



Funding the Republic

REPUBLIKA NG PILIPINAS
KAGAWARAN NG PANANALAPI
KAWANIHAN NG INGATANG-YAMAN
(BUREAU OF THE TREASURY)
Intramuros, Manila

TREASURY CIRCULAR NO. 04-2014
22 September 2014

Implementing Department Order No. 068-2014 issued on 26 August 2014 entitled, **“REVISED RULES AND REGULATIONS FOR THE ISSUANCE, PLACEMENT, SALE, SERVICE AND REDEMPTION OF TREASURY BILLS AND BONDS UNDER REPUBLIC ACT NO. 245, AS AMENDED”**.

1. PREAMBLE

This Treasury Circular and the attached Operating Guidelines (**Annex A**), are hereby issued to implement the transition to a non-restricted trading across tax categories in the secondary market of the Philippine Peso-denominated coupon-bearing treasury bonds of the Republic of the Philippines (the “Bonds”) to deepen the government securities market and to provide additional liquidity to the tax-exempt segment.

2. SCOPE

This Treasury Circular shall apply to the secondary market trading and settlement of the Bonds.

3. NON RESTRICTED TRADING AND SETTLEMENT OF THE BONDS

Transfers of the Bonds across tax categories shall be in accordance with applicable law, rules and regulations, and existing market convention on secondary market trading. Such transfers shall be monitored by a tax-tracking facility that shall provide an environment where holders of the Bonds belonging to any tax classification will be allowed to transfer the Bonds and settle the same between and among themselves, provided that no settlement shall be recorded during a Closed Period as defined in BTr Memorandum dated 25 March 2010 as the same may be amended from time to time. The tax-tracking facility shall compute, as set forth in this Treasury Circular, the appropriate final withholding tax on accrued interest due from a seller for each trade transaction on the basis of the seller's holding period.

4. THE REGISTRY

The Bonds shall be held and recorded in the books of the Registry of Scripless Securities (RoSS) of the BTr.

The BTr may, without compromising the integrity of the RoSS and the information contained therein and in accordance with applicable law, rules and regulations, engage, designate, or employ such facilities or systems that would enhance the existing registry capabilities of the RoSS. Entries in such facilities or systems shall form part of the official records of the RoSS.

5. TAX TRACKING MECHANICS

5.1. Securities Account for Tax Tracking (SATT).

The SATT is a RoSS Principal Securities Account in the RoSS Systems that is capable of being tax tracked. For sponsored clients pursuant to Treasury Circular No. 02-2013 on Broker Recognition and Sponsorship, the client's sponsored securities account (SSA) with its sponsoring broker shall be its SATT with such sponsoring broker.

5.1.1. *Designation of RoSS Principal Account or SSA as SATT.* Each trading participant, including holders of the Bonds acting through a trading participant, shall have a SATT for settlement of trades. Opening/creation of the SATT shall follow the procedure prescribed under the operating guidelines issued by the Bureau of the Treasury for the purpose.

5.2. Balances in the SATT. The Bonds purchased shall remain in SATT of the buyer up to the coupon payment date or until sold or transferred to another holder with a SATT. At the option of the holder, the Bonds in the SATT may be retained therein up to the maturity of the Bonds or transferred to the holder's non-tax tracked RoSS Principal Securities Account only on the relevant coupon payment date.

5.3. Investor Code. Investor Code is a code associated with the SATT and the cash settlement account of the holder. The use and assignment of the Investor Code shall be in accordance with the Operating Guidelines.

5.4. Reimbursement in SATT. On coupon payment date, the tax-tracking facility shall calculate the appropriate taxes due from the holders arising from the Bonds held in the SATT. Any final withholding tax that may have been deducted from the proceeds of the tax exempt holder/seller in accordance with the prevailing market convention on secondary market trading and settlement and as calculated by the tax-tracking facility shall be reimbursed to the account holder/seller on coupon payment date.

6. SETTLEMENT AMOUNT

6.1. Settlement Amount. The Settlement amount shall be based on prevailing market convention on secondary market trading and settlement.

6.2. Basis for Tax Computation. Upon settlement of the trade transaction, the balances in the SATT shall be used as basis for the calculation of the final withholding taxes on accrued interest due from a seller for each trade transaction.

7. COUPON PAYMENT

On coupon payment date, the coupon payment due to each holder of the Bonds shall be computed taking into account, among others:

- a. Applicable final withholding tax; and
- b. Holding period, which is the length of time the Bonds are held by the holder in the SATT within a coupon payment period.

8. REPEALING CLAUSE

All circulars, orders or memoranda inconsistent herewith are hereby repealed, modified and amended accordingly.

9. IMPLEMENTATION

The non-restricted trading and settlement environment for the Bonds shall be implemented on the date announced by the BTr.

10. EFFECTIVITY

This Treasury Circular shall take effect immediately.


