

AMBIF Elements in the Philippines

This chapter describes the key features of the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF), also known as AMBIF Elements, and puts into perspective the equivalent features of the domestic professional bond market in the Philippines.¹

Summary of AMBIF Elements

The bond market in the Philippines features many of the attributes of a professional market in the context of AMBIF, such as the well-defined Qualified Buyers (QB) and Qualified Securities exemptions from full disclosure and related regulatory processes, and existing registration and listing processes. QB bond issuance, together with enrollment on Philippine Dealing and Exchange (PDEX), is presently deemed to best represent the intentions of the AMBIF Elements.

Table 1 identifies the features or practices of the domestic bond market in the Philippines that directly correspond or are equivalent to the key elements of AMBIF.

Description of AMBIF Elements and Equivalent Features in the Philippines

Domestic Settlement

AMBIF

AMBIF is aimed at supporting the domestic bond markets in ASEAN+3. To be recognized as a domestic bond or note, an AMBIF bond or note needs to be settled at the designated central securities depository. Hence, domestic settlement needs to be a key feature of an AMBIF bond or note.

In the Philippines

The Philippine Depository & Trust Corp. (PDTC) is the designated central depository for equities and corporate bonds and notes. With the exception of a number of corporate notes that are not listed on PDEX, PDTC settles and provides safekeeping for all fixed-income instruments traded on PDEX. Both entities are subsidiaries of Philippine Dealing System Holdings (PDS).

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

Table 1: AMBIF Elements and Equivalent Features in the Philippines

AMBIF Elements	Brief Description	Equivalent in the Philippines
Domestic Settlement	Bonds and notes are settled at a national CSD in ASEAN+3 markets.	PDTC as depository and place of settlement for all eligible bonds and notes
Harmonized Documents for Submission (Single Submission Form)	A common approach of submitting information as input for regulatory process(es) where approval or consent is required. Appropriate disclosure information along with ADRB recommendation needs to be included.	Single Submission Form is acceptable but additional information and document(s) may be requested during the evaluation process, as necessary.
Registration or Profile Listing in ASEAN+3 (Place of Continuous Disclosure)	Information on bonds, notes, and issuers needs to be disclosed continuously in ASEAN+3 markets. Registration or a listing authority function is required to ensure continuous and quality disclosure.	Enrollment of bonds or notes on PDEX required; includes continuous disclosure obligation by sponsor under Listing Rules; reference pricing for traded instruments available; Qualified Board (on PDEX) a possibility
Currency	The denomination of an issue is generally expected to be in the domestic currency of each ASEAN+3 market.	Philippine pesos and US dollars
Scope of Issuers	Resident of ASEAN+3	Philippine and nonresident regional issuers, with BSP regulatory process dependent on type of issuer, residency, and currency of denomination
Scope of Investors	Professional investors defined in accordance with applicable laws and regulations or market practice in each market in ASEAN+3.	QB concept, as per Securities Regulation Code and provisions in the Manual of Regulations on Foreign Exchange Transactions, as may be applicable; includes foreign institutional investors

ADRB = AMBIF Documentation Recommendation Board; AMBIF = ASEAN+3 Multi-Currency Bond Issuance Framework; ASEAN+3 = Association of Southeast Asian Nations plus the People's Republic of China, Japan, and the Republic of Korea; BSP = Bangko Sentral ng Pilipinas; CSD = central securities depository; PDEX = Philippine Dealing and Exchange; PDTC = Philippine Depository & Trust Corp.; QB = Qualified Buyer; SEC = Securities and Exchange Commission; US = United States.
Source: ABMF SF1.

Harmonized Documents for Submission (Single Submission Form)

AMBIF

Based on the review of application forms for issuance approval, offering circulars, information memorandums, and program information formats in ASEAN+3, the core information was similar or comparable across markets. Hence, the Single Submission Form (SSF) that can be applied to all of the relevant regulatory processes for bond and note issuance across markets was proposed. The information contained in the SSF can be submitted to all relevant regulatory authorities and market institutions for relevant approvals or consent, or used in the context of the submission (e.g., as a checklist), in anticipation of an AMBIF bond or note issuance.

In the Philippines

In the Philippines, the regulatory authorities and market institutions are expected to accept the SSF, though this would not preclude the possibility for additional information to be submitted to the authorities, if so deemed necessary.

