject to prudential regulations). To date, CGIF has guaranteed bonds in Indonesia, the Philippines, Singapore, Thailand, and Viet Nam.

More information on CGIF may be found on its website.[36]

[36] See http://www.cgif-abmi.org

Q. Market Features for Investor Protection

This section reviews topics that have a bearing on investor protection in the Philippine bond market, particularly protections for retail, or nonprofessional, investors.

1. Investor Complaints

The SEC accepts complaints or information on suspicious transactions via phone or email. In addition, i-Message Mo is a web-based online application for lodging public messages such as reports on fraudulent transactions or possible violations, as well as inquiries or feedback, and for following up on the same.

This facility is an alternative venue where the investors, complainants, requestors, and others are able to follow-up their queries, complaints, issues, concerns, suggestions, or opinions. I-Message Mo also tracks the status of redresses, comments, and responses from any party on the lodged subjects.[37]

Consumer complains on the activities of banks or NBFIs should first be directed to these BSP-supervised entities, and subsequently to the BSP's Financial Consumer Protection Department, Supervision and Examination Sector. The BSP provides contact details and the expected information under the consumer assistance tab on its website.

For issues related to transactions executed on PDEx, a complainant may file a complaint against any Trading Participant or its personnel, through the Compliance and Surveillance Department, for any irregularity in securities transactions within the applicable prescriptive period. The form and minimum contents of such a complaint can be found on the PDS Group website. PDEx as an SRO can conduct its own investigation but the SEC is not precluded from initiating its own investigation ahead of or parallel to an investigation conducted by an SRO.

2. Retail Investors

The SEC, through its regulatory framework, puts strong emphasis of the protection of retail investors. Public offers of debt securities require a comprehensive prospectus, need to be serviced by a facility agent acting in a trustee capacity, and are subject to the ongoing disclosure obligations of the SEC and PDEx (if listed with the latter).
The SEC also regularly updates the public through warnings on its website concerning various questionable investment activities and provides notices for the purpose of investor education.[38]

The BTr offers easy to understand information on government securities on its website, including descriptions of instruments and primary market participants, information on the auction process and results, and other announcements.

All websites referred to above can be found in Appendix 2 of this bond market guide and are also referenced in specific contexts in the course of this document.

3. Foreign Investors

Foreign investors as creditors have the same rights as local creditors under Philippine law. For further details, please also section 4 immediately below.

[37] See http://www.sec.gov.ph/message-us-4/
[38] See http://www.sec.gov.ph/public-information-2/investors-education-and-information/advisories-and-notices/

Bond and note issuance documentation, and related disclosure information in the Philippines is issued in English, which makes all available information easily accessible and readable for foreign investors. Foreign investors may also access the websites of the regulatory authorities and market institutions, unless the respective functions are limited to active market participants only and require a login.

4. Bondholder Rights

The Financial Rehabilitation and Insolvency Act, 2010 (FRIA) and the Civil Code of the Philippines (Civil Code) cover bondholder rights.[39] Claims of creditors against debtors through insolvency proceedings fall under the FRIA, while the Civil Code prescribes the order of payments to different types of creditors in the event of liquidation of a debtor's estate. The same rules apply to domestic and foreign bondholders.

5. Trustee Function

Securities regulations require an issuer of registered debt securities (i.e., those issued to the public) to appoint a trustee who shall act on behalf of bondholders. Under current securities regulations, there is no prescribed standard trust agreement and specific provisions may differ across different bond issuances.

Public trustees for debt securities are typically entities with trust licenses from the BSP, mostly trust units or departments of banks. Please see section R for details.

The trustee is expected to monitor covenants and other specific provisions in the Terms and Conditions of the bonds or notes, and make reports to the bondholders. The trustee would declare events of default and act in the interest of bondholders in cases when the issuer is not able to fulfill the stated obligations.

For information on bankruptcy protection and event-of-default provisions, please refer to sections S and T of this chapter, respectively.

6. Prevention of Fraud and Insider Trading

The SEC and PDEx impose laws and IRR, and listing and trading rules, respectively, that apply to debt securities market participants to prevent and penalize the occurrence of fraud, insider trading, and willful market manipulation. The laws, regulations, and rules also contain prescriptions for the enforcement of their respective provisions.

On its website, the SEC announces enforcement actions taken against errant market participants. Under the 2015 SRC IRR, the SRO is required to publish on its website the violations of its Trading Participants.

7. Ethics

PDEx Rule 6 (Conduct and Ethics) contains the provisions for the ethical conduct of PDEx market participants and prescribed prohibited conduct. This rule also specifies the duties of market participants to their customers and expected practices for communication with the public and cooperation with regulatory authorities.

8. Securities Regulation Code

The SRC is the key legislation for the Philippine capital market, including the bond market. It came into force in July 2000 and has since been augmented by the IRR of

[39] For details, see http://www.lawphil.net/statutes/repacts/ra2010/ra_10142_2010.html

the SRC, commonly referred to as the SRC Rules or the SRC IRR, the latest having been published in November 2015.

The SRC contains provisions for the protection of investors and the enforcement of the law and regulations against unauthorized or unlawful actions. For reference, some of the relevant chapters are mentioned below:

(i) Chapter VII (Prohibitions and Fraud, Manipulation and Insider Trading) defines unlawful actions by market participants and fraudulent transactions for both securities and derivatives business; and

(ii) Chapter XIII (General Provisions) contains provisions on investigations and sanctions, and stipulates the civil liabilities of parties guilty of insider trading, fraud, and misleading information.

R. Trustee Function

1. Trustee

A trust department of a bank or NBFI, or a trust corporation, which may be a subsidiary or an affiliate of a bank and/or an NBFI, may serve as the trustee for bondholders. Trust operation is specifically licensed by the BSP. If the trustee function is performed by a unit or department of a bank, the department or unit is considered a separate functional entity (but not a legal entity) within the bank, and needs to observe Chinese walls and other measures of segregating business and information flows from the rest of the institution.

A bank and/or NBFI cannot engage in a trust directly through its separate and distinct department, or other similar unit in the bank or NBFI, and at the same time, indirectly through a subsidiary or affiliate trust corporation.

The trustee is appointed by the issuer but is responsible to act in the interest of bondholders in accordance with the applicable provisions in the Terms and Conditions of the bonds or notes. The duties of the trustee are laid out in the Trust Indenture (see section 2 immediately below).

The trustee is also the party who holds or manages any security or collateral pool for the benefit of another person (here the bondholders) if the bonds or notes are guaranteed by a pool of assets or other collateral, as defined in the Terms and Conditions.

A trustee shall be responsible for performing, among others, the following duties for the benefit of bondholders:

(i) Monitor compliance by the issuer with its obligations under the trust agreement;
(ii) Report regularly to bondholders any noncompliance by the issuer to the trust agreement and any development with respect to the issuer that adversely affects the interest of bondholders, and advise bondholders of the course of action that they may take to protect their interest;
(iii) Act on behalf of bondholders including calling for and/or attending meetings of bondholders.

The trustee may at any time call a meeting of the bondholders, on its own accord or upon the written request by the issuer or majority bondholders, for the purpose of taking any actions authorized under the Trust Indenture Agreement.

2. Trust Indenture

The provision of trustee services, and the function, rights, and obligations of the Trustee of the Bondholders (Trustee) are governed by the Trust Indenture Agreement, typically referred to as the Trust Indenture. The Trust Indenture contains conditions for the provision of trustee services, including any applicable affirmative or negative covenants that the trustee is expected to monitor.

In a typical Trustee Indenture, the actual duties of the trustee are referenced to applicable clauses in the Terms and Conditions of the bonds or notes. The Terms and Conditions are also typically enclosed with the Trust Indenture as an annex.

There are no SEC prescriptions for the minimum contents of a Trust Indenture and market practices have not yet established a prescribed standard trust agreement. Furthermore, specific provisions may differ across different bond or note issuances.

3. Exemptions from Appointment of Trustee and Trust Indenture

Under present regulations, offers to Qualified Buyers or other Exempt Transactions do not require the appointment of a trustee or the execution of a Trust Indenture.

At the same time, issuers in the Philippine bond market may consider appointing a trustee if they are targeting an investor universe that includes institutions that are subject to prudential regulations, such as insurance companies, mutual funds, or pension funds. These investor types may only be able to invest in instruments for which a trustee is appointed.

S. Bankruptcy Procedures

FRIA and the Civil Code govern bankruptcy procedures in the Philippines. FRIA was passed into law on 18 July 2010, in the process repealing the Insolvency Law, which was enacted in 1909. FRIA provides for three different modes of rehabilitating an insolvent corporate debtor: (i) court-supervised rehabilitation, (ii) prenegotiated rehabilitation, and (iii) out-of-court or informal restructuring or rehabilitation.

In a court-supervised rehabilitation proceeding, the court appoints a receiver and determines which claims against the debtor are valid. A rehabilitation plan is to be agreed upon by the debtor and creditors representing more than 50% of the claims of each class of creditors. If the plan is not finalized or approved by the court, the debtor will be liquidated. During the pendency of the proceedings, all claims against the debtor are suspended, and taxes, as well as fees due from the debtor to the government, are deemed waived. The amount of debt reduced or forgiven will not be subject to tax.

In a prenegotiated rehabilitation, a debtor seeks court approval of a rehabilitation plan it previously contracted with creditors, representing at least two-thirds of its total liabilities, and at least 67% and 75% of its secured and unsecured obligations, respectively. Claims against the debtor are suspended while the proceedings are pending in court.

In an out-of-court restructuring, the debtor and creditors—representing at least 85% of the debtor’s total liabilities, at least 67% of its secured obligations, and 75% of its unsecured obligations—agree on a restructuring or rehabilitation plan. This plan becomes binding on the contracting parties, as well as on other creditors of the debtor. During negotiations, creditors holding more than 50% of the total claims may approve a standstill of up to 120 days.

FRIA does not cover banks and insurance companies as other laws and regulations govern these entities. However, it provides for the liquidation of insolvent juridical debtors. The debtor can initiate voluntary liquidation through a verified petition or a verified motion in court-supervised or prenegotiated rehabilitation proceedings. Rehabilitation proceedings may also be transformed into liquidation proceedings in the following situations:

(i) when the rehabilitation court finds that the debtor is insolvent and there is no substantial likelihood for the debtor to be successfully rehabilitated,
(ii) when the rehabilitation plan is not confirmed by the rehabilitation court within 1 year from filing of the petition,
(iii) when the rehabilitation proceedings are terminated due to failure or dismissal of the rehabilitation petition for reasons other than technical grounds, or
(iv) at any time upon the recommendation of the rehabilitation receiver that the rehabilitation of the debtor is not feasible.

Involuntary liquidation is initiated by three or more creditors whose aggregate claims amount to at least PHP1 million or at least 25% of the subscribed capital stock or partners' contribution, whichever is higher, or through a verified petition or motion in court-supervised or prenegotiated rehabilitation proceedings.

FRIA has special provisions for the liquidation of a securities market participant. It recognizes the power of a regulatory agency or an SRO to liquidate trade-related claims of clients or customers of a securities market participant, which, for purposes of investor protection, are deemed to have absolute priority over all other claims of whatever nature or kind insofar as trade-related assets are concerned. Trade-related assets include cash, securities, trading rights, and other assets owned and used by a securities market participant in the ordinary course of its business.

FRIA requires that the liquidation plan and its implementation shall ensure that the concurrence and preference of credits, as enumerated in the Civil Code and other relevant laws, shall be observed, unless a preferred creditor voluntarily waives his preferred right. Credits for services rendered by employees or laborers to the debtor shall enjoy first preference under Article 2244 of the Civil Code, unless the claims constitute legal liens under Articles 2241 or 2242 of the Civil Code.

Further details on the restructuring and insolvency frameworks of the Philippines and other economies in Asia and the Pacific can be found in *The Asia-Pacific Restructuring and Insolvency Guide 2006* and *A Guide to Asia-Pacific Recovery and Insolvency Procedures*.[40]

T. Event of Default and Cross Default

Event of default clauses are part of the Terms and Conditions of the bonds or notes for debt securities issued in the Philippines. Cross-default clauses are part of market practice in the Philippines and typically included in the event-of-default sections of the Terms and Conditions of the bonds or notes.

