



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

Funding the Republic

TREASURY CIRCULAR NO. 02-2010
06 May 2010

Treasury Circular 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.

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 Multi-Currency Retail Treasury Bonds US Dollar Tranches (the "Bonds").

3. 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 Bureau of the Treasury (BTr) RoSS Sub-Registry. Such infrastructure shall provide an environment that shall allow holders of any tax classification to transfer between and among themselves, except during periods of restriction 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.

4. THE RoSS SUB-REGISTRY

The Bonds shall be held and recorded in the books of the RoSS Sub-Registry.

5. SECURITIES ACCOUNT FOR TAX TRACKING (SATT)

- 5.1. 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 RoSS Sub-Registry account or such other account

allowed by the TM and/or the BTr, where such account is capable of being tax tracked.

5.2. 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.

5.2.1. 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.

5.2.2. 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).

5.3. Handling of Balances in SATT

5.3.1. 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.

5.3.2. 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), following a First-In First-Out (FIFO) method. Any withdrawn/cancelled sell transaction within the day or any sell transaction which failed to settle shall release such earmarked securities.

5.4. 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.

5.5. 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.

6. SETTLEMENT AMOUNT

6.1. Balances in SATT. The balances of securities in SATT shall be used as basis for the calculation of the settlement amount.

6.2. Settlement Amount. Settlement amount shall be computed as Clean Price plus the Accrued Interest less the applicable withholding tax, as provided for in the Operating Guidelines (Annex A). The tax computed shall take 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; and
- d. Cumulative taxes withheld by the seller that will have to be passed on to the buyer.

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 Holding Period of a non-taxable holder, if any.

8. REPEALING CLAUSE

All circulars, orders and/or memoranda inconsistent herewith are hereby repealed, modified and amended accordingly.

9. EFFECTIVITY

This Treasury Circular shall take effect immediately.


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 For withdrawn or failed sell trades, the Bonds earlier earmarked shall be automatically released. The Bonds so released shall form part of the remaining balance of the SATT.
- 2.4 At the start of day of a interest payment date, with respect to remaining balances in the SATT:
- 2.4.1 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.
- 2.4.2 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 (13th) decimal place, but displayed only up to the seventh (7th) 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 applicable withholding tax.

Where:

$$SA = CP + AI - WT$$

$$WT = WTAI - PWT$$

$$PWT = WTAIS + WTAIPH$$

(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 Applicable Withholding Tax (as these terms are hereinafter defined).

13

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

6.1.3.1 **Withholding Tax on Accrued Interest (WTAI).** Withholding Tax on Accrued Interest is the 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 earmarked balance to the settlement date of the sell trade

6.1.3.2 **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.

Examples:

Case 1: A taxable seller sold USD10,000.00 in FV of USDRTB 03-01 bond. The balance has been in his SATT since April 29, 2010, the issue date of the bond. He sold the bond on May 7, 2010 for value date May 11, 2010 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:

$$SA = CP * FV + AI - WTAI - WTAIS - WTAIPH$$

Where:

$$CP = \text{USD } 100.213/100$$

$$FV = \text{USD } 10,000.00$$

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HP = days elapsed between settlement date and acquisition date = 12 days

AI = USD 9.58

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

WTAIS = 0; the balance is with the seller since issue date

WTAIPH = 0; the balance is with the seller since issue date

SA = USD 10,021.25 + USD 9.58 – USD 1.92 – 0 – 0.
= USD 10,028.92

Acquisition date for the buyer of the P10,000.00 is now set to May 11, 2010, the settlement date of the trade.

Case 2: On June 7, 2010, the buyer in Case 1, sold the USD 10,000.00 USDRTB 03-01 at 2.825% yield for value date June 8, 2010. For the seller in this Case 2, his acquisition date for the balance is May 11, 2010. The withholding tax rate for the seller is 20%. The SA for the transaction is:

SA = CP*FV + AI – WTAI – WTAIS – WTAIPH

Where:

HP = 27 days = number of days elapsed from May 11, 2010 to June 8, 2010

CP = USD 100.136/100

FV = USD 10,000.00

AI = USD 31.15

WTAI = (10,000.00) * (2.875%) * 20 * (27/360) = USD 4.31

WTAIS = USD 1.92; tax withheld on AI when the balance was bought by in Case 1. This is being passed on to Case 2 buyer

WTAIPH = 0; there were no withholding tax that was passed on to the seller when he bought the inventory in Case 1.