The use of English is prescribed in Bangko Sentral ng Pilipinas (BSP) and Securities and Exchange Commission (SEC) regulations, including the provisions related to PDEX.

Registration or Profile Listing in ASEAN+3 (Place of Continuous Disclosure)

AMBIF

Information on issuers, bonds, and notes needs to be disclosed continuously in ASEAN+3 markets. A registration or listing authority function to facilitate the continuous disclosure is required. This can ensure the quality of disclosure and help create a well-organized market for AMBIF issuances with transparency and a quality of information that would differentiate AMBIF issuances from ordinary private placements for which information is often neither available nor guaranteed. Owing to this important feature, an AMBIF secondary market is expected to emerge as the number of issuances increases.

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 and pension funds. A profile listing at a designated listing place can ensure the flow of continuous disclosure information and possibly even reference pricing in some markets.

In the Philippines

In the Philippines, the listing or enrollment of a bond or note on PDEX covers the listing or enrollment as well as trading processes and practices for debt instruments. According to PDEX Listing Rules (7.2.1), a listing or enrollment is possible for debt instruments issued by resident and nonresident issuers. A listing or enrollment of a note issuance program, such as a medium-term note (MTN) program, is principally possible but has not yet been requested in applications to PDEX.

A listing of a bond or note is for 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 Listing Rules.

A listing or enrollment of a bond or note on PDEX does not automatically require trading. However, should the issuer or sponsor of a bond or note enrolled on PDEX wish to trade the instrument, all trades must be done on PDEX. According to the Rules Governing the Over-the-Counter Market (OTC Rules) issued by the SEC in 2006, all OTC trading of debt instruments issued in the Philippines needs to occur in an SEC-authorized marketplace. PDEX is such an authorized marketplace. Hence, the listing or enrollment is a necessary step to ultimately trade a bond or note in the OTC market in the Philippines.

At the same time, PDEX also principally offers the feature of profile listing in the form of the so-called Qualified Board, which takes its name from its designation to enroll (by the issuer) only bonds or notes issued to professional investors.

Under the OTC Rules, the SEC conferred listing authority functions on PDEX. The PDEX Listing Rules compel the continuous disclosure of material information from issuers or sponsors of a bond or note listed or enrolled on PDEX. PDEX also publishes bond pricing information based on actual traded prices that have to be captured by deal parties within 1 minute of deal closure and reported in the Central Trade Reporting System within 15 minutes, as provided under Section 16 of the OTC Rules.

In addition, or as an alternative, the issuer may opt for a profile listing in another regional market in order to achieve listing status closer to an intended investor universe. This may be a consideration particularly if bonds or notes issued in the Philippines will be marketed and offered to professional investors in other ASEAN+3 markets. In such cases, the professional investor would be able to obtain continuous disclosure information via the listing place and/or that market's mechanisms for information dissemination.

Currency

AMBIF

In the context of AMBIF, the denomination of an issue is generally expected to be in the domestic currency of each ASEAN+3 market. But this does not exclude the possibility of issuing in other currencies if market practice regularly supports the other currencies and the relevant domestic currency or cash clearing capabilities exist. At this stage, US dollars, Japanese yen, and offshore Chinese renminbi are the currencies other than domestic currencies in which bonds and notes tend to be issued in ASEAN+3 markets.

In the Philippines

In addition to settlement for bonds and notes issued in Philippine pesos, PDTC is also able to settle bonds and notes denominated in US dollars that are registered in the Philippines and listed on PDEX, as the Philippines features a domestic US dollar clearing system. In the past few years, PDEX has listed a number of USD-denominated bonds issued by the Philippine government.

Scope of Issuers

AMBIF

As AMBIF is aimed at supporting the development of domestic bond markets in the region and promoting the intraregional recycling of funds, an issuer needs to be a resident of an ASEAN+3 market.

In the Philippines

The SEC does not differentiate between resident and nonresident issuers. All potential issuers need to file a Notice of Exempt Transaction with the SEC for the planned issuance of bonds or notes aimed at Qualified Buyers.

Nonresident issuers wishing to use the proceeds from a PHP-denominated bond or note in a foreign currency may require a policy decision by the SEC prior to filing a Notice of Exempt Transaction, which is described in more detail in Chapter III.