[40] C. Chance. 2013. A *Guide to Asia-Pacific Recovery and Insolvency Procedures*. http://financialmarketstoolkit.cliffordchance.com/en/financial-markets-resources/resources-by-type/guides/restructuring-and-insolvency-guide-asia-pacific.html

1. Terms of Event of Default

While there are is no official standard document for the Terms and Conditions of the bonds or notes in the Philippines, a number of event of default provisions and related clauses are typically utilized in the Terms and Conditions. As an illustrative example, the following descriptions are taken from a generic prospectus template of corporate bonds in the Philippines:

> The Issuer shall be considered in default under the Bonds and the Trust Indenture or Trust Agreement in case any of the defined events (each an “Event of Default”) shall occur and is continuing:
>
> (i) nonpayment default,
> (ii) insolvency default,
> (iii) cross default,
> (iv) winding-up proceedings,
> (v) representation or warranty default,
> (vi) covenant default,
> (vii) breach-of-obligations default,
> (viii) expropriation default,
> (ix) judgment default,
> (x) writ and similar process default,
> (xi) closure default,
> (xii) validity default, or
> (xiii) change of control default.
>
> **Consequences of default**. If any one or more of the Events of Default shall occur and be continuing after the lapse of the period given to the Issuer within which to cure such Event of Default under the Trust Indenture or Trust Agreement, if any, or upon the occurrence of such Event of Default for which no cure period is provided:
>
> (i) the Trustee, upon the written direction of the Majority Bondholders, by notice in writing delivered to the Issuer, or
> (ii) the Majority Bondholders, by notice in writing delivered to the Issuer and the Trustee, or
> (iii) the Trustee, in its discretion, in case of a nonpayment or insolvency default, may declare the Issuer in default and declare the principal of the bonds then outstanding, together with all interest accrued and unpaid thereon and all amounts due thereunder, to be due and payable not later than (for instance) 5 business days (the periods provided in the Trust Agreement and in these Terms and Conditions) from the receipt of the declaration of default (“Default Payment Date”) with copy to the Paying Agent, who shall then prepare a payment report in accordance with the Registry and Paying Agency Agreement.

Thereupon, the Issuer shall pay in accordance with the Registry and Paying Agency Agreement.

2. Declaration of Default

a. Fiscal Agent Structure

Bondholders or noteholders may give written notice to the issuer to declare that the notes would become forthwith due and payable. This direct right is contained in a deed of covenant.

b. Trustee Structure

The trustee may, at its discretion, give notice of default by

(i) declaring the bonds or notes immediately due and repayable (with a certified opinion that the event is materially prejudicial to the interests of the holders of the bonds or notes); or

(ii) if so directed in writing by the holders of at least 25% in principal amount of the bonds or notes, or by an extraordinary resolution of the holders of the bonds or notes, declaring all the bonds or notes immediately due and repayable.

The trustee may institute proceedings against the issuer to enforce repayment of the principal of the notes with accrued interest and to enforce the provisions of the trust deed. However, the bondholders or noteholders are not entitled to proceed directly against the issuer unless the trustee fails to do so within a reasonable period and such failure is continuing. The bondholder or noteholder interests are represented by the trustee.

c. Time of Event of Default

The default may happen at any time during the day.

3. Cross Default or Cross Acceleration

A cross default represents the right of the bondholders, trustee, or other authorized person to call an event of default on all debt securities issued by an issuer, following a recognized event of default in one of the issued debt securities.

As part of Philippine bond market practice, cross-default or cross-acceleration clauses are typically included in the Terms and Conditions of the bonds or notes under event of default provisions. For the trustee or fiscal agent, or any other person so specified in the respective clause to declare a cross default or cross acceleration, the Terms and Conditions may set out a specific instance or minimum amount of default that could be used as a trigger for a cross default.

Bond and Note Transactions and Trading Market Infrastructure

A. Trading of Bonds and Notes

In the Philippines, the traditional trading venues for debt securities, whether in the OTC market or on exchange, are fused into a single platform.

Pursuant to the OTC Rules issued by the SEC in 2006, the trading of debt securities in the Philippine bond market may only be done on an organized market registered with the SEC. Like an exchange, an OTC market needs to be registered with the SEC, and a group or organization operating an OTC market should be registered as an SRO in accordance with Section 39 of the SRC.

PDEx operates such an organized market. The trading of debt securities between counterparties in the secondary market happens through the facilities of PDEx; these PDEx facilities are, hence, commonly referred to as the "organized" or "regulated" market.

Debt securities—both government securities and corporate bonds and notes—traded in the secondary market need to first be listed or enrolled on PDEx. The listing or enrollment and trading on PDEx is subject to the PDEx Rules and limited to participants that are licensed for capital market activities by the SEC (see also Chapter III.I and Chapter III.J).[41]

To facilitate trading, inter-dealer brokers also operate in the secondary market, prearranging deals between counterparties, which are then entered into the PDEx trading system by the counterparties for incorporation into the price discovery, clearing and settlement, and SRO processes.

In the Philippines, the term Over-the-Counter is typically associated with a specific issuance method of government securities by the BTr, in which government agencies, GOCCs, and other eligible entities submit noncompetitive bids to be awarded government securities (please see Chapter III.E for details). These "OTC transactions" are part of the primary market and are conducted by the BTr in addition to the competitive auction process on ADAPS (see section B above).

B. Government Securities Auction Platform

ADAPS is an electronic platform through which the Government of the Philippines, represented by the BTr, sells government securities to a network of GSEDs in the primary market. The GSEDs are connected to BTr's ADAPS through terminals that are linked to the processing system of Thomson Reuters. ADAPS is accessible only to GSEDs and not to other investors, including the general public. The system was established in November 1995. There is no publicly viewable website for ADAPS.

[41] See http://www.pds.com.ph/index.html%3Fpage_id=852.html

Instead, auction results, which are known as Summary of Award, may be downloaded as a PDF file for each auction through the BTr website (Figure 4.1).

Figure 4.1: Example of Government Securities Summary of Award

BUREAU OF THE TREASURY
Auction Committee

SUMMARY OF AWARD

Instrument	:	Treasury Bill	Instrument	:	Treasury Bill	Instrument	:	Treasury Bill
Series	:	PIBL0317H097	Series	:	PIBL1217B021	Series	:	PIBL1217H141
Auction Date	:	07/31/2017	Auction Date	:	07/31/2017	Auction Date	:	07/31/2017
Orig. Issue Date	:	08/02/2017	Orig. Issue Date	:	02/01/2017	Orig. Issue Date	:	08/02/2017
Re-issue Date	:		Re-issue Date	:	08/02/2017	Re-issue Date	:	
Coupon Rate/YTM	:		Coupon Rate/YTM	:		Coupon Rate/YTM	:	
Offering	:	P6,000.00M	Offering	:	P5,000.00M	Offering	:	P4,000.00M
Maturity Period	:	92 Day	Maturity Period	:	182 Day	Maturity Period	:	364 Day
Maturity Date	:	11/02/2017	Maturity Date	:	01/31/2018	Maturity Date	:	08/01/2018

LEVEL	APPROXIMATE EQUIV. PRICE	ANNUAL RATE	LEVEL	APPROXIMATE EQUIV. PRICE	ANNUAL RATE	LEVEL	APPROXIMATE EQUIV. PRICE	ANNUAL RATE
Average	99.447	2.176	Average	98.738	2.529	Average	97.083	2.972
Low	99.466	2.100	Low	98.802	2.399	Low	97.151	2.900
High	99.442	2.195	High	98.699	2.608	High	97.056	3.000
Comp. Stop-Out		92.000	Comp. Stop-Out		55.000	Comp. Stop-Out		36.777
N-C Awarded		39.669	N-C Awarded		54.127	N-C Awarded		59.590

	TENDERED (M)	ACCEPTED (M)	REJECTED (M)	TENDERED (M)	ACCEPTED (M)	REJECTED (M)	TENDERED (M)	ACCEPTED (M)	REJECTED (M)
Comp.	9,751.00	3,600.00	6,151.00	4,245.00	3,000.00	1,245.00	5,493.00	2,400.00	3,093.00
Non-Comp.	6,050.00	2,400.00	3,650.00	3,695.00	2,000.00	1,695.00	2,685.00	1,600.00	1,085.00
Total	15,801.00	6,000.00	9,801.0	7,940.00	5,000.00	2,940.0	8,178.00	4,000.00	4,178.0

Source: Bureau of the Treasury. Government Securities. Summary of Award. http://www.treasury.gov.ph/wp-content/uploads/2017/07/T-Bills-Auction-Result-7312017.pdf

In ADAPS, GSEDs tender their bids (both competitive and noncompetitive) by keying in the amount (minimum of PHP10 million) and yield of their choice (for a maximum of seven competitive bids and one noncompetitive bid per tenor, using their terminals connected to ADAPS. ADAPS immediately collates the bids for display on the BTr terminal. After the cut-off time of 1 p.m., the consolidated bids are viewed by the Auction Committee, which then decides on the award. The auction award is sent to the respective terminals of the winning GSEDs.

Two days after the auction, the government securities are credited to the Securities Principal Account of the winning GSEDs in RoSS, and their Demand Deposit Accounts at the BSP are debited in favor of the Treasurer of the Philippines for the cost of the government securities awarded to the GSED concerned. This completes the transaction in the primary market.

Government securities auctioned via ADAPS may be listed and traded on the organized secondary market on PDEx, in particular benchmark issuances.

C. Trading Platforms

PDEx operates a market with an electronic trading platform for debt securities. Individual dealers may also use Bloomberg or similar global trading system providers and/or an in-house trading system to capture bids or quotes.

1. Philippine Dealing & Exchange Corporation

On 22 January 2008, the SEC granted PDEx authority to operate an OTC market and to function as an SRO under the framework of the OTC Rules. PDEx's electronic trading platform for debt securities currently supports an OTC bilateral market where trading can occur through either a quote-driven or an order-driven system.

In addition to being licensed as an operator and an SRO for the OTC market, PDEx is also licensed by the SEC as an exchange under the provisions of the SRC. In this capacity, PDEx provides a centralized infrastructure for trading, clearing, and settlement of fixed income securities, which ensures price discovery, transparency, and investor protection.

In March 2005, PDEx launched the Negotiated Dealing Trading Board for the inter-dealer market. It is a quote-driven system that allows dealers to electronically quote and request quotes from one another. Once both counterparties agree on the details of the transaction, it automatically gets confirmed through the system.

In November 2006, PDEx launched the Auto-Matching Trading Board to complement the negotiated dealing system. It is an order-driven system that allows Trading Participants to enter bids and offers in a central order book that automatically matches these orders based on bilaterally set trading limits, price, and time. It provides the basic structure for trading between public investors.

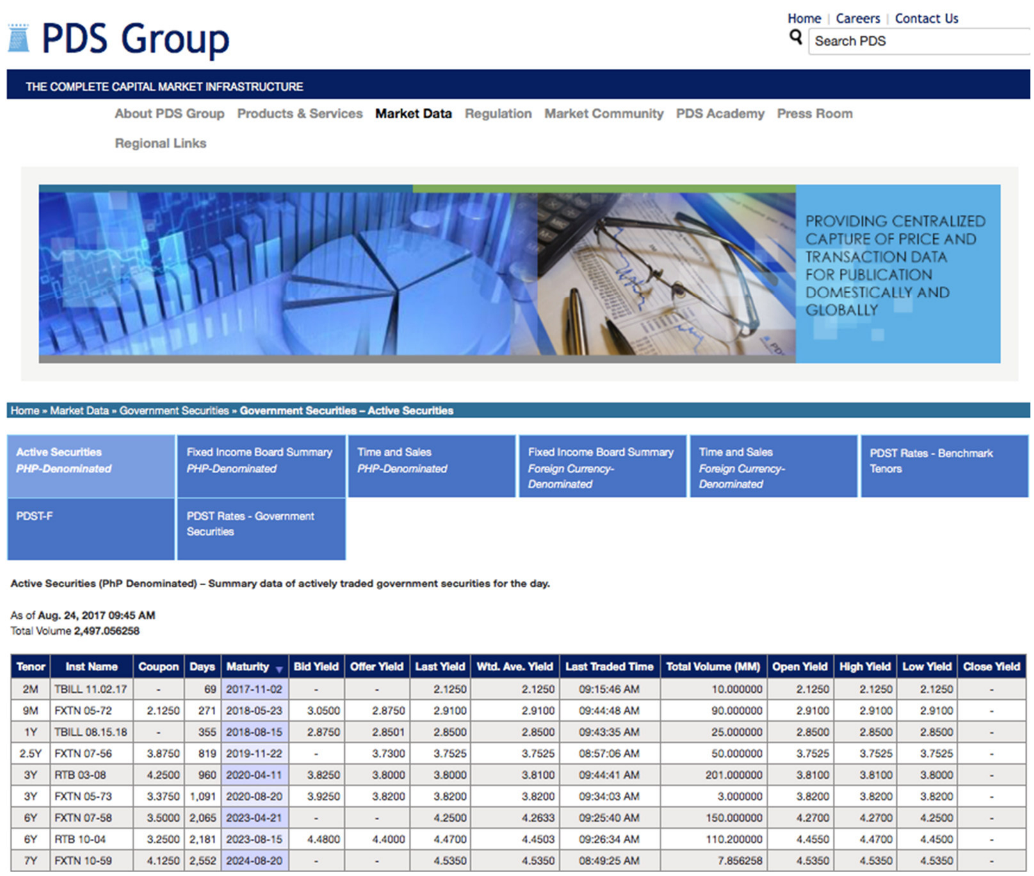
In February 2008, PDEx opened its trading platforms to the public market where broker participants can enter orders and transact on behalf of their clients. This was further expanded in June 2009 when PDEx launched its Fixed Income Broker Internet Order System (FI-BIOS), which allowed broker participants to enter orders for their clients in the Auto-Matching Trading Board remotely via an Internet-accessible electronic interface. This expanded the reach of PDEx's trading platform to municipalities and regions outside of Manila.

