

Bond Market Costs and Taxation

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

For ease of reference, the descriptions of the types of costs are given in the context of the actions to be taken by issuers or investors (as explained in this document) and follow the lifecycle of a bond or note in the Philippine bond market. Fees and charges levied by the SEC are taken from the official Fee Schedule published in 2013.⁵¹

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

A. Costs Associated with Bond and Note Issuance

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

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

a. Filing Fee

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

Table 6.1: Filing Fee for Registration Statement

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

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

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

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

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

b. Legal Research Fee

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

2. Request of Confirmation of Exemption (Optional)

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

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

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

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

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

Table 6.2: Underwriter or Selling Agent Fees

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

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

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

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

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

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

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

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

Table 6.3: Trustee Fees

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

MPC = Mortgage Participation Certificates issued by the trustee to the lenders.

^a Based on fees disclosed in prospectuses for publicly offered debt securities.

Note: MPCs are issued when the notes are secured by a pool of assets.

Source: Securities and Exchange Commission.

6. Listing Fee

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

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

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

7. Philippine Depository & Trust Corporation Lodgement Fee

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

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

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

9. Credit Rating Fees

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

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

B. Recurring Costs for Issuers of Corporate Bonds and Notes

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

1. Interest Payment and Redemption Fees

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

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

2. Listing Maintenance Fees

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

3. Registry Maintenance and Paying Agency Fees

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

4. Trustee Annual Retainer Fees

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

5. Credit Rating Agency Annual Monitoring Fees

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

C. Costs for Deposit and Withdrawal of Bonds and Notes

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

1. Lodging (Deposit) Fee

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

Government securities are automatically created in RoSS upon issuance.

2. Uplift (Withdrawal) Fee

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

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

D. Costs for Account Maintenance and Safekeeping

1. Account Maintenance Fee

a. Philippine Depository & Trust Corporation

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

b. Registry of Scripless Securities

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

2. Depository (Safekeeping) Fee

a. Philippine Depository & Trust Corporation

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

b. Registry of Scripless Securities

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

E. Costs Associated with Bonds and Notes Trading

1. Broker's Commission

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

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

2. Transaction Fee

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

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

F. Costs for Settlement and Transfer of Bonds and Notes

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

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

G. Taxation Framework and Requirements

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

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

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

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

n.a. = not applicable, PHP = Philippine peso.

a = Only applicable to bank and non-bank financial intermediaries performing quasi-banking functions.

b = Applicable to deposit substitutes.⁵²

c = Applicable to non-deposit substitutes.

Source: Compiled by ADB consultants for SF1 from public domain sources.

1. Gross Receipt Tax

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

2. Withholding Taxes

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

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

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

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

3. Capital Gains Tax

In case bank and non-bank financial intermediaries performing quasi-banking functions incurred net trading gains on the sale of debt securities within a taxable year, capital gains tax of 7% will be applied.

4. Documentary Stamp Tax

A DST equivalent to PHP1 for every PHP200 of the face value of the debt securities is payable upon issuance, either directly by the issuer or as an out of pocket expense as part of the service provision of the underwriter.

As per the definition employed by the BIR, the DST is a tax on documents, instruments, loan agreements, and papers evidencing the acceptance, assignment, sale, or transfer of an obligation, right, or property incident thereto.⁵³

Based on the above definition, the DST is not dependent on whether there is an actual document (i.e., a physical securities certificate present). Therefore, even dematerialized (or scripless) securities can be subject to DST.

5. Value-Added Tax or Goods and Services Tax

Philippine-registered dealers and lending investors are subject to 12% value added tax for gross receipt arise from sales of bonds in the Philippines. The term gross receipt is defined as gross selling price less cost of the securities sold.

6. Double Taxation Agreements

Double taxation agreements (DTAs) are treaties signed by the Philippines with other countries that specify tax exemptions or concessions on incomes derived from investments, whereby investors are only liable to pay income tax in one country in order to induce foreign investment. A DTA applies to persons who are residents of the contracting states and applies to direct taxes, such as personal income tax and corporate income tax, including applicable withholding taxes. Indirect taxes such as value-added tax are not covered by a DTA. A DTA also prescribes a ceiling rate for tax collection, which the source country must not exceed.

While DTAs may offer more favorable treatment to foreign institutional investors resident in treaty countries, the claim of such favorable treatment after the income payment is not a market-typical feature. Foreign investors are advised to ensure that their tax status is correctly reflected with their custodian at the time of interest payment.

7. Taxation for Nonresidents

Generally, interest income derived by a nonresident foreign corporation from government debt securities or corporate bonds is subject to a final withholding tax at a rate of 30%. However, in the context of the bond market, interest income derived by nonresident foreign corporations from foreign loans—defined as investments in the instruments of nonresident issuers—is subject to a 20% final withholding tax.

⁵³ See <http://www.bir.gov.ph/index.php/tax-information/documentary-stamp-tax.html>