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

For resident nonfinancial institution issuers, no prior BSP approval is required if bonds or notes and other similar instruments are denominated in pesos. For resident financial institution issuers, the issuance of bonds and notes denominated in pesos is allowed, subject to regulations governing the borrowing of banks under the provisions of the Manual of Regulations for Banks (MORB). However, if bonds or notes are denominated

in a foreign currency, prior approval is required for resident issuers (both financial and nonfinancial institutions).

Table 2: Overview of BSP Approvals for the Issuance of Bonds and Notes by Issuer Type

Issuer	Currency of Bond or Note Issuance	
	Philippine Peso	Foreign Currency
Resident nonfinancial institution	No prior BSP approval required	Subject to BSP approval prior to execution of transaction
Resident financial institution	Subject to regulations on the borrowing of banks under the Manual of Regulations for Banks	
Nonresident nonfinancial institution	Subject to BSP approval prior to execution of transaction	
Nonresident financial institution		

Source: Bangko Sentral ng Pilipinas (BSP).

For nonresident issuers, the issuance of bonds and notes or similar instruments (regardless of currency of denomination) requires BSP approval before execution of the transaction. Table 2 gives an overview of these approval criteria for easy reference.

Both resident and nonresident issuers may list or enroll their debt instruments aimed at Qualified Buyers on PDEX, depending on the SEC framework. For more details on PDEX and the regulatory processes of the BSP and SEC, please refer to Chapters II and III, respectively.

Scope of Investors

AMBIF

Professional investors are defined in accordance with regulations and/or market practice in each market in ASEAN+3. Some jurisdictions have a clear definition of professional investors, while other jurisdictions may need to establish the concept through agreements.

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 oversight as well as professional conduct and best practice rules by a self-regulatory organization, such as an exchange or a market association.

In the Philippines

In the Philippines, the Securities Regulation Code (SRC), Section 10.1 describes professional investors as Qualified Buyers. Concessions on disclosure and obligations under the Qualified Buyer 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, constitutes the professional bond market in the Philippines. The descriptions of regulatory processes included in Chapter III are for QB bond issuance only.

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 (I) 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:

1. banks;
2. registered investment houses;
3. insurance companies;
4. pension funds, retirement schemes, and BSP authorized trusts;
5. investment companies; and
6. other institutions as determined by the SEC.

There is no distinction in the SRC, or in the SEC's Implementing Rules and Regulations (IRR), between domestic and foreign professional investors.

For investments in bonds or notes issued domestically, the following BSP rules shall apply:

1. In cases of investments in PHP-denominated bonds and notes issued by residents:
 - a. investments by residents may be done without BSP approval; and
 - b. investments by nonresidents may, likewise, be done without prior BSP approval, subject to registration only if the foreign exchange (FX) to service repatriation of capital and related earnings will be sourced from the authorized agent banks and/or the banks' FX corps.
2. In cases of investments in PHP-denominated bonds and notes issued by non-residents:
 - a. investments by residents may be done without BSP approval; and
 - b. investments by nonresidents are not expressly allowed under existing rules; thus, prior BSP approval is required.
3. In cases of investments in FCY-denominated bonds and notes issued domestically by residents:
 - a. investments by residents are not allowed under existing rules since transactions in FX between nonfinancial institutions are prohibited if FX comes from the banking system; and
 - b. investments by nonresidents may be done without BSP approval.
4. In cases of investments in FCY-denominated bonds and notes issued onshore by nonresidents, investments (by both residents and nonresidents) may be done but FX to service redemption and coupon payments cannot be sourced from the Philippine banking system.

Table 3 gives an overview of the abovementioned approval criteria for investment in bonds and notes issued in the Philippines.

Table 3: Overview of BSP Approvals for Investors in Bonds and Notes

Investor	Issuer	
	Resident	Nonresident
PHP-denominated bonds and notes		
Resident	Allowed	Allowed
Nonresident	Allowed, subject to registration	Prior BSP approval is required
FCY-denominated bonds and notes		
Resident	Not allowed if FX is sourced from the Philippine banking system	Allowed, but FX to service redemption and coupon payments cannot be sourced from the Philippine banking system
Nonresident	Allowed, but FX to service redemption and coupon payments cannot be sourced from the Philippine banking system	

FCY = foreign currency, FX = foreign exchange, PHP = Philippine peso.

Source: Bangko Sentral ng Pilipinas (BSP).