2. Trading System and Features

The PDEx trading system provides direct and speedy electronic access to the registered fixed income market intermediaries. It allows multiple modes of execution across market segments, including dealers, qualified investors, and public investors (through their brokers). Trades are centrally captured and linked straight through to delivery-versus-payment settlement systems via PDS Clear.

PDEx provides diverse access solutions for bilateral transactions among its Trading Participants. Trading Participants may engage in negotiated dealing through a Quote-Driven Engine, or be matched via algorithm through an Order-Driven engine. The online trading platforms help Trading Participants to instantaneously view the prices in the market and efficiently execute the transactions relevant to their own or their client investors' asset portfolios.

Figure 4.2: Example of Philippine Dealing Systems Fixed Income Active Securities View (Government Securities)



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Active Securities (PhP Denominated) – Summary data of actively traded government securities for the day.

As of **Aug. 24, 2017 09:45 AM**
Total Volume **2,497.056258**

Tenor	Inst Name	Coupon	Days	Maturity	Bid Yield	Offer Yield	Last Yield	Wtd. Ave. Yield	Last Traded Time	Total Volume (MM)	Open Yield	High Yield	Low Yield	Close Yield
2M	TBILL 11.02.17	-	69	2017-11-02	-	-	2.1250	2.1250	09:15:46 AM	10.000000	2.1250	2.1250	2.1250	-
9M	FXTN 05-72	2.1250	271	2018-05-23	3.0500	2.8750	2.9100	2.9100	09:44:48 AM	90.000000	2.9100	2.9100	2.9100	-
1Y	TBILL 08.15.18	-	355	2018-08-15	2.8750	2.8501	2.8500	2.8500	09:43:35 AM	25.000000	2.8500	2.8500	2.8500	-
2.5Y	FXTN 07-56	3.8750	819	2019-11-22	-	3.7300	3.7525	3.7525	08:57:06 AM	50.000000	3.7525	3.7525	3.7525	-
3Y	RTB 03-08	4.2500	960	2020-04-11	3.8250	3.8000	3.8000	3.8100	09:44:41 AM	201.000000	3.8100	3.8100	3.8000	-
3Y	FXTN 05-73	3.3750	1,091	2020-08-20	3.9250	3.8200	3.8200	3.8200	09:34:03 AM	3.000000	3.8200	3.8200	3.8200	-
6Y	FXTN 07-58	3.5000	2,065	2023-04-21	-	-	4.2500	4.2633	09:25:40 AM	150.000000	4.2700	4.2700	4.2500	-
6Y	RTB 10-04	3.2500	2,181	2023-08-15	4.4800	4.4000	4.4700	4.4503	09:26:34 AM	110.200000	4.4550	4.4700	4.4500	-
7Y	FXTN 10-59	4.1250	2,552	2024-08-20	-	-	4.5350	4.5350	08:49:25 AM	7.856258	4.5350	4.5350	4.5350	-

Source: Philippine Dealing & Exchange Corporation. http://www.pds.com.ph/index.html%3Fpage_id=1351.html

As for trading conventions, government securities, corporate bonds, and commercial paper are traded in lots of PHP5,000 (face value) or the minimum denomination of a bond or note based on the terms and conditions set by the issuer. Price quotations use the clean price (i.e., without any accrued interest component), expressed as a percentage up to four decimal places. Government securities may be quoted at yield to maturity or using the clean price.

For further information on the trading system and fixed income trading rules and conventions, as amended, please visit the PDS website.[42]

3. Philippine Dealing Systems Fixed Income Market Trading Hours

On the PDS Fixed Income Securities Market, the trading day consists of two main trading sessions and a preopen session (Table 4.1). Trading sessions are the hours when Trading Participants may transact and conclude trades on the PDEx platform. A preopen session is a set period prior to the trading session when Trading Participants may begin to post quotes. However, no deals can be made until the trading session officially begins.

[42] See http://www.pds.com.ph/index.html%3Fpage_id=11301.html

Table 4.1: Philippine Dealing Systems Fixed Income Market—Trading Hours

Session	Start	End
Preopen Session	8:30 a.m.	9 a.m.
Morning Session	9 a.m.	12 noon
Trading Break	12 noon	2 p.m.
Afternoon Session	2 p.m.	4 p.m.
End of Trading Day	4 p.m.	

Source: Philippine Dealing & Exchange Corporation.
http://www.pds.com.ph/index.html%3Fpage_id=1637.html

Trading days are every day except for Saturdays, Sundays, legal holidays, and days when the Philippine Clearing House Corporation's operations are suspended.

4. Data Dissemination

PDEx Trading Participants may view on a real-time basis live bid and offer prices and/or yields and market-wide trade on debt securities listed and traded on PDEx through the trading system or through the PDEx MarketPage, a data publication facility. Access to the MarketPage is free of charge for PDEx Trading Participants. It is also available to non-Trading Participants on a paid subscription basis.

Real-time data is also viewable through the Reuters terminal and PDEx's FI-BIOS, which is available through the Internet. Price and trade data are available on a delayed basis on the PDEx website. Information on the terms and conditions of listed corporate debt securities—including the issue date, maturity date, and coupon rate—may likewise be found in the respective prospectuses, offering circulars, and information memoranda posted on the PDEx website.

D. Mandatory Trade Reporting

Pursuant to Section 16 of the OTC Rules, brokers and dealers are required to post or publish in their quotation system all transactions executed in said system within 1 minute of execution. Brokers and dealers are principally required to report done trades on securities in a central trade-reporting system.

To provide market transparency, the captured trades are viewable on the PDS Group website within about 15 minutes of execution (see example in section C Figure 4.2), and are provided by the PDS Group in data feeds to Trading Participants as well as by a number of commercial information vendors.

The reported market trades include repo and securities borrowing and lending transactions.

E. Market Monitoring and Surveillance in the Secondary Market

In July 2006, the SEC formally recognized PDEx as an SRO in the inter-dealer market. It is thus vested with the responsibility of formulating the requisite market rules, undertaking surveillance, and enforcing compliance in the inter-dealer market.

In November 2007, the SEC expanded the SRO registration of PDEx to cover the inter-professional market; in February 2008, its SRO authority was expanded to cover its members in all markets within the PDEx trading system, including the public market through their brokers, which had entered the market at that time.

Under the SRC, an SRO is registered to enforce compliance with its provisions, rules, and regulations. It is also mandated to make and enforce its own rules. An SRO should enforce fair, ethical, and efficient practices in the securities industry. With this mandate, PDEx has created a comprehensive governance structure that is designed to insulate the market governance function from its corporate governance structure that sees to the business needs of PDEx as a commercial enterprise.

PDEx Rule 15 governs market surveillance. This function is carried out by the Compliance and Surveillance Department. In addition to surveillance of market activities, the Compliance and Surveillance Department investigates trading and other rule violations, and conducts regulator examinations of Trading Participants. It has the power to impose trading halts or suspensions pending the investigation of any irregularities or violations of the SRC or the PDEx Rules, and to recommend to the Market Compliance and Discipline Committee the institution of disciplinary proceedings and imposition of appropriate sanctions or penalties on violators.

F. Yield Curves and Bond Indexes

1. Yield Curves for Government Securities

Since the trading of debt securities, including government securities, in the secondary market in the Philippines occurs on the PDS Fixed Income Securities Market, yield curves and other trading statistics are available via the PDS Group website. The yield curve for benchmark issues is available, together with other statistics on the daily market activities, as a PDF file from about 4:20 p.m. each trading day. Figure 4.3 displays an example of such data available.

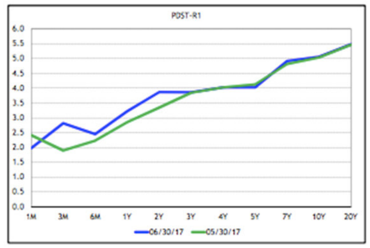
A yield curve for government securities is also available for selected periods on *AsianBondsOnline*, an ASEAN+3 initiative supported by ADB, under the generic label Government Bond Yield Curves (Figure 4.4). This yield curve is updated daily. [43]

[43] See https://asianbondsonline.adb.org/philippines/data/marketwatch.php?code=government_bond_yields

Figure 4.3: Yield Curves for Benchmark Government Securities on the Philippine Dealing Systems Website

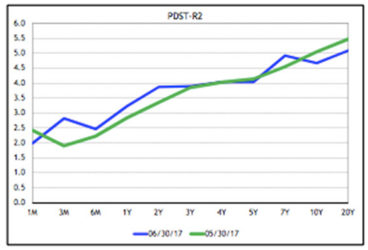
PDST-R1 (AM)
Philippine Dealing & Exchange Corp. (PDEx)
Friday, June 30, 2017

Tenor	Today		Previous Day		+/-	Week Ago		+/-	Month Ago		+/-
	06/30/17		06/29/17			06/23/17			05/30/17		
1M	D	1.9770	B	2.7589	-0.7819	B	2.6661	-0.6891	B	2.4161	-0.4391
3M	B	2.8139	B	2.7821	0.0318	B	2.6929	0.1210	D	1.9000	0.9139
6M	I	2.4505	D	2.3130	0.1375	B	2.9068	-0.4563	D	2.2329	0.2176
1Y	B	3.2257	D	2.8524	0.3733	B	3.0429	0.1828	D	2.8501	0.3756
2Y	B	3.8736	B	3.6661	0.2075	B	3.6668	0.2068	D	3.3500	0.5236
3Y	D	3.8635	D	3.8551	0.0084	D	3.8417	0.0218	D	3.8495	0.0140
4Y	D	4.0313	D	4.0425	-0.0112	B	4.3061	-0.2748	D	4.0300	0.0013
5Y	D	4.0300	B	4.3511	-0.3211	B	4.3471	-0.3171	D	4.1313	-0.1013
7Y	B	4.9189	B	4.7611	0.1578	D	4.4700	0.4489	B	4.8161	0.1028
10Y	B	5.0600	D	4.6282	0.4318	B	4.8875	0.1725	B	5.0411	0.0189
20Y	B	5.4832	B	5.3811	0.1021	B	5.3411	0.1421	B	5.4679	0.0153
25Y	-	-	-	-	-	-	-	-	-	-	-



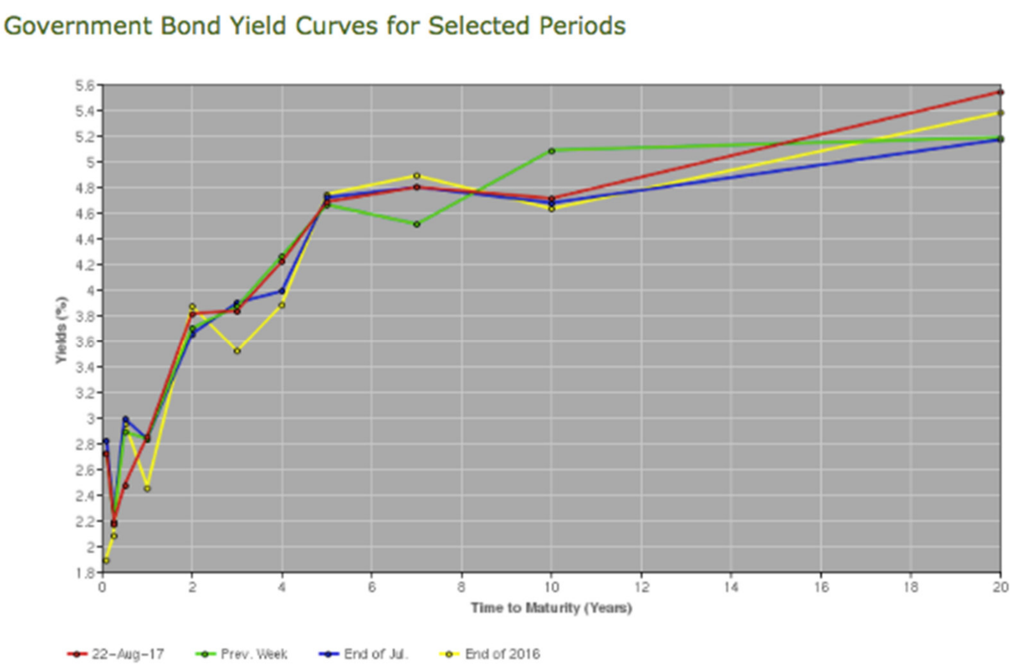
PDST-R2 (PM)
Philippine Dealing & Exchange Corp. (PDEx)
Friday, June 30, 2017

