



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

*Funding the Republic*

TREASURY CIRCULAR NO. 1-2012  
5 October 2012

Treasury Circular Amending Treasury Circular No. 02-2010 dated May 6, 2010, "Prescribing the Conventions on the Secondary Market Trading and Settlement of the Multi-Currency Retail Treasury Bonds of the Republic of the Philippines pursuant to the Program Mechanics and Terms and Conditions in relation thereto".

I. PURPOSE

This Circular is issued to amend the trading and settlement convention on Multi-Currency Retail Treasury Bonds prescribed under Treasury Circular No. 02-2010 to adopt a "Trading-on-Net" convention for Multi-Currency Retail Treasury Bonds where the settlement amount of the trade is computed on the point of trade based on the maximum rate of final withholding tax on accrued interest.

II. Sections 6 and 7 of Treasury Circular No. 02-2010 are hereby amended to read as follows:

*6. SETTLEMENT AMOUNT*

*6.1. Settlement Amount* Settlement amount shall be computed as Clean Price plus the Accrued Interest less Withholding Tax Amount. The withholding tax amount computed at the point of trading shall be based on the maximum rate of final withholding tax on accrued interest of the Bonds.

*6.2. 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 appropriate withholding tax 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.

*7. INTEREST PAYMENT*

*Interest Payment.* On interest payment date, the interest payment due to each holder of the Bonds shall be computed net of the applicable final withholding taxes, taking into account the following:

*a. Tax status and corresponding final withholding tax rate of the seller;*

- b. Holding Period, which is the length of time the Bonds are held by the holder in SATT within a coupon payment period.*
- c. Observance of FIFO method for accounting of the Bonds inventory used to settle holder's sell transactions during a coupon payment period; and*
- d. Cumulative taxes withheld by the seller that will have to be passed on to the buyer.*

III. OPERATING GUIDELINES. The Operating Guidelines attached as Annex A of Treasury Circular No. 02-2010 is hereby amended as stated in the attached Revised Annex A as follows:



- a. Revisions of No. 6 (**Settlement Amount**) and sub-sections;
- b. Providing new No. 7 (**Calculation of the Applicable Withholding Tax**) and sub-sections;
- c. Providing new No. 8 (**Calculation of applicable adjustments in coupon proceeds on coupon date**) and sub-sections; and
- d. Amendment of former No. 7 (**Handling of ISIN Inventory Balances Relating to Securities Lending Transactions and Repurchase Agreements**) as the new No. 9 (**Handling of ISIN Inventory Balances Relating to Securities Lending Transactions and Repurchase Agreements**).

IV. TRANSITORY PROVISION

The amendments stated under Article II and III of this Circular shall be implemented effective October 29, 2012, which is the next succeeding coupon payment date of the Multicurrency Retail Treasury Bonds.

V. EFFECTIVITY

This Treasury Circular shall take effect 15 days after publication in the Official Gazette or in a newspaper of general circulation.

  
ROBERTO B. TAN  
Treasurer of the Philippines  


**OPERATING GUIDELINES  
FOR TRADING AND SETTLEMENT OF THE MULTI-CURRENCY  
RETAIL TREASURY BONDS US DOLLAR TRANCHES (the "Bonds")**

1. **Investor Code.** The trading participant (TP) shall assign an investor code associated with the 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 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 The acquisition date of remaining balances in SATT shall be set at interest payment date. This indicates that the balance is held in the SATT at the start of the said interest payment date.
    - 2.3.2 All withholding tax position corresponding to the remaining balances in SATT as of day before the interest payment date shall be set to zero.

2.5 **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 BTr.

3. **Quoting Convention.** Quotations for the Bonds shall be expressed in terms of Yield to Maturity (YTM) which quotations shall be expressed in percentage per annum and up to four (4) decimal places. The Clean Price (CP) shall be calculated from the inputted YTM quotation up to the thirteenth ( $13^{th}$ ) decimal place, but displayed only up to the seventh ( $7^{th}$ ) decimal place.
4. **Settlement 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.** A Closed Period is that period commencing 4 business days ending on and including the Interest Payment Date. There shall likewise be a Closed Period prior to redemption which shall commence 4 business days ending on and including the redemption date. During the Closed Period, no transfers of the Bonds shall be allowed.
6. **Settlement Amount.** The settlement amount shall be computed as the Clean Price plus the Accrued Interest less the withholding tax amount computed at the highest applicable tax rate.

