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

Funding the Republic

TREASURY CIRCULAR NO. 3 - 2012
20 November 2012

Treasury Circular prescribing the Conventions on the Secondary Market Trading and Settlement of the Onshore Foreign Currency Treasury Bonds of the Republic of the Philippines pursuant to the Program Mechanics and Terms and Conditions in relation thereto.

1. PREAMBLE

This Treasury Circular and the attached Operating Guidelines (Annex A), are hereby issued to prescribe the trading and settlement conventions to implement the secondary market requirements for the Bonds under the Program Mechanics and the Terms and Conditions in relation thereto, as may be amended from time to time.

2. SCOPE

This Treasury Circular shall apply to the Onshore Foreign Currency Treasury Bonds (the "Bonds).

3. TAXABILITY OF THE BONDS

The final withholding tax on interest due on the Bonds is assumed by the Republic as stated in the Program Mechanics and the Terms and Conditions in relation thereto. The interest payable by the Republic shall be increased as will result in the receipt by the holder of the amount that would have been received if such final withholding tax had not been required.

4. NON-LIMITED TRADING AND SETTLEMENT OF THE BONDS

The Bonds shall be listed in a Securities and Exchange Commission (SEC) registered trading market (TM). Transfers of the Bonds between and among its holders shall be conducted in the TM and its secondary market infrastructure and recorded in the Registry of Scripless Securities (RoSS). Such infrastructure shall provide an environment that shall allow holders of any tax classification to transfer the Bonds and settle the same between and among themselves, provided that no settlement shall be recorded during periods of restriction, e.g., Closed Periods, as defined in the Program Mechanics and the Terms and Conditions. The TM and its infrastructure shall compute and track the appropriate withholding tax on accrued interest due from a seller for each trade transaction on the basis of the seller's holding period for the sold securities inventory as set forth in this Treasury Circular.

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5. THE REGISTRY

The Bonds shall be held and recorded in the books of the BTr RoSS.

6. SECURITIES ACCOUNT FOR TAX TRACKING (SATT)

6.1. Designation of SATT. Each trading participant of the TM, including each investor acting through a trading participant of the TM, shall designate a securities account for tax tracking (SATT) used for settlement of trades in the TM. The SATT may be a BTr RoSS account or such other account allowed by the TM and/or the BTr, where such account is capable of being tax tracked.

6.2. Balances of 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 SATT shall be comprised of the earmarked balance plus remaining balance.

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

6.2.2. Remaining balance represents the balance of the Bonds available for earmarking trade or non-trade transactions under the conditions provided in the attached Operating Guidelines (Annex A).

6.3. Handling of Balances in SATT

6.3.1. Treatment of Purchases. The Bonds subject of buy transactions that have settled shall be added to the balances in SATT in the order of their settlement date.

6.3.2. Treatment of Sales. The Bonds subject of sell transactions will be earmarked against the remaining balance of the seller and as provided for in the Operating Guidelines (Annex A). Any withdrawn/cancelled sell transaction within the day or any sell transaction which failed to settle shall release such earmarked securities.

6.4. Holding Period of Balances in SATT. The Bonds purchased shall remain in SATT up to maturity or until sold or transferred to another holder with a SATT.

6.5. Assignment of Investor Code. Each investor who is a customer of a trading participant shall be assigned by such trading participant an investor code that is associated with the SATT and cash settlement account of such investor. For settlement purposes, the SATT and the cash settlement account corresponding to the investor code shall be used.

7. SETTLEMENT AMOUNT

7.1. Settlement Amount. Since the final withholding tax on interest due on the Bonds is assumed by the Republic as stated in the Terms and Conditions, the Settlement amount shall be computed as Clean Price plus the Accrued Interest.

7.2. Balances in SATT. Upon settlement of the trade transaction, the balances of securities in 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. The trading market infrastructure shall compute and track the appropriate withholding tax on accrued interest on the basis of the seller's holding period for the sold securities inventory as set forth in this Treasury Circular. The computed final withholding tax on accrued interest shall be assumed and paid by the Republic on coupon payment date.

8. INTEREST PAYMENT

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

   a. Final withholding taxes assumed by the Republic; and
   b. Holding Period, which is the length of time the Bonds are held by the holder in SATT within a coupon payment period.

9. REPEALING CLAUSE

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

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
THE ONSHORE FOREIGN CURRENCY TREASURY BONDS (the "Bonds")

1. **Investor Code**. The trading participant (TP) shall assign an investor code associated with the Securities Account for Tax Tracking (SATT) and cash settlement account of an investor and that such investor code is correctly entered as part of the details of each trade. The Trading Market (TM) shall provide for a mechanism for the handling of incorrectly and/or invalidly entered investor codes.

    1.1 **Invalid Investor Code.** In case the TP posts an order for an investor code that is not enrolled with the same TP or a non-existent code, the investor code shall be considered invalid. The trade shall not be processed for settlement and shall be replaced. The TP shall be required to re-input the correct trade. The TM shall provide for a mechanism for the re-inputting of the correct trade, taking into account the time allowance for such correction and the trading platform where the same shall be re-inputted.