Tenor	Today		Previous Day		+/-	Week Ago		+/-	Month Ago		+/-
	06/30/17		06/29/17			06/23/17			05/30/17		
1M	D	1.9850	D	1.9618	0.0232	B	2.6661	-0.6811	B	2.4161	-0.4311
3M	B	2.8139	B	2.7750	0.0389	D	2.0663	0.7476	D	1.9006	0.9133
6M	I	2.4615	D	2.3148	0.1467	D	2.2955	0.1660	D	2.2277	0.2338
1Y	B	3.2257	D	2.8538	0.3719	D	2.8463	0.3794	D	2.8399	0.3858
2Y	B	3.8718	D	3.3547	0.5171	D	3.3638	0.5080	D	3.3500	0.5218
3Y	D	3.8916	D	3.8586	0.0330	D	3.8375	0.0541	D	3.8450	0.0466
4Y	D	4.0321	D	4.0479	-0.0158	D	4.0148	0.0173	D	4.0298	0.0023
5Y	D	4.0336	D	4.0325	0.0011	D	4.0493	-0.0157	D	4.1340	-0.1004
7Y	B	4.9171	D	4.4654	0.4517	D	4.4690	0.4481	D	4.5438	0.3733
10Y	D	4.6691	D	4.6409	0.0282	D	4.6033	0.0658	B	5.0411	-0.3720
20Y	D	5.0844	D	5.0496	0.0348	B	5.3321	-0.2477	B	5.4679	-0.3835
25Y	-	-	-	-	-	-	-	-	-	-	-



Source: Philippine Dealing & Exchange Corporation. Market Data. Downloads/Historical Data. Fixed Income Reports. Daily Reports. Trade Volume Trends. PDST Reference Rates PHP Denominated. http://www.pds.com.ph/wp-content/uploads/2017/06/PDEx-Trade-Summary-as-of-June-30-2017.pdf

Figure 4.4: Display of Government Securities Yield Curve on *AsianBondsOnline*



Source: *AsianBondsOnline*. Government Bond Yield Curves for Selected Periods. https://asianbondsonline.adb.org/philippines/data/marketwatch.php?code=government_bond_yields

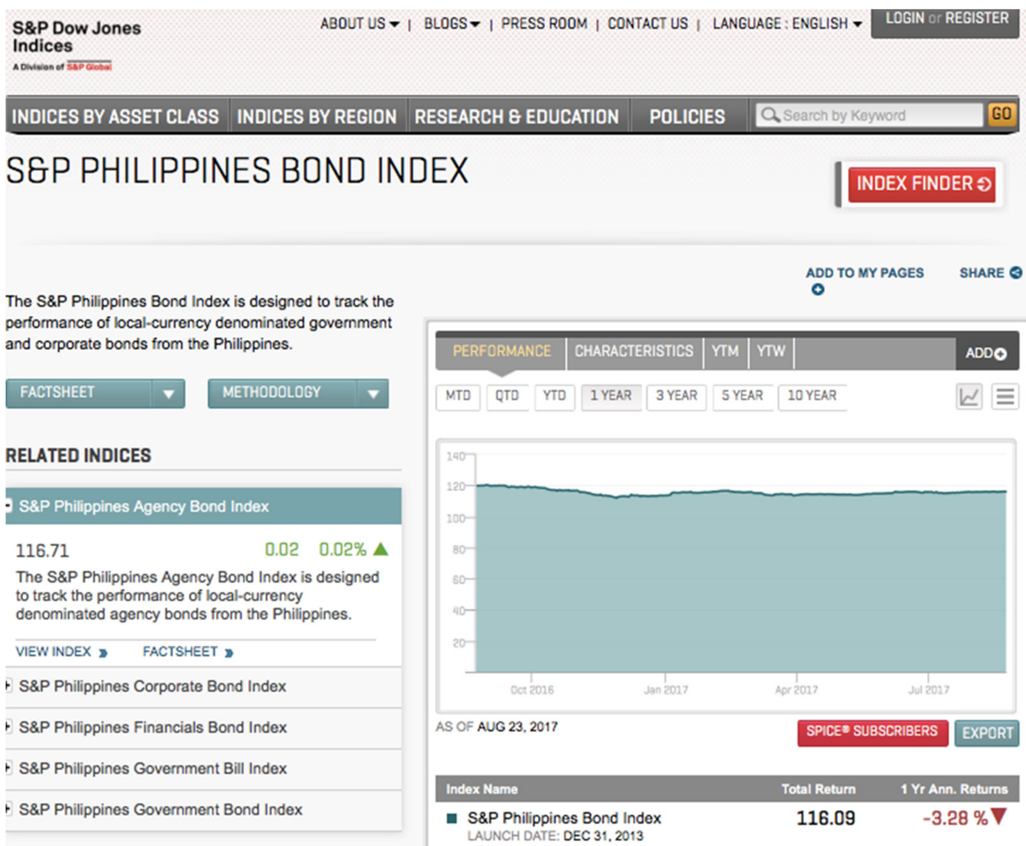
2. Other Bond Yields Curves

One of the distinctions of the Philippine corporate bond market is the prevalence of issuers with strong credit ratings. Yet, this apparent homogeneity has not led to the creation of a single or consolidated corporate bond yield curve as issuers and their bond and note issuances continue to typically be assessed on an individual basis and yield differentials within the same peer group are common.

3. Philippine Bond Indexes

A number of international information vendors calculate and publish indexes for the Philippine bond market. One example is the Standard and Poor's (S&P) Dow Jones Indexes LLP, a unit of McGraw Hill Financial. The company tracks the S&P Philippines Bond Index (ticker symbol: SPBPHCOT), which is a composite index across all government and corporate bonds issued in the Philippines. Please see Figure 4.5 for an example.

Figure 4.5: Standard and Poor's Philippines Bond Index Web Page



Source: Standard and Poor's. Philippines Bond Index; http://au.spindices.com/indices/fixed-income/sp-philippines-bond-index

At the same time, a number of individual Philippine bond indexes are available from S&P Dow Jones, including

(i) S&P Philippines Corporate Bond Index,
(ii) S&P Philippines Financials Bond Index,
(iii) S&P Philippines Government Bill Index, and
(iv) S&P Philippines Government Bond Index.

S&P Philippines Bond Indexes are available to registered S&P Dow Jones subscribers and via public domain websites.

4. Inclusion of Philippine Bond in Other Indexes

Bonds and notes issued in the Philippines are also included in a number of regional bond indexes such as the Markit iBoxx Asian Bond Fund Index Family and HSBC Asian Local Currency Bond Returns Index.[44]

The Markit iBoxx ABF Index Family is a series of indexes that serve as benchmarks under the second phase of the Asian Bond Fund (ABF2). Local currency bond indexes are constructed covering eight ASEAN+3 markets, including the Philippines, along with two pan-Asia indexes. The International Index Company and the Executives Meeting of East Asia and Pacific Central Banks developed the indexes. The composition of the indexes follows the market capitalization of the eight ASEAN+3 markets. Interested parties may also view the Markit iBoxx Asian Bond Fund Index Family on *AsianBondsOnline* (Figure 4.6).

Figure 4.6: Markit iBoxx Asian Bond Fund Family Web Page on *AsianBondsOnline*

Source: *AsianBondsOnline*. Markit iBoxx ABF Index Family.
https://asianbondsonline.adb.org/philippines/data/bondmarket.php?code=IBoxx_ABF_Index

HSBC publishes the Asian Local Currency Bond Returns Index. This indicator is based on the HSBC Asian Local Bond Index (ALBI). Bonds included in the ALBI adhere to a set design criteria: local-currency-denominated, high quality, liquid bonds in Asia ex-Japan. Bond returns for each market can be tracked by the individual market indexes that make up the ALBI. The HSBC Asian Local Currency Bond Returns Index may also be viewed on *AsianBondsOnline*.[45]

[44] For a factsheet of the Markit iBoxx ABF Indexes, please see http://content.markitcdn.com/corporate/ResourceManager/Bczx3R0al3yQY1ovVq7qkQ2/d/f/635316303559088135/Content/Documents/Products/Factsheets/iBoxx/MKT_iBoxx_ABF_Index_factsheet.pdf
[45] See https://asianbondsonline.adb.org/philippines/data/bondmarket.php?code=Asian_Local_bond_RI

G. Repurchase Market

1. Repurchase Market Overview

The country's interbank repo market is in its early stages of development. Although there were purportedly repo transactions in the Philippines dating back to the 1980s, a platform was only formalized in 2008.[46] In August 2008, the PDS Group launched the PDEx Inter-Professional Repurchase Agreement Market Program, which is known as PDS Repo, to provide the necessary cash liquidity to dealers. PDEx provides the repo trading platform and PDTC provides third-party collateral management.

Trade volumes have been relatively low, reaching a peak of about PHP13 billion on a daily basis in 2011. However, the platform has not been in use since 2012 pending clarification on the documentary stamp tax (DST) treatment on repo transactions. Moreover, the Philippine market has been operating under abundant liquidity for many years and, as such, market participants have had limited demand for repo transactions. Some participants also noted that these types of transactions were expensive compared to other borrowing options.

2. Market Structure

The repo market developed in the Philippines in the 1980s, primarily among banks and their retail customers. Being a capital market transaction, repos proved to be an efficient tool for banks to finance their balance sheets while providing their customers better returns than offered by regular deposits. They also provided better security for the customers due to the collateralized nature of the transaction.

This, however, posed problems for the monetary authorities as repos weakened the effectiveness of monetary tools for controlling monetary aggregates. In particular, repos enabled the faster creation of credit as they were not subject to reserve requirements given that the transaction happened off balance sheet as a deposit substitute. The BSP eventually applied reserve requirements on these deposit substitutes, which spelled the end of the product.

3. Philippine Dealing Systems Repo

PDS Repo is a repurchase agreement market that supports the cash liquidity of financial institutions duly admitted as PDEx Members and provides secured short-term investment outlets to PDEx Trading Participants and Qualified Investors. All repo trades are centrally captured and linked straight through to settlement via PDS Clear.

Both PDS Repo and PDS Securities Lending are market programs approved by the SEC and each is covered by a "no-objection" letter by the BSP that enables BSP-regulated entities to participate in these markets. The BSP also imposed lower reserve requirements for repo transactions on PDEx.

Crucially, this also opened the way for other professional market participants—including trusts, mutual funds, pension funds, insurance companies, and other qualified institutional investors—to become providers of cash to dealers. At its peak in 2011, there were 13 repo sellers and 27 repo buyers.

Currently, only government securities are allowed as the subject of a repo transaction. Repurchased securities are transferred on the near leg to the account of the repo

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[46] Selected statements adapted from Executives Meeting of East Asia–Pacific Central Banks. 2014. *EMEAP Repo Markets: State of Play—A Report by the EMEAP Working Group on Financial Markets*. http://www.emeap.org/emeapdb/upload%5CWGMeeting%5CEMEAP_Working_Group_on_FinancialMarkets_-_Report_on_EMEAP_Repo_Markets_....pdf

buyer (investor) at PDTC and are held there during the tenor of the repo, after which it is returned to the repo seller on the far leg.

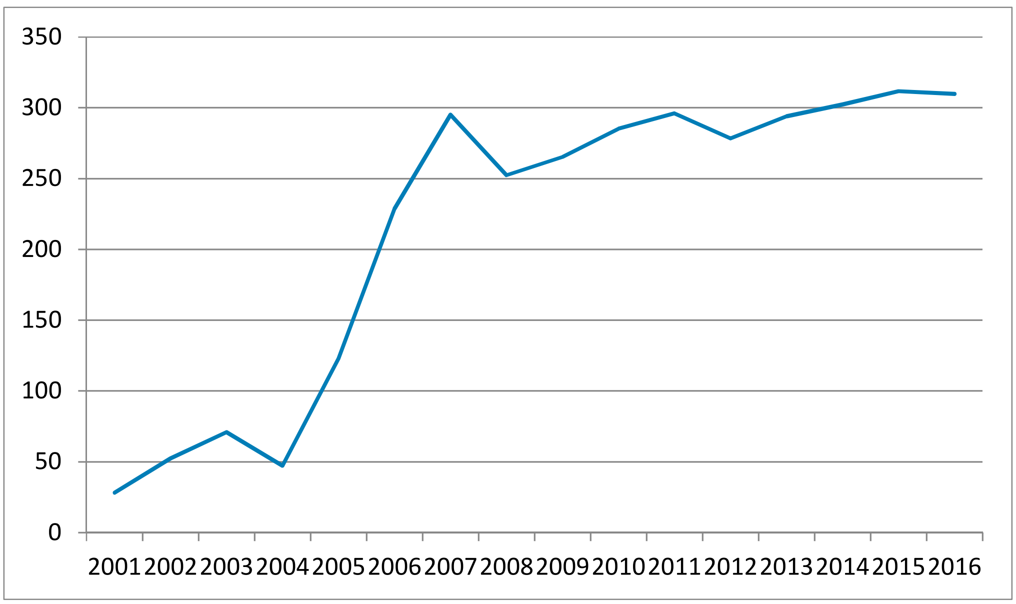
PDEx provides the trading platform and monitors compliance of all participants as well as providing clearing services for repo transactions. Price discovery is achieved through the PDEx electronic platform. The platform is structured in a tripartite form with PDTC serving as the centralized collateral manager. Apart from holding the securities subject to the repo transactions, PDTC also performs daily valuation of the collateral, and calculates and calls margin on a daily basis in case of a shortfall of value. Settlement is on a delivery-versus-payment basis.