Where:

$$SA = CP + AI - WTA$$

(as these terms are hereinafter defined)

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

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.

6.1.3 **Withholding Tax Amount (WTA).** The Withholding Tax Amount is computed as the product of the highest applicable tax rate and the Accrued Interest (AI) earned on the Bonds at settlement date;

$$WTA = AI \times \text{highest applicable tax rate}$$

6.2 **Calculation of the Withholding Tax Amount (WTA) and the Settlement Amount.** The calculation of the Withholding Tax Amount of each sell transaction shall be at the highest applicable tax rate and shall not vary with/depend according to, the withholding<sup>A</sup> tax rate of the seller in the transaction.



### 6.2.1 Examples.

**Case 1: Seller withholding tax rate is 20%. 20% is the highest applicable tax rate.**

A taxable seller sold USD10,000.00 in FV of USDRTB 03-01 bond. The balance has been in his SATT since January 29, 2011, the last coupon payment date of the bond. He sold the bond on February 10, 2011 for value date February 11, 2011 at 2.80% YTM. Coupon rate is 2.875%. Seller's withholding tax rate is 20%. Settlement amount for the trade is calculated as follows:

$$SA = CP * FV + AI - WTA$$

Where:

$$CP = USD\ 100.160 / 100$$

$$FV = USD\ 10,000.00$$

$$AI = USD\ 9.58$$

$$WTA = AI * 20\% = (USD\ 9.58) * 0.20 = USD\ 1.92$$

$$\begin{aligned} SA &= USD\ 10,016.04 + USD\ 9.58 - USD\ 1.92 \\ &= \mathbf{USD\ 10,023.70} \end{aligned}$$

**Case 2: If seller's withholding tax rate is 10% and 20% is the highest applicable tax rate.**

$$SA = CP * FV + AI - WTA$$

Where:

$$WTA = AI * 20\% = (USD\ 9.58) * 0.20 = USD\ 1.92$$

$$\begin{aligned} SA &= USD\ 10,016.04 + USD\ 9.58 - USD\ 1.92 \\ &= \mathbf{USD\ 10,023.70} \end{aligned}$$

**Case 3: If seller's withholding tax rate is 0% and 20% is the highest applicable tax rate.**

$$SA = CP * FV + AI - WTA$$

Where:

$$WTA = AI * 20\% = (USD\ 9.58) * 0.20 = USD\ 1.92$$

$$\begin{aligned} SA &= USD\ 10,016.04 + USD\ 9.58 - USD\ 1.92 \\ &= \mathbf{USD\ 10,023.70} \end{aligned}$$

6.2.2. For sellers with applicable withholding tax rate lower than highest applicable tax rate, the TM infrastructure shall upon settlement of the sell transaction compute

and track for the applicable/appropriate withholding tax of the seller for each settled trade transaction. Any adjustments that may arise from the difference between the Withholding Tax Amount (WTA) paid by the seller and the applicable withholding tax computed upon settlement of a sell transaction shall be reflected on the seller's coupon proceeds on coupon payment date.

**7. Calculation of the Applicable Withholding Tax.** The Applicable Withholding Tax is composed of the following:

- 7.1 Withholding Tax on Accrued Interest (WTAI).** Withholding Tax on Accrued Interest is the applicable tax payable by the seller and is computed as the product of the appropriate tax rate of the seller, the Accrued Interest earned on the Bonds and the Holding Period over a period of 360 days:

$$WTAI = (FV) * (\text{coupon rate}) * (\text{seller's withholding tax rate}) * (HP/360)$$

Where: HP = the number of days from acquisition date of the securities balance used to settle the transaction, to the settlement date of the sell transaction

- 7.2 Passed on Withholding Tax (PWT).** Passed on Withholding Tax is composed of: (i) the amount of Withholding Tax on Accrued Interest **withheld by the seller (WTAIS) at purchase of the bond**, and (2) the amount of Withholding Tax on Accrued Interest **passed on to the seller** by the previous holder/s of the Bonds **(WTAIPH) at purchase of the bond**.