    1.2 **Incorrect Investor Code.** In case the TP posts an order for a valid/existing investor code but which the TP assigns to a wrong investor, the investor code shall be considered incorrect but the trade shall be processed for settlement. The TM shall provide for a mechanism for the handling of such incorrect investor code, taking into account the following:

    1.2.1 Time when the error was detected (e.g., on trade date before authorization for settlement, after trade date before authorization for settlement, after authorization for settlement);

    1.2.2 Whether the wrong seller corresponding to the incorrect investor code has balances in the SATT; and

    1.2.3 Whether the wrong buyer corresponding to the incorrect investor code has balances in the SATT.

2. **Handling of Balances of the Bonds in SATT**. The SATT shall reflect the balances of the Bonds that shall be subject of tax-tracking.

    2.1 For settled sell trades, the Bonds earmarked for the trade will be subtracted from the balance in the SATT.

    2.2 For buy trades, 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.

2.3 At the start of day of an interest payment date, with respect to remaining balances in the SATT:

    2.3.1   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.

    2.3.2.   For the TM's tax tracking purposes only for that particular coupon period, all withholding tax position corresponding to the remaining balances in SATT shall be reset to zero as of the day immediately preceding interest payment date.

(2.4 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 BTr.

3. **Quoting Convention.** Quotations for the Bonds shall be expressed in terms of Clean Price which quotations shall be expressed up to three (3) decimal places. The Yield To Maturity expressed in percentage per annum up to four (4) decimal places shall be calculated from the Clean Price formula below:

$$Clean\ Price = \left[\frac{MV}{\left(1+\frac{YTM}{Cpn\ Freq}\right)^{N-1+\frac{DSC}{E}}}\right] + \left[\sum_{K=1}^{N}\frac{CPNAMT}{\left(1+\frac{YTM}{Cpn\ Freq}\right)^{K-1+\frac{DSC}{E}}}\right] - \left[\frac{MV * CPN\% * A}{360}\right]$$

Where:

MV	=	Maturity Value
N	=	Number of Coupon Periods remaining between settlement and maturity date. If N has a fractional part, (i.e. settlement not on a coupon date) it is rounded to next higher whole number
CPN AMT	=	Coupon Amount
CPN%	=	Coupon Rate
A	=	Accrued no. of Days
YTM	=	Yield to Maturity
DSC	=	No. of Days from Settlement Date to next Coupon Date

E	=	No. of Days in Coupon Period. In Phil. 30/360 convention, E is 360 for annual coupon, 180 for semi-annual coupon, and 90 for quarterly coupon bonds
K	=	Coupon Period
Cpn Freq.	=	Coupon Frequency

4. **Settlement Date Convention.** The standard settlement date shall be the next trading day following the trading day when the trades were executed ("T + 1").

5. **Closed Period.** Unless otherwise specified in the Program Mechanics or the Terms and Conditions, a Closed Period is that period of 3 business days ending on and including the Interest Payment Date. There shall likewise be a Closed Period prior to redemption which shall be 3 business days ending on and including the redemption date. During the Closed Period, no transfers shall be allowed but trades of the Bonds shall not be prohibited provided that no settlement shall be allowed to be recorded in the BTr RoSS. In that case, the settlement shall be allowed to be recorded in the BTr RoSS in the business day immediately following the last day of the Closed Period.

   Trading of the Bonds shall not be allowed prior to Issue Date.]

6. **Settlement Amount.** Since the final withholding tax on interest due on the Bonds is assumed by the Republic as stated in the Terms and Conditions, the settlement amount shall be computed as the Clean Price plus the Accrued Interest.

   Where:
   $$SA = CP + AI$$
   (as these terms are hereinafter defined)

   6.1 **Components of Settlement Amount.** Settlement amount is composed of the Clean Price and the Accrued Interest.

      6.1.1 **Clean Price (CP).** Clean Price is the price per 100 face value of the Bonds that pays periodic interest and is based on European *30/360* day count.

      6.1.2. **Accrued Interest (AI).** Accrued Interest is the interest due on the Bonds since the last coupon payment was made and computed based on European *30/360* day count

   6.2 Sample **Calculation of the Settlement Amount.**

      6.2.1 Example: A trade of USD10,000.00 in face value of Onshore US Dollar Treasury Bond settling 31 days after its issue date of October 29, 2012 at a yield

to maturity (YTM) of 2.99% for a coupon of 3.0%, shall have the following settlement amount regardless whether the seller is an FCDU with 10% FWT, a tax paid entity with 20% FWT or a tax-exempt entity, all of which shall have their final withholding tax assumed by the Republic:

$$SA = CP*FV + AI$$

Where: Maturity date = April 29, 2023

CP = USD 100.087/100

AI = USD 25.83

SA = (USD 1.00087)* USD10,000.00 + USD 25.83 = USD 10,034.53

7. **Handling of ISIN Inventory Balances Relating to Securities Lending Transactions and Repurchase Agreements.** ISIN balances in the SATT which shall be used as collateral for securities lending transactions and repurchase transactions shall continue to be tax-tracked.