The rules for PDS Repo, also referred to as Repo Rules, are available from the PDS Group website.[47]

4. Repo as Part of Bangko Sentral ng Pilipinas Open Market Operations

The BSP also conducts repo agreements and RRP agreements with banks as part of its open market operations outside of PDS Repo. The BSP uses repo transactions to implement monetary policy and manage reserve balances.

Figure 4.7: Bangko Sentral ng Pilipinas Reverse Repurchase Transaction Volumes
(PHP Billion)



Source: Bangko Sentral ng Pilipinas.

The interest rate for the overnight RRP facility signals the monetary policy stance and serves as the BSP's primary monetary policy instrument. The RRP facility is offered to qualified counterparties daily using a fixed-rate and full-allotment method, where individual bidders are awarded a portion of the total offered amount depending on their bid size. Repos transacted with the BSP are not conducted on the PDEx platform. Figure 4.8 presents the volumes of bilateral RRP transactions over the last 15 years.

[47] See http://www.pds.com.ph/wp-content/uploads/2013/08/REPO-Rules.pdf

5. Acceptance of Standards

The PDEx Master Repo Agreement was crafted to align with global standards on risk management, incorporating daily mark-to-market valuation of repurchased securities, daily valuation of repo obligations versus collateral obligations, daily margin calls and margin releases as applicable, and margining securities for price volatility.

6. Specific Repurchase Practices

a. Type of Repurchase

The key feature of PDS Repo is a transfer of title and does not involve a pledge with a third-party collateral management function. This repo practice follows the "classic repo" type of outright sale and purchase. PDS Repo is not cash borrowing and it is also not intended for re-lending. The objectives are for failed trade management and dealer liquidity.[48]

From a legal perspective, securities are transferred to the lender. In case of default, the lender could liquidate the bonds in the market to settle any obligations of the borrower.

b. Size and Tenure

PDS Repo tenors range from overnight to 3 months, with the majority of the trading volume occurring for tenors between 1 month and 1.5 months. The peak repo volume outstanding was PHP38 billion in 2011.

c. Eligible Debt Securities as Collateral

At the time of PDS Repo's operation, securities eligible for repo included securities issued by the Government of the Philippines via the BTr, as listed on PDEx.

The substitution of collateral securities is permitted with the consent of the repo buyer, provided that the assets offered as substitutes are also eligible as collateral securities under the PDEx Repo Rules.

Collateral eligible for repo with the BSP is defined in the BSP's charter. The BSP may buy and sell in the open market for its own account: (i) evidences of indebtedness issued directly by the Government of the Philippines or by its political subdivisions; and (ii) evidences of indebtedness issued by government instrumentalities and fully guaranteed by the Government of the Philippines. The evidences of indebtedness acquired under the provisions of this section must be freely negotiable and regularly serviced and must be available to the general public through banking institutions and local government treasuries in denominations of PHP1,000 or more.

d. Margin

PDTC, as a collateral management institution, issues margin calls or effects margin releases as appropriate. Margins are determined daily as part of the mark-to-market of the collateral securities for each repo transaction.

[48] Adapted by ADB Consultants for SF1 from a 2016 ASEAN+3 SRO Working Group case study on repo markets, with the kind permission of the author.

e. Accounting and Tax Treatment

A final tax of 20% is applied to repo interest and is withheld by the repo seller from repo buyers at maturity only to repo buyers that are duly certified or chartered as TEIs (e.g., pension funds).

For the repo market in the Philippines, one of the challenges is the pending Bureau of Internal Revenue (BIR) clarification regarding the application of the DST.

f. Market Participants

Repo Sellers in PDS Repo transactions must be Dealing Participants on PDEx. Repo Buyers in PDS Repo transactions apart from Dealing Participants also include Qualified Investors that are permitted by their primary regulators to participate in PDS Repo.

Market participants in bilateral repo with the BSP have to be constituents of the interbank market (i.e., BSP-supervised entities such as banks or NBFIs with quasi-banking license).

The bilateral repo market is limited to domestic entities, including the branches of foreign financial institutions under the supervision of the BSP.

H. Securities Borrowing and Lending

Since 2007, PDEx has operated a securities borrowing and lending facility in the Philippine bond market. However, it is currently inactive.

1. PDS Securities Lending Transactions Program

PDS SLTP is a securities lending program that supports the securities liquidity requirements of financial institutions duly admitted as PDEx Members.

Both PDS Repo and PDS SLTP are market programs approved by the SEC and covered by the “no-objection” letters of the BSP that enable BSP-regulated entities to participate in these markets. Under PDS SLTP, the beneficial owner of debt securities may use the services of a lending agent or a party authorized to lend the securities on behalf of the beneficial owners. The lending agent must be a Depository Participant.

The lending of debt securities is facilitated through a lending pool operated by PDTC. Eligible lenders, or their lending agents, transfer their debt securities into this lending pool from which debt securities are lent to eligible borrowers. The PDEx SLTP Trading Board is updated with the available debt securities accordingly and interested borrowers can conclude transactions by selecting appropriate debt securities for their needs. All Trading Participants may be borrowers. Lenders must sign a Participation Agreement to participate in PDS SLTP but need not be Trading Participants of PDEx.

The rules for PDS SLTP, also referred to as PDEx SLTP Rules, are available from the PDS Group website.[49]

2. Eligible Debt Securities

The following are the types of securities acceptable for lending under the PDEx SLTP:

[49] See http://www.pds.com.ph/wp-content/uploads/2013/08/PDEx-SLT-Program-Rules.pdf

a. Fixed Income Instruments (PHP-denominated)

(i) securities issued by the BTr
(ii) securities issued by the BSP
(iii) securities issued by municipal governments or Local Government Units and listed in PDEx
(iv) private corporate debt securities listed on PDEx

b. Fixed Income Instruments (USD-denominated)

(i) securities issued by the Government of the Philippines
(ii) private corporate debt securities listed on PDEx

There is a separate set of eligible debt securities for Securities Lending Transactions that are published on the PDS Group website. The eligible securities are determined on a monthly basis using the criteria of issue size and market liquidity.

3. Tax Treatment

BIR Revenue Regulation 05-2007 governs the tax regime of the Securities Lending Transactions Program.

I. Bond Market-Related Derivatives

Presently, the SEC is open to accepting market-driven initiatives for hedging tools, such as overnight index swaps. The SEC is also currently looking into proposals with regard to Philippine peso overnight index swap and repo markets.

V

Description of the Securities Settlement System

This chapter, as included in the original ASEAN+3 Bond Market Guide published in 2012 has been discontinued in favor of a more comprehensive and updated description in the Phase 2 Report of the ABMF Sub-Forum 2 (SF2), Information on Transaction Flows and Settlement Infrastructures, dated 13 June 2014. The SF2 Phase 2 Report contains information on the post-trade features of the Philippine bond market, its market infrastructure and settlement systems, interest payment and redemption practices, as well as market and message standards (pp. 216–28). In addition, the SF2 Phase 2 Report contains detailed infrastructure and transaction flow diagrams for the bond market in the Philippines (pp. 538–62).

The SF2 report is available on a dedicated ADB website as well as through a number of mirror sites.[50]

[50] See http://www.adb.org/publications/asean3-information-transaction-flows-and-settlement-infrastructures

VI

Bond Market Costs and Taxation

This chapter details the typical costs incurred by issuers and investors in the Philippine bond market, and the duties and taxes levied, with a particular emphasis on costs associated with bond or note issuance and settlement.

For ease of reference, the descriptions of the types of costs are given in the context of the actions to be taken by issuers or investors (as explained in this document) and follow the lifecycle of a bond or note in the Philippine bond market. Fees and charges levied by the SEC are taken from the official Fee Schedule published in 2013.[51]

Costs for legal and contractual services offered by law and accounting firms are expected to be incurred but are not specifically reviewed here since these are more often than not at the discretion of the issuer or subject to the specific considerations of each issuer, underwriter, or other parties involved.

A. Costs Associated with Bond and Note Issuance

1. Filing a Registration Statement with, and Approval by, the Securities and Exchange Commission (Public Offers)

For details and conditions of the filing process itself, please refer to Chapter II.F.

a. Filing Fee

Issuers or their underwriters are required to file a Registration Statement for fixed income securities to be issued under a public offer with the SEC, and to obtain an approval for said securities. The SEC charges a filing fee for the filing and approval process. The fee is payable at the time of filing. The fee is not refundable in the case of an unsuccessful application.

Table 6.1: Filing Fee for Registration Statement

Maximum aggregate Price of Securities	Filing Fee
Up to PHP500 million	0.1%
Up to PHP750 million	PHP500,000 + 0.075% of excess over PHP500 million
Up to PHP1 billion	PHP687,000 + 0.05% of excess over PHP750 million
More than PHP1 billion	PHP812,500 + 0.025% of excess over PHP1 billion

Source: Securities and Exchange Commission's Schedule of Fees and Charges 2013.

[51] For the complete fee schedule, please see http://www.sec.gov.ph/notices/notices/new%20sked%20of%20fees%20and%20charges%20(for%20comment).pdf

The filing fee is charged on a sliding scale, as shown in Table 6.1, depending on the maximum aggregate price of the securities to be offered

Any filing of an amendment to a Registration Statement is charged at a flat rate of PHP12,000.

b. Legal Research Fee

In addition, the SEC charges the issuer a legal research fee equivalent to 1% of the filing fee, but not less than PHP10.

2. Request of Confirmation of Exemption (Optional)

In the event that an issuer or their underwriter desires a confirmation of the exempt status of the securities to be offered, the issuer or underwriter would need to submit a request of confirmation of the exemption to the SEC. The SEC charges a fee for such confirmation to the amount of 10 basis points (0.1%) of the aggregate value of securities to be offered or issued.

Fees paid for a confirmation of exemption are credited toward the amount of filing fee payable for the next registration of securities by the same issuer.

3. Underwriter Fee (Mandatory Only in the Case of Public Offers)

The appointment of an underwriter is required for public offers in the Philippines, but not mandatory for private placements or exempt securities. The underwriter is, among other roles, responsible for the submission of applications and supporting information to the relevant regulatory authorities.

Underwriters charge a fee, typically commensurate with the effort and risk of taking over parts or all of a bond or note issue from the issuer. Underwriting or selling agency fees should be expected to follow established market practice, are subject to negotiation between the issuer and the underwriters or selling agents, and are documented in the transaction agreement between the parties. Fees to underwriters of registered debt securities are generally disclosed in the prospectus. A survey on underwriting and selling agent fee collected from the Philippine market is displayed in Table 6.2.

Table 6.2: Underwriter or Selling Agent Fees

Corporate Notes		Registered Bonds	
Low	High	Low	High
0.25%	1.5%	0.45%	1.5%
		0.35%[a]	0.6%[a]

[a] Based on fees disclosed in prospectuses for publicly offered debt securities.
Source: Securities and Exchange Commission.

4. Transfer Agent Fees (Mandatory in Case of a Public Offer)

In the Philippine bond market, the appointment of a transfer agent in the context of a public offer of bonds or notes is mandated to ensure effective and professional administration of the issue, a division of duties, and the observance of international best practice.

The transfer agent is remunerated for their services based on established market practice and fees are subject to negotiation between the issuer and the transfer agent.

5. Facility Agent Fees (Mandatory in Case of a Public Offer)

Under the PDEx Rules, debt securities to be listed or enrolled on PDEx must have a facility agent or trustee. The facility agent has specific duties as per prescriptions by PDEx and set out in a contract with the issuer, while the trustee holds the fiduciary responsibility toward the bondholders or noteholders and acts in the case of default or distress.

Market fees are typically subject to negotiation between the issuer and facility agent or trustee, and are based on the actual services to be provided. As general guidance, fees charged by trustees are displayed in Table 6.3.

