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.

[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.

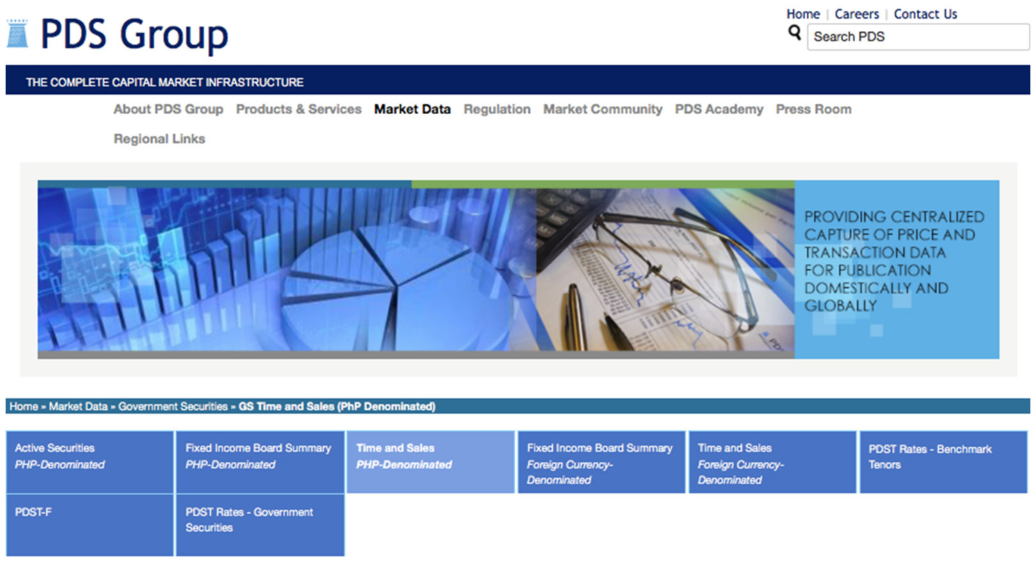
PDEx's electronic trading platform currently supports a bilateral market where trading can occur through either a quote-driven or an order-driven system. Dealing and Brokering Participants are registered by the SEC and subject to the PDEx Rules and Trading Conventions (please see Chapter II.I and Chapter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

PDS Group

Home | Careers | Contact Us

Search PDS

THE COMPLETE CAPITAL MARKET INFRASTRUCTURE

About PDS Group Products & Services **Market Data** Regulation Market Community PDS Academy Press Room Regional Links

Home » Market Data » Government Securities » **PDST Rates – Government Securities**

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.