- 7.3 Examples.** Calculating for the applicable withholding tax of a seller of a settled sell transaction

**Case 1: If seller's withholding tax rate is 20%.**

A taxable seller sold USD10,000.00 in FV of USDRTB 03-01 bond. The balance has been in his SATT since January 29, 2011, the last coupon payment date of the bond. He sold the bond on February 10, 2011 for value date February 11, 2011 at 2.80% YTM. Coupon rate is 2.875%. Seller's withholding tax rate is 20%. The applicable withholding tax for the seller if the trade settles is calculated as follows:

$$CP = USD\ 100\ 160/100$$

$$FV = USD\ 10,000.00$$

$$AI = USD\ 9.58$$

$$HP = 12\ \text{days}$$

$$\text{Applicable withholding tax} = WTAI + WTAIS + WTAIPH$$

Where:

$$WTAI = (USD\ 10,000.00) * (2.875\%) * (20\%) * (12/360) = USD\ 1.92$$

WTAIS = 0; the balance is with the seller since last coupon payment date

WTAIPH = 0; the balance is with the seller since last coupon payment date

$$\begin{aligned}\text{Applicable withholding tax} &= \text{WTAI} + \text{WTAIS} + \text{WTAIPH} = \text{USD } 1.92 + 0 + 0 \\ &= \text{USD } 1.92\end{aligned}$$

Case 2: If seller's withholding tax rate is 10%.

$$\text{Applicable withholding tax} = \text{WTAI} + \text{WTAIS} + \text{WTAIPH}$$

Where:

$$\text{WTAI} = (\text{USD } 10,000.00) * (2.875\%) * (10\%) * (12/360) = \text{USD } 0.96$$

WTAIS = 0; the balance is with the seller since last coupon payment date

WTAIPH = 0; the balance is with the seller since last coupon payment date

$$\begin{aligned}\text{Applicable withholding tax} &= \text{WTAI} + \text{WTAIS} + \text{WTAIPH} = \text{USD } 0.96 + 0 + 0 \\ &= \text{USD } 0.96\end{aligned}$$

Case 3: If seller's withholding tax rate is 0%.

$$\text{Applicable withholding tax} = \text{WTAI} + \text{WTAIS} + \text{WTAIPH}$$

Where:

$$\text{WTAI} = (\text{USD } 10,000.00) * (2.875\%) * (0\%) * (12/360) = \text{USD } 0.0$$

WTAIS = 0; the balance is with the seller since last coupon payment date

WTAIPH = 0; the balance is with the seller since last coupon payment date

$$\begin{aligned}\text{Applicable withholding tax} &= \text{WTAI} + \text{WTAIS} + \text{WTAIPH} = \text{USD } 0 + 0 + 0 \\ &= 0\end{aligned}$$

8. Calculation of applicable adjustments in coupon proceeds on coupon date. On coupon date, adjustments in coupon proceeds may arise for the following holders:

- a. With applicable withholding tax rate lower than the highest applicable tax rate; and
- b. With settled sell transaction within the coupon payment period.

8.1 The adjustment shall be computed as follows:

$$\text{Adjustment in coupon proceeds} = \text{Withholding Tax Amount} - \text{Applicable Withholding Tax}$$

$$= \text{WTA} - (\text{WTAI} + \text{WTAIS} + \text{WTAIPH}) \text{ of a settled sell transactions}$$

## 8.2. Examples.

Case 1. For seller with withholding tax rate = 10% in the earlier example.

Adjustment in coupon proceeds =  $WTA - (WTAI + WTAIS + WTAIPH)$  of a settled sell transactions

Where:  $WTA = AI * 20\% = (USD\ 9.58) * 0.20 = USD\ 1.92$

$WTAI = (USD\ 10,000.00) * (2.875\%) * (10\%) * (12/360) = USD\ 0.96$

$WTAIS = 0$ ; the balance is with the seller since last coupon payment date

$WTAIPH = 0$ ; the balance is with the seller since last coupon payment date

Adjustment =  $USD\ 1.92 - USD\ 0.96 = USD\ 0.96$  = coupon proceed will be higher by this amount

Case 2. For seller with withholding tax rate = 0% in the earlier example.

Adjustment in coupon proceeds =  $WTA - (WTAI + WTAIS + WTAIPH)$  of a settled sell transactions

Where:  $WTA = AI * 20\% = (USD\ 9.58) * 0.20 = USD\ 1.92$

$WTAI = (USD\ 10,000.00) * (2.875\%) * (0\%) * (12/360) = USD\ 0.0$

$WTAIS = 0$ ; the balance is with the seller since last coupon payment date

$WTAIPH = 0$ ; the balance is with the seller since last coupon payment date

Adjustment =  $USD\ 1.92 - USD\ 0.0 = USD\ 1.92$  = coupon proceed will be higher by this amount

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