Table 6.3: Trustee Fees

Corporate Notes		Registered Bonds	
Low	High	Low	High
As a percentage of MPC		PHP300,000	PHP600,000
		PHP95,000[a]	PHP270,000[a]

MPC = Mortgage Participation Certificates issued by the trustee to the lenders.
[a] Based on fees disclosed in prospectuses for publicly offered debt securities.
Note: MPCs are issued when the notes are secured by a pool of assets.
Source: Securities and Exchange Commission.

6. Listing Fee

For a bond or note to be eligible to be traded in the Philippines, even in the OTC market, the issuer or underwriter of a bond or note must list or enroll the bond or note on an organized market. An example of an organized market is PDEx. For eligibility criteria for and details of the listing of debt securities on PDEx, please refer to Chapter III.I.

Securities listed on PDEx are subject to a one-time application fee and capped annual maintenance fees. Listing fees for registered debt securities are generally disclosed in the prospectus.

The fee is payable after the approved listing in PDEx; the PDEx schedule of fees for admitting securities applies to both listing and enrollment.

7. Philippine Depository & Trust Corporation Lodgement Fee

Before debt securities can be traded on PDEx, debt securities need to be delivered to the PDTC. This process is called Lodgement and is subject to a lodgement fee.

8. Publication Costs (in the Event of a Public Offer only)

A survey on publication fees across the securities industry conducted by the SEC showed that publication costs for registered bonds typically come to about PHP50,000 per publication.

9. Credit Rating Fees

Debt securities issued through a public offer, as well as the listing or enrollment of such debt securities on PDEx require said debt securities to be rated by a recognized CRA. Hence, a credit rating would need to be obtained and the issuer will incur the fee for such services. For the specific credit rating requirements for debt securities in the Philippines, please refer to Chapter III.O.

Fees payable to a credit rating agency are subject to negotiation between the issuer and the rating agency. Credit rating fees for registered debt securities are generally disclosed in the prospectus.

B. Recurring Costs for Issuers of Corporate Bonds and Notes

In addition to the one-time fees and charges incurred at the time of bond or note issuance, an issuer may need to also consider the recurring costs for bonds or notes issued in the Philippines, including and not limited to those described below.

1. Interest Payment and Redemption Fees

Entitlements and redemptions are distributed by a paying agent engaged by the issuer.

For the processing of an interest payment or redemption, the paying agent may charge a fee in accordance with the agreement made with the Issuer.

2. Listing Maintenance Fes

The listing of debt securities on PDEx, regardless of whether on the Main Board or the QB Board, is subject to capped annual maintenance fees. Listing maintenance fees for registered debt securities are generally disclosed in the prospectus.

3. Registry Maintenance and Paying Agency Fes

The appointed registry charges a fee in accordance with the agreement made with the issuer. These fees are subject to agreement between the issuer, the appointed registry, and the paying agent. For registered debt securities, fees that are charged against the investor are generally disclosed in the prospectus.

4. Trustee Annual Retainer Fes

The trustee annual retainer fee is subject to agreement between the issuer and trustee. For registered debt securities, this is generally disclosed in the prospectus.

5. Credit Rating Agency Annual Monitoring Fes

CRAs monitor the quality of a rating provided to an issuer or specific bonds or notes during the lifecycle of the debt securities. For that, the CRA will levy an annual monitoring fee, which is subject to agreement between the issuer and the CRA. For registered debt securities, the fee is generally disclosed in the prospectus.

C. Costs for Deposit and Withdrawal of Bonds and Notes

PDTC, a subsidiary of the PDS Group, fulfills the function of central securities depository for corporate bonds and notes in the Philippine market, while RoSS is the depository for government securities. PDTC also acts as the settlement location for debt securities traded on PDEx, and settlements and transfers of government securities are subsequently updated in RoSS. In their function as the relevant depositories, PDTC and RoSS levy the following charges, respectively:

1. Lodging (Deposit) Fee

Due to the largely scripless nature of the bond market in the Philippines, a deposit of physical debt securities certificates into PDTC does not apply. Securities in RoSS are created and transferred on a scripless basis and are not available as physical certificates.

Government securities are automatically created in RoSS upon issuance.

2. Uplift (Withdrawal) Fee

An uplift fee is charged for the withdrawal of lodged securities from PDTC.

Since securities in the Philippine bond market are generally scripless (exceptions may be small private placements), a withdrawal of securities certificates in physical form from PDTC, as well as from RoSS, is no longer applicable.

D. Costs for Account Maintenance and Safekeeping

1. Account Maintenance Fee

a. Philippine Depository & Trust Corporation

PDTC does not charge a maintenance fee on the basis of the (number of) accounts maintained in its depository system. Instead, PDTC levies a depository maintenance fee (see below).

b. Registry of Scripless Securities

BTr charges a monthly account maintenance fee for institutional account holders in RoSS.

2. Depository (Safekeeping) Fee

a. Philippine Depository & Trust Corporation

Debt securities kept in a PDTC depository account are subject to a depository maintenance fee based on the face value of the securities held for safekeeping.

b. Registry of Scripless Securities

There is no depository fee charged by the BTr for the holdings of institutional account holders.

E. Costs Associated with Bonds and Notes Trading

1. Broker's Commission

The broker's commission is subject to the commission schedule of the broker. Rules and regulations of both SEC and PDEx currently do not prescribe minimum or maximum broker commission rates.

At the same time, the SRC IRR require the submission of a schedule of minimum fees to the SEC, and PDEx has a rule on the minimum broker's commission for customers that are not qualified investors (Rule 6.3.7).

2. Transaction Fee

For issues with remaining tenors of more than 1 year, PDEx charges an ad valorem transaction fee of 0.25 basis points based on the face value of each bond trade executed in the PDEx market, charged to both trading counterparts.

For issues with remaining tenors of less than 1 year, the schedule above is applied but adjusted to a per annum basis based on the remaining tenor of the bond and charged to both trading counterparts.

F. Costs for Settlement and Transfer of Bonds and Notes

Fees relating to the settlement and transfer of debt securities transactions are generally for the account of the transacting participants or investors.

PDTC does not charge a separate settlement fee for trades in debt securities settling with PDTC. When a Depository Participant uplifts its client's securities for delivery of such securities to its client's name in RoSS, PDTC charges a fee of 0.1 basis points of the face value of the securities being withdrawn. This fee is subject to a cap of PHP100 and a floor of PHP1.

G. Taxation Framework and Requirements

The BIR administers the tax framework of the Philippines. Residents and nonresidents investing in the Philippine bond market are subject to a number of duties and taxes on debt securities as shown in Table 6.4. The applicability of and practices for the relevant taxes are explained in subsequent sections.

If in doubt, investors are encouraged to seek the advice of professional tax advisors with regard to their own specific tax situation.

Table 6.4: Duties and Taxes on Debt Securities in the Philippines

Duties and Tax	Type of Bond	Tax Rate
Gross Receipt Tax	Government	5% if maturity period is 5 years or less; 1% if maturity period is more than 5 years [a]
	Corporate	
Final Withholding Tax [b]	Government	20% (30% for nonresidents)
	Corporate	
Creditable Withholding Tax [c]	Government	n.a. (considered deposit substitute irrespective of number of investors)
	Corporate	20%
Capital Gains Tax	Government	7%
	Corporate	
Documentary Stamp Tax	Government	PHP1 for every PHP200 issued
	Corporate	
Value Added Tax	Universal	12%

n.a. = not applicable, PHP = Philippine peso.
a = Only applicable to bank and non-bank financial intermediaries performing quasi-banking functions.
b = Applicable to deposit substitutes.[52]
c = Applicable to non-deposit substitutes.
Source: Compiled by ADB consultants for SF1 from public domain sources.

1. Gross Receipt Tax

Gross receipt tax is only applicable to and collected from bank and non-bank financial intermediaries performing quasi-banking functions on gross receipts derived from sources within the Philippines. The interest or discount from lending activities are subject to 5% if maturity is 5 years or less, or 1% if maturity is more than 5 years.

2. Withholding Taxes

The Philippines uses two types of withholding tax, creditable withholding tax and final withholding tax, based on the securities and number of initial investors.

Creditable withholding tax is only applicable to corporate bonds offered to less than 20 investors. All government securities are considered deposit substitutes irrespective of the number of lenders, thus, are subject to final withholding tax.

A final withholding tax at the rate of 20% is imposed on the amount of interest from any currency bank deposit and yield, or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements. These instruments include debt securities. Final withholding tax is applicable to government securities and corporate bond offered to 20 investors or more.

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[52] Deposit substitute, as defined in Section 22(Y) of the National Internal Revenue Code of 1997, as amended, means an alternative form of obtaining funds from the "public" other than deposits, through the issuance, endorsement, or acceptance of debt instruments for the borrower's own account, for the purpose of relending or purchasing of receivables and other obligations, or financing their own needs or the needs of their agent or dealer. The "public" is defined as borrowing from 20 or more individual or corporate lenders at any one time.

3. Capital Gains Tax

In case bank and non-bank financial intermediaries performing quasi-banking functions incurred net trading gains on the sale of debt securities within a taxable year, capital gains tax of 7% will be applied.

4. Documentary Stamp Tax

A DST equivalent to PHP1 for every PHP200 of the face value of the debt securities is payable upon issuance, either directly by the issuer or as an out of pocket expense as part of the service provision of the underwriter.

As per the definition employed by the BIR, the DST is a tax on documents, instruments, loan agreements, and papers evidencing the acceptance, assignment, sale, or transfer of an obligation, right, or property incident thereto.[53]

Based on the above definition, the DST is not dependent on whether there is an actual document (i.e., a physical securities certificate present). Therefore, even dematerialized (or scripless) securities can be subject to DST.

5. Value-Added Tax or Goods and Services Tax

Philippine-registered dealers and lending investors are subject to 12% value added tax for gross receipt arise from sales of bonds in the Philippines. The term gross receipt is defined as gross selling price less cost of the securities sold.

6. Double Taxation Agreements

Double taxation agreements (DTAs) are treaties signed by the Philippines with other countries that specify tax exemptions or concessions on incomes derived from investments, whereby investors are only liable to pay income tax in one country in order to induce foreign investment. A DTA applies to persons who are residents of the contracting states and applies to direct taxes, such as personal income tax and corporate income tax, including applicable withholding taxes. Indirect taxes such as value-added tax are not covered by a DTA. A DTA also prescribes a ceiling rate for tax collection, which the source country must not exceed.

While DTAs may offer more favorable treatment to foreign institutional investors resident in treaty countries, the claim of such favorable treatment after the income payment is not a market-typical feature. Foreign investors are advised to ensure that their tax status is correctly reflected with their custodian at the time of interest payment.

7. Taxation for Nonresidents

Generally, interest income derived by a nonresident foreign corporation from government debt securities or corporate bonds is subject to a final withholding tax at a rate of 30%. However, in the context of the bond market, interest income derived by nonresident foreign corporations from foreign loans—defined as investments in the instruments of nonresident issuers—is subject to a 20% final withholding tax.

[53] See http://www.bir.gov.ph/index.php/tax-information/documentary-stamp-tax.html

VII

Market Size and Statistics

The original ASEAN+3 Bond Market Guide was published in April 2012 and included several pages of Philippine bond market statistics, including historical data such as bond holdings, bondholder distribution, outstanding amounts, and trading volumes. Not surprisingly, this data became stale soon after publication.

Since the ASEAN+3 Bond Market Guide is most likely to be updated only on a biennial basis, it is not the best channel for the dissemination of market statistics. Hence, a chapter comprising bond market statistics has been discontinued and replaced with a list of recommended sources for detailed, accurate, and current information sources on the Philippine bond market. These sources are listed below in alphabetical order.

- *AsianBondsOnline* (an ASEAN+3 initiative led by ADB)
  http://www.asianbondsonline.adb.org/philippines.php
  - Market-at-a-Glance
  - Data (market size, yields, indicators, ratings, including historical data)
  - Market structure
  - Market summary
  - News (latest statistics)

- Bureau of the Treasury
  http://www.treasury.gov.ph/?page_id=746
  - Outstanding government securities
  - Government securities issuances
  - Government securities rates
  - Result of weekly Treasury Bill auction
  - Result of weekly Treasury Bond auction

- Philippine Dealing & Exchange Corporation (via PDS Group website)
  http://www.pds.com.ph/index.html%3Fpage_id=23.html
  - Summary data of corporate and government securities listed and traded in PDEx
  - PDS Treasury reference rates

VIII

Presence of an Islamic Bond Market

A. Current Status

In recent years, the interest in the Philippines in Sharia-compliant banking products, Islamic finance and, particularly, the issuance of *sukuk* (Islamic bonds) has been growing.

Sukuk are certificates of investment in underlying assets, services, or investment activities that generate fixed or floating returns in accordance with Sharia principles. As opposed to conventional bonds, which confer ownership of a debt, *sukuk* grant the investor a share of an asset along with the commensurate cash flows and risk.

