



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.

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.