ROSALIA V. DE LEON
Treasurer of the Philippines

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**OPERATING GUIDELINES FOR TRADING AND SETTLEMENT
OF PHILIPPINE PESO-DENOMINATED COUPON-BEARING TREASURY BONDS IN
A NON RESTRICTED TRADING AND SETTLEMENT ENVIRONMENT**

- 1. Opening of the SATT.** Each Ross Principal Securities Account ("RoSS Account") holder shall have a SATT for purposes of tracking transfers arising from trade under a non-restricted trading environment.
 - 1.1. For existing RoSS Account holders whose accounts were directly created by BTr-SSRD and operated by such account holder, the BTr, through the BTr-SSRD, shall open the corresponding SATT for such account holders.
 - 1.2. For existing RoSS Account holders whose accounts were created by a sponsor, the BTr-SSRD shall open a SATT for such account holder upon the request of the sponsor. For the opening of the SATT, the Sponsor shall submit the account creation request/file through such means allowed by the BTr. The account creation files, which shall include the following details, among others, shall be the basis for the creation of the SATT:
 - a. Investor name, address, contact details and other mandatory personal details such as mailing options;
 - b. Settlement bank account number for purposes of receiving coupon and maturity payments for government securities holdings. Such details including those specified in item "a" above shall be identical with the details of the existing RoSS Account; and
 - c. Business Partner ID (BPID) assigned by the Sponsor which shall form part of the SATT identification code.
 - 1.3. The RoSS, through the BTr-SSRD, shall transmit an account opening confirmation electronically to the RoSS Account holders. For sponsored RoSS Account holders, the RoSS, through the BTr-SSRD, shall transmit such confirmation to the sponsor for further delivery to the client. The Sponsor shall be responsible for informing its client to keep the electronic account opening confirmation for evidentiary and audit purposes.
 - 1.4. For existing Sponsored Securities Account (SSA) holders pursuant to TC 02-2013, such account may be used as SATT.

2. Investor Code.

2.1. **Trading participant (TP) shall have its own investor code associated with its SATT and cash settlement account.**

2.2. Taxable holder who is a customer of a broker may settle its transfers arising from trades::

2.2.1. in its own SATT. In such case the broker shall assign such taxable holder an investor code associated with the holder's SATT and cash settlement account. The broker shall ensure that such investor code is correctly entered as part of the details of each trade of theholder; or

2.2.2. in such broker's account pursuant to TC 02-2013 and the relevant Operating Guidelines on Broker Recognition for peso denominated government securities. In such case the taxable holder need not be assigned by the broker an investor code associated with the holder's SATT. The broker shall use such broker's investor code assigned to the broker's SATT and ensure that such investor code is correctly entered as part of the details of each trade of theholder.

2.3. Taxable holder other than a TP who transacts with a dealer shall settle its transfers arising from trades in its own SATT. In such case the dealer shall assign such taxable holder an investor code associated with the holder's SATT and cash settlement account.

2.4. Tax-exempt holders and holder with preferential tax status who is a customer of a TP shall settle its transfers arising from trades in its own SATT. In such case the TP shall assign such tax-exempt holder an investor code associated with the holder's SATT and cash settlement account. The TP shall ensure that such investor code is correctly entered as part of the details of each trade of the holder.

The Trading Market (TM) shall provide for a mechanism for the handling of incorrectly and/or invalidly entered investor codes.

3. **Balances in the SATT.** The SATT shall reflect the total balance for the Bonds that will be subject of tax tracking. The total balance for the Bonds in the SATT shall be comprised of the earmarked balance plus remaining balance.

3.1 Earmarked balance represents the Bonds subject of all sell transactions that have been traded but not yet settled. This balance shall not be available for further earmarking of any trade or non-trade transaction.

3.2 Remaining balance represents the balance of the Bonds available for earmarking in trade or non-trade transactions.

4. Handling of Balances in the SATT.

- 4.1. Treatment of Sales. The Bonds subject of sell transactions will be earmarked against the remaining balance of the seller on a first-in-first-out (FIFO) basis. Any withdrawn/cancelled sell transaction within the day or any sell transaction which failed to settle shall release such earmarked securities. For settled sell trades, the Bonds earmarked for the trade will be subtracted from the balance in the SATT.
- 4.2. Treatment of Purchases. The Bonds subject of the buy transactions shall form part of the remaining balance of the SATT only after the trade is tagged as settled in the SATT.
- 4.3. At the start of day of an interest payment date, with respect to remaining balances in the SATT:
 - 4.3.1 For the TM's internal tracking purposes only, the acquisition date of remaining balances in SATT shall be deemed to be reset as of the said date. The SATT shall indicate that the remaining balance is held in the SATT at the start of the said interest payment date.
 - 4.3.2 For the TM's tax tracking purposes only for that particular coupon period all taxes withheld by the holder in relation to its buy transactions shall be zero.
5. **Unplanned Holiday.** Transaction settlements scheduled on a day that is suddenly declared as a holiday or a day when no settlement will occur in the TM (an "Unplanned Holiday") shall be settled in accordance with the written announcement of the TM.
6. **Quoting Convention.** Tax exempt entities and entities with preferential tax status that shall trade pursuant to this treasury circular shall be guided by the prevailing market convention on secondary market trading.
7. **Settlement Convention.** The standard settlement date shall be in accordance to on prevailing market convention on settlement of secondary market trades.