One of the most important aspects of *sukuk* issuance is that it should be backed by real underlying assets. The *Sukuk Standard* issued by the Accounting and Auditing Organization for Islamic Finance Institutions distinguishes *sukuk* from equity, notes, and bonds. It emphasizes that *sukuk* are not debts of the issuer but rather are fractional or proportional interests in underlying assets, usufructs, services, projects, or investment activities. The underlying business or activity and the underlying transactional structures, such as the underlying leases, must be Sharia-compliant.[54]

The Government of the Philippines has launched initiatives to explore the possibilities of issuing *sukuk* to finance government funding needs (e.g., an inter-agency forum to discuss the potential for issuing *sukuk* in the country and exploratory engagements by government financial institutions on *sukuk*). The government may consider using its existing framework for the issuance of government securities.

B. Regulations Specific to *Sukuk*

While the option for government financing through *sukuk* issuance appears to be feasible, there has to be a clear regulatory framework to govern the secondary trading of *sukuk* in the Philippines. Considering that there is only one recognized bank with the authority to engage in Islamic financing structures and schemes, the following issues need to be considered and resolved first for the *sukuk* market to grow:

(i) **Tax neutrality**. There is a need for a friendly and neutral taxation system that makes Sharia-compliant products at par and competitive with conventional ones. The tax consequences for structures required under Islamic finance are more onerous than their counterpart interest-based transactions because several structure or transactions are needed to achieve the equivalent interest-based transaction. The unfavorable tax regime reduces the possible return on investments and sets back Islamic finance in terms of attractiveness.

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[54] Islamic Financial Services Board. 2008. *Islamic Finance: Global Legal Issues and Challenges*. Kuala Lumpur.

Supportive legislation, such as those harmonizing tax laws and adopting international regulatory standards, will be necessary to encourage investor confidence and promote industry growth.[55]

(ii) **Awareness of Islamic finance**. There is very little awareness of Islamic finance in the Philippines. Moreover, there is a misconception that Islamic finance caters only to Muslim investors and depositors. While Islamic finance adheres to Sharia principles, it does not preclude the participation of non-Muslim investors and depositors. Increased awareness will be an important factor in the success of an issuance of *sukuk* in the domestic market.

(iii) **Well-defined legal and regulatory framework for Islamic finance, particularly *sukuk* issuance**. There is a need for a comprehensive review of pertinent Philippine laws such as the SRC law governing insolvency, taking into consideration the requirement for a *sukuk* issuance to comply with Sharia principles.

(iv) **Support Infrastructure**. There is a need to establish the support infrastructures necessary for Islamic finance to prosper. For instance, national accounting standards may have to be expanded to accommodate Islamic finance transactions. Human resource development needs in this area should also be addressed. Furthermore, other non-fiscal incentives may have to be granted to promote the value proposition and competitiveness of Islamic financing.

The following environmental factors are needed to establish a responsive Islamic finance system in the Philippines:

(i) a critical mass of market players under a competitive but regulated environment,

(ii) appropriate linkages that cater to the peculiarities of Islamic finance,

(iii) a regulatory and supervisory framework that encourages a level playing field for Islamic finance,

(iv) a regulatory environment that encourages the provision of innovative products and services for Islamic finance, and

(v) a broader customer and asset base through increased investor awareness and acceptance.

[55] Islamic Finance Global Legal Issues and Challenges, Islamic Financial Services Board, p. 32.

IX

Philippine Bond Market Challenges and Opportunities

This chapter discusses some of the real and perceived challenges facing the bond market in the Philippines and its participants. This chapter also aims to describe possible mitigating factors and market developments that could address these challenges in an appropriate manner.

A. Challenges in the Philippine Bond Market

1. Government Securities Liquidity

A vital contributor to market liquidity would be an environment that boosts the liquidity of issues listed for trading in the organized market. The Government of the Philippines is interested in launching and institutionalizing programs that would rationalize its bond issuances to ensure optimal tradability of its issues.

The BTr has instituted the Domestic Bond Exchange Program to operate as a critical tool in identifying issues that are losing tradability in the market. Under the program, government securities dealers will be provided an opportunity to switch securities that they consider to be losing tradability with more liquid issues of government securities. This mechanism will ensure that untradeable issues are swept out of the market and replaced with more tradable issues. A Continuous Swap Program may also be operationalized to allow dealers to swap illiquid issues with more liquid ones on a scheduled basis.

Securities stripping is another program in the early stages of development that is being designed to enable the creation of new securities from the coupons of outstanding securities (strips), including packaging of strips, so that issues can gain depth and thereby increased attractiveness among the market base.

2. Limited Liquidity in the Corporate Bond Secondary Market

Corporate fixed income securities listed and traded on PDEx have lower trading volumes and lower turnover ratios compared with government securities traded on PDEx. Factors that may contribute to this are the relatively smaller average issue size of corporate issuances, skewed distribution toward buy-and-hold investors, limited market-making activities constrained by the application of the Single Borrower Limit, and the lack of alternative investment outlets for investors.

At the same time, listed corporate fixed income securities benefit from having a central venue for investors of all types to sell or buy such securities, and to obtain regular price transparency.

3. Limited Opportunities to Utilize Bond Holdings in the Repo Market

PDS Repo is open to all government securities. At the same time, the PDS SLTP is currently limited to government securities that comply with specified liquidity criteria.

This inability to utilize corporate bond holdings for repo business and the additional lack of clarity around the tax treatment of repo transactions has led to limited trading volumes in the repo market in the Philippines.

4. Philippine Financial Reporting Standards

Research by ABMF indicates that issuers, intermediaries, and listing places in ASEAN+3 are spending considerable energy on mapping and understanding financial reporting standards in each other's jurisdictions in anticipation of an increase in cross-border bond issuance and investment activities in the region. ABMF has also revealed that the treatment and disclosure of relevant information is often the same or very similar across jurisdictions, particularly with regard to bond and note issuance.

At the same time, however, it was found that the financial reporting standards in some markets have not yet fully adopted the International Financial Reporting Standards (IFRS).[56] This could result in issuers who aim to list or profile list their bonds or notes in specific listing places needing to convert their financial reporting information into a format acceptable to such listing places if their domestic financial reporting standard is not converged with IFRS.

The Philippine Institute of Certified Public Accountants administers the Philippines Financial Report Standards, which, for the purpose of financial markets, are fully converged with IFRS and as such provide no challenge for an issuer to adopt existing financial disclosure information for issuances in the Philippine bond market.

5. Impediments for Timely Issuance of Bonds and Notes to the Public

To receive approval for the issuance of debt securities to the public, the issuer needs to file a Registration Statement with the SEC. The Registration Statement is subject to SEC review and the SEC may ask for additional information or disclosure or require clarification from the issuer prior to rendering the Registration Statement effective. There is a fee payable for the registration of debt securities.

Due to the nature of the process and the potential timeframe it may require, the initial and continuing disclosure requirements, costs related to a registration, and the ease and availability of bank loans and other bilateral financing facilities, corporate issuers preferred bank financing or issuances through exempt securities or transactions. At the same time, the regulations for the shelf-registration of debt securities were limited.

The implementation of the 2015 SRC Rules allowed issuers to pay registration fees in line with actual issuance amounts over a period of 3 years (as opposed to 1 year previously). In addition, the need to file a Registration Statement for each new tranche of debt securities to be issued has been replaced with the need to only update the prospectus, a practice comparable to other regional markets. These regulatory changes have made the issuance window wider and costs easier to bear for corporate issuers.

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[56] ABMF published its Phase 2 Report in April 2014, *Proposal on ASEAN+3 Multi-Currency Bond Issuance Framework*, which included an overview of financial reporting standards in ASEAN+3 in relation to IFRS. The report is available at https://wpqr4.adb.org/LotusQuickr/asean3abmf/Main.nsf/h_Index/4B38375470B78E5748257CA800103914/$file/ASEAN+3%20Multi-Currency%20Bond%20Issuance%20Framework%20(AMBIF),%2029%20April%202014.pdf

One of the remaining points of contention is that registration fees for registered but unsold securities still have to be paid under the 2015 SRC Rules.

B. Opportunities in the Philippine Bond Market

1. General Regulatory Environment

Since the global financial crisis, regulators around the world have been strengthening laws and regulations in many areas of the capital and financial markets, particularly with regard to banking regulations and the focus on risk-weighted capital. The outcome for the financial markets include a limitation of what banks can or are willing to lend, to whom, and under what circumstances. A number of these regulatory initiatives may, in consequence, lead to a rebalancing of funding options for the corporate sector from bank loans to the capital market.

While not unique to the Philippines, this development might positively influence the interest of potential domestic issuers to consider raising funds via bond or note issuance, and to diversify their debt portfolio. Such increased interest might also have a beneficial impact on funding costs.

2. Convergence of Investors' Tax Status

Previously, the tax status of investors in the Philippines played a major role in the limitation of transactions in the market. For regular government securities, separate instruments for a single tenor were issued for tax-withheld and tax-exempt investors, and transfers were allowed only among holders of the same tax category. In contrast, for corporate fixed income securities, only one instrument was issued for all investors and transfers across the tax categories—tax-withheld and tax-exempt—were restricted (e.g., to coupon dates only).

However, in recent years, these restrictions were lifted: first for Multi-Currency Retail Treasury Bonds in 2010, and then for Onshore Dollar Bonds in 2011. In May 2015, these restrictions were lifted on a grander scale when the Non-Restricted Trading Environment was launched, enabling taxpayers at rates of 0% and 20% to trade between each other freely.

3. ASEAN+3 Multi-Currency Bond Issuance Framework

The implementation of AMBIF is expected to benefit not only AMBIF issuances but the Philippine bond market at large (see also Chapter X). ABMI and Philippine policy bodies and regulatory authorities are focused on reaching a suitable balance between bank loan and capital market funding opportunities for corporates. AMBIF has been created to provide an additional bond and note issuance avenue for these corporates. AMBIF in the Philippines focuses on the issuance of private placements to Qualified Buyers.

At the same time, the Philippines generates some of the strongest interest from potential AMBIF bond and note issuers who may already have substantial commercial operations in the country and would like to issue bonds or notes in order to use the peso proceeds, diversify Philippine peso funding options, eliminate FX risk, or more effectively manage their debt portfolio. The nature of AMBIF and its restriction to professional investors is likely to attract investment in AMBIF bonds and notes from new institutional (professional) investor types in the Philippines and from other regional markets.

X

Recent Developments and Future Direction

A. Recent Major Developments

Recent major developments are considered those that occurred or have been announced in the Philippine market since the initial publication of the Philippines Bond Market Guide in April 2012. Some of these recent developments have set the tone for the future direction of the Philippine bond market.

1. Foreign Exchange Liberalization Measures

Starting from 1 September 2016, the BSP implemented its ninth wave of FX liberalization measures through the issuance of Circulars covering a number of major changes to FX policy framework. These changes included (i) an increase in the amount of FX that Philippine residents may purchase from the banking system for nontrade current account transactions without supporting documentation (other than an Application to Purchase Foreign Exchange) for legitimate transactions from USD120,000 to USD500,000 (for individuals) and to USD1 million (for entities and corporates) in order to provide residents with greater flexibility in managing their cash flows and FX transactions; and (ii) the lifting of the prohibition on the sale of FX by banks and their forex corporations for resident-to-resident transactions, including investments in foreign-currency-denominated investment instruments issued onshore by residents, in order to facilitate payment by residents of their FX obligations to resident counterparties, as well as to allow further diversification of their investment portfolio.

2. 2015 Securities Regulations Code Implementation Rules and Regulations

On 9 November 2015, the 2015 SRC Rules took effect. Following the conclusion of a legal challenge to some of the revised rules and regulations, the implementation of the 2015 SRC Rules were able to be fully implemented from 10 March 2016.

The 2015 SRC Rules represent the first major update of the original SRC Rules published in 2005 and aim to implement global and regional best practices and ease local practices, particularly in the bond market. Among the many changes and refinements were the provision to make the shelf-registration of debt securities easier, include a longer issuance period and an improved time-to-market, and offer the ability to pay registration fees in line with issuance in tranches rather than upfront for the total issuance size.

The distinction between long-term and short-term commercial paper was removed, allowing for single issuance programs under shelf-registration, aided by the fact that the selling period for such securities was lengthened from 2 to 10 business days. Financial statements are now valid for 180 days, in line with the practice in other ASEAN markets.

3. Agreement on Cooperation in Bond Pricing

In October 2015, the PDS Group and Bond Pricing Agency Malaysia entered into an agreement to make available their bond pricing and information services through a link to each other's websites. This was the first collaboration between the Philippines and Malaysia to further promote and support bond markets in the region.

The exchange of website links widens the reach of the clients of both the Bond Pricing Agency Malaysia and PDS Group to information across each other's domestic bond markets. This improved access to online market data and information serves to heighten investor awareness of the Philippine and Malaysian bond markets. Cross-promoting bond markets between the two countries contributes to the growth of the intra-regional bond market.

The website links were launched on 26 October 2015. More information on the launch and available services can be found on the PDS Group website under Regional Links.[57]

4. Establishment of a Central Securities Depository for the Delivery of Securities

In its Circular No. 873 dated 25 March 2015, the BSP amended the rule on the delivery of securities by adding the use of an SEC-authorized central securities depository (CSD) as another option available to investors. This provides greater flexibility to investors on where to place the securities they purchase for safekeeping and to avail of auxiliary services from the CSD should the investor desire. A CSD is considered by global best practices as key infrastructure in handling securities settlement.

Aside from allowing a CSD as an acceptable mode of delivery of securities, the revised rule requires the independence of third-party custodians, securities registries, and CSDs. Under the independence provision, these entities must not belong to the financial conglomerate or banking group that issued or sold the securities to investors which the CSD now holds.

5. Accreditation of Personal Equity Retirement Act Market Participants

The BSP issued guidelines for the accreditation of Personal Equity Retirement Act (PERA) market participants, which provide rigorous standards for banks and trust entities with an interest in functioning as a PERA market participant.[58]

The same guidelines identify safety nets for PERA contributors. This includes putting in place processes and procedures for assessing the level and type of risks that PERA investors may take, ensuring that financial risks are appropriately disclosed to investors, and having the necessary systems in place for reportorial purposes.

B. Future Direction

A number of developments expected to have a beneficial impact on the Philippine bond market will come into effect in the coming months and years, and are detailed in this section.

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[57] See http://www.pds.com.ph/index.html%3Fp=23038.html

[58] BSP Circular No. 860 dated 28 November 2014.

1. Derivative Transactions

In preparation for ASEAN economic and financial integration, the BSP intends to boost the competitiveness of Philippine banks within the region by enhancing their ability to handle more complex financial transactions and instruments complemented by strong pricing conventions and price discovery mechanisms to ensure that reference rates and benchmarks accurately reflect market valuation.[59]

2. ASEAN+3 Multi-Currency Bond Issuance Framework

The introduction of AMBIF in regional markets in 2015 signaled another opportunity for additional bond or note issuance activities in the Philippine market. Potential issuers have identified the Philippines as one of the markets of interest, largely due to the increased focus on decentralized funding for the support of domestic business operations by ASEAN+3-based corporates.

Aimed particularly at the issuance of bonds, notes, or *sukuk* to Sophisticated (professional) Investors in the Philippines, AMBIF encourages domestic and regional issuers to take advantage of streamlined issuance approval processes not only in the Philippines, but also in other regional markets. For additional information on AMBIF, kindly refer to Chapter IX.5.

The key advantage of AMBIF lies in the ability of regional issuers to tap multiple markets, including the Philippines, using the same or similar approval processes and the same or similar disclosure documentation. This additional issuance avenue is seen as offering an alternative for corporate issuers to issue bonds, notes, or *sukuk* across markets instead of, or in addition to, relying on other forms of funding.

3. Securities and Exchange Commission Welcomes Signing of Asia Region Fund Passport

The SEC expressed its support of the signing of the Statement of Understanding for the establishment of the Asia Region Fund Passport at the Asia-Pacific Economic Cooperation Finance Ministers Meeting in Cebu in September 2015.

The efforts of the Asia Region Fund Passport initiative, while focused on mutual funds or unit trusts, are seen as particularly relevant for the bond market because the additional capital inflows into regional funds are expected to further drive investment into debt instruments in participating markets, including in the Philippines.

4. Development of Repurchase Agreements

This initiative provides participant banks a platform for accessing designated securities by borrowing those from other participant banks and hedging positions. This program is envisioned to improve liquidity in local currency bond markets and help the development of the Philippine capital market.

5. Overnight Index Swap System

This reform is the market's response to the need to develop reliable interest rate benchmarks that is reflective of the basic cost of short-term funds, which addresses the limitations of other Philippine benchmark rates and the market risk arising from benchmark rates that do not reflect the basic cost of funds. It is a form of an interest rate swap, with the floating leg tied to an underlying daily overnight reference rate. The overnight index swap system will result in more accurate and transparent interest rates

[59] Speech of BSP Governor Amando M. Tetangco, Jr. at the Joint Meeting of the Rotary Club of Manila and Rotary Club of Forbes Park. Manila. 7 January 2016.

for both borrowers and lenders, and is a determinative component in completing the benchmark yield curve.

Appendix 1
Group of Thirty Compliance

The Group of Thirty recommendations were originally conceived as the group's Standards on Securities Settlement Systems in 1989, detailing in a first-of-its-kind report nine recommendations for efficient and effective securities markets covering legal, structural, and settlement process areas. The recommendations were subsequently reviewed and updated in 2001 under the leadership of the Bank for International Settlements and through the efforts of a joint task force of the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions. Compliance with the Group of Thirty recommendations in individual markets is often an integral part in securities industry participants' and intermediaries' due diligence process.

Table A1: Group of Thirty Recommendations—Compliance for the Philippines

Recommendation		Implemented
1	Eliminate paper and automate communication, data capture, and enrichment.	No, not all bonds are dematerialized or immobilized.
2	Harmonize messaging standards and communication protocols.	No, the local CSD and most local market participants do not use SWIFT.
3	Develop and implement reference data standards.	No, there is no securities' numbering agency for bonds. The Bureau of the Treasury issues its own ISIN-like numbering for government securities, while PDEx assigns the series name following the same convention for listed corporate securities.
4	Synchronize timing between different clearing and settlement systems and associated payment and foreign exchange systems.	Yes
5	Automate and standardize institutional trade matching.	Yes, for government and listed corporate bonds
6	Expand the use of central counterparties.	No
7	Permit securities lending and borrowing to expedite settlement.	Yes
8	Automate and standardize asset servicing processes, including corporate actions, tax relief arrangements, and restrictions on foreign ownership.	No

Recommendation		Implemented
9	Ensure the financial integrity of providers of clearing and settlement services.	Yes
10	Reinforce the risk management practices of users of clearing and settlement service providers.	Yes
11	Ensure final, simultaneous transfer and availability of assets.	Yes, existing central bank regulations on investments in fixed income securities by foreign investors only allow the foreign investors to contract a FX deal to sell pesos and buy foreign currency upon actual receipt of the license to be issued by the central bank.
12	Ensure effective business continuity and disaster recovery planning.	No
13	Address the possibility of failure of a systematically important institution.	No
14	Strengthen assessment of the enforceability of contracts.	Yes
15	Advance legal certainty over rights to securities, cash, or collateral.	Yes
16	Recognize and support improved valuation methodologies and closeout netting arrangements.	Yes
17	Ensure appointment of appropriately experienced and senior board members (of the boards of securities clearing and settlement infrastructure providers).	Yes
18	Promote fair access to securities clearing and settlement networks.	Yes
19	Ensure equitable and effective attention to stakeholder interests.	Yes
20	Encourage consistent regulation and oversight of securities clearing and settlement service providers.	Yes

CSD = central securities depository, FX = foreign exchange, ISIN = International Securities Identification Number, PDEx = Philippine Dealing & Exchange Corporation, SWIFT = Society for Worldwide Interbank Financial Telecommunication.
Source: Group of Thirty. 2003. *Global Clearing and Settlement–A Plan of Action*. http://newsite.group30.org/publications/detail/123

Appendix 2
Practical References

For easy access to further information about the market features described in the Philippines Bond Market Guide—including information on the policy bodies, regulatory authorities, and securities market-related institutions—interested parties are encouraged to utilize the following links (all websites available in English):

AMBIF Implementation Guidelines for the Philippines
http://tinyurl.com/AMBIF-Impl-GL-for-PHI

AMBIF Single Submission Form (as supported by the Philippine regulatory authorities and market institutions)
http://tinyurl.com/AMBIF-Single-Submission-Form

AsianBondsOnline (Asian Development Bank)
http://www.asianbondsonline.adb.org/philippines.php

Bangko Sentral ng Pilipinas
http://www.bsp.gov.ph

Bangko Sentral ng Pilipinas—Manual of Regulations on Foreign Exchange Transactions
http://www.bsp.gov.ph/dowloads/regulations/morfxt/morfxt.pdf

Bureau of the Treasury
http://www.treasury.gov.ph

Philippine Dealing System Holdings Corporation
http://www.pds.com.ph

Philippine Dealing System Holdings Corporation—PDEx Bond Market Rules
http://www.pds.com.ph/index.html%3Fpage_id=852.html

Securities and Exchange Commission of the Philippines
http://www.sec.gov.ph

Securities and Exchange Commission of the Philippines—Securities Regulation Code
http://www.sec.gov.ph/wp-content/uploads/2015/11/Securities_Regulation_Code_RA8799.pdf

Securities and Exchange Commission of the Philippines—CRA Guidelines (2014)
http://www.sec.gov.ph/laws/.../sec%20memo%20no.%207,%20s2014.pdf

Securities and Exchange Commission of the Philippines—IRR of the SRC (2015)
http://www.sec.gov.ph/laws/pdf/2015%20SRC%20Rules%20-%20as%20Published%20October%2025%202015.pdf

Appendix 3
Glossary of Technical Terms

Annex C	Refers to the annex to Form 12.1, which contains the content requirements for the prospectus and Registration Statement
Annex D.2	Refers to the annex containing bond and note issuance approval application in the BSP Manual of Regulations on Foreign Exchange Transactions
corporate notes	Market term for previous private placements in the Philippine market
enrollment	Process of listing bonds on the Philippine Dealing & Exchange Corporation (PDEx) for issuances available to qualified investors only
Exempt Transactions	Debt securities issuance that are not subject to registration with the Securities and Exchange Commission (SEC)
filing	Action of submitting documentation
listing	Typically, action of submitting a bond issue or other securities to an exchange for trading, price finding, disclosure, or profiling
Form 10.1	Refers to SEC Form 10.1, which contains the necessary data for the submission of a Notice of Exemption or Request for Confirmation of Exemption to the SEC
Form 12.1	Refers to SEC Form 12.1, which represents the Registration Statement for securities issuance
Form 12.1SR	Refers to SEC Form 12.1SR, which represents the Registration Statement for securities issuance under the shelf-registration concept
Form 17	Refers to the submission of corporate reporting requirements to the SEC such as monthly, quarterly, or annual reports
FX Manual	Bangko Sentral ng Pilipinas Manual of Regulations on Foreign Exchange Transactions
Investment Company Advisors	Term used in the domestic market for asset management firms
MarketPage	PDEx data publication facility
Onshore Dollar Bonds	Refers to issuance by the Government of the Philippines of Treasury Bonds in the domestic market that are denominated in United States dollars
Order of Registration	Issued by SEC to evidence the effective registration of securities for which a Registration Statement was filed

Over-the-Counter	Specific meaning in the context of origination of government securities in the Philippines; refers to a primary issuance method by the Bureau of Treasury to specific investors, including Government-Owned or -Controlled Corporations, Local Government Units, and Tax-Exempt Institutions
PDEx Rules	Short form for PDEx Fixed Income Securities Market Rules, as amended
PDS Repo	Inter-Professional Repurchase Agreement Market Program on PDEx
PDS SLTP	Securities Lending Transactions Program on PDEx
Qualified Board	Separate listing board of PDEx for issuances aimed solely at Qualified Buyers (also QB Board)
Qualified Buyers	Categorization of professional investors in the Philippines
registrar	In the Philippines, term used specifically for the role of registering Qualified Buyers and their eligibility (in contrast to transfer agent, as a role for registering securities and their ownership)
registration	(i) initial submission of a company in the Philippines to the SEC to obtain a license to operate
registration	(ii) act of seeking approval for the issuance of securities via a public offering from the SEC (see also Registration Statement)
registration	(iii) term used in the market, and by the Philippine Depository & Trust Corporation, for the recording of ownership of securities by a transfer agent
registration	(iv) term used by the SEC for the approval of securities market participants to conduct business (except for underwriting)
Registration Statement	Submission to the SEC for approval of the issuance of securities via a public offering, represented by SEC Form 12-1
sponsor	Party who enrolls a bond or note in PDEx
sukuk	Islamic bond or note

Source: ADB consultants for SF1.

ASEAN+3 Bond Market Guide 2017 Philippines

ASEAN+3 Bond Market Guide is a comprehensive explanation of the region's bond markets. It provides information such as the history, legal and regulatory framework, specific characteristics of the market, trading and transaction (including settlement systems), and other relevant information. The Bond Market Guide 2017 for the Philippines is an outcome of the support and contributions of ASEAN+3 Bond Market Forum members and experts, particularly from the Philippines.

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