SA = USD 10,013.62 + USD 31.15 – USD 4.31 – USD 1.92 – 0
= USD 10,038.54

Acquisition date for Case 2 buyer for the USD 10,000.00 balance is set at June 8, 2010, the value date for the settled trade.

Case 3: On June 10, 2010, the buyer in Case 2 sold the USD 10,000.00 USDRTB at 2.755% yield for value date June 11, 2010. The withholding tax rate for the seller is 10%. Acquisition date for the balance is June 8, 2010. The SA for the transaction is:

SA = CP*FV + AI – WTAI – WTAIS – WTAIPH

Where:

HP = 3; days elapsed from June 8, 2010 to June 11, 2010

CP = USD 100.329/100

FV = USD 10,000.00

AI = USD 33.54

WTAI = USD 0.24

WTAIS = USD 4.31; tax withheld on AI when the balance was bought by seller in Case 2. This is now being passed on to Case 3 buyer.

WTAIPH = USD 1.92; withholding tax that was passed on to the seller when he bought the inventory in Case 2.

$$\begin{aligned} \text{SA} &= \text{USD } 10,032.87 + \text{USD } 33.54 - \text{USD } 0.24 - \text{USD } 4.31 - \text{USD } 1.92 \\ &= \text{USD } 10,059.94 \end{aligned}$$

Acquisition date for Case 3 buyer for the USD 10,000.00 balance is set at June 11, 2010, the value date for the settled trade.

6.2 Calculation of Settlement Amount. Settlement amount shall be computed as Clean Price plus the Accrued Interest less the Applicable Withholding Tax. The calculation of the Settlement Amount shall vary depending on the calculated applicable withholding tax of the seller in a transaction. The applicable withholding tax shall depend on the tax status and Holding Period of the seller. In instances when a seller may post a sell transaction where its remaining balance in the SATT is nil, the settlement amount shall be further adjusted. The following are the different computations for the Settlement Amount for different tax scenarios:

6.2.1 Seller which is Subject to Tax.

6.2.1.1 Sale With the Applicable Balance in SATT. Settlement amount shall be computed based on the Clean Price plus the Accrued Interest less the Withholding Tax on Accrued Interest based on the Holding Period less Passed on Withholding Tax:

$$\text{SA} = \text{CP} + \text{AI} - (\text{FV}) * (\text{coupon rate}) * (\text{seller's applicable withholding tax rate}) * (\text{HP}/360) - \text{WTAIS} - \text{WTPH}$$

6.2.1.2 Sale Without the Applicable Balance in the SATT. For sales without the applicable balance, it is assumed that the seller will get the required balance for the sale transaction from taxable sources. The required balance is then assumed as held by the seller since the last coupon payment date (LCP). Settlement amount shall then be computed based on the Clean Price plus the Accrued Interest less the Withholding Tax on Accrued Interest based on the Holding Period, reckoned from LCP.

$$\text{SA} = \text{CP} + \text{AI} - (\text{FV}) * (\text{coupon rate}) * (\text{highest applicable withholding tax rate}) * (\text{HP}/360) - \text{WTAIS} - \text{WTPH}$$

Where HP = number of days from the LCP to the settlement date of the sell trade;

WTAIS = 0;
WTPH = 0.

Example:

Case 4.a: On May 7, 2010, Firm A buys USD 10,000.00 of USDRTB 03-01 for value date May 11, 2010. Firm A has no balance of USDRTB 03-01 in its SATT. Before Firm A's buy transaction settles, Firm A sold USD 10,000.00 of FXTN for value date May 11, 2010 and yield of 2.755%. Firm A is taxable at 20% withholding tax. Settlement amount for Firm A's sell transaction is computed as:

$$SA = CP + AI - (FV) * (\text{coupon rate}) * (\text{highest applicable withholding tax rate}) * (HP/360) - WTAIS - WTPH.$$

Where:

HP = 12; assumed seller has balance since issue date
hence = days elapsed since April 29, 2010 to May 11, 2010

CP = USD 100.339/100

FV = USD 10,000.00

AI = USD 9.58

WTAI = USD 1.92

WTAIS = 0; balance assumed held since issue date

WTAIPH = 0; balance assumed held since issue date

$$SA = \text{USD } 10,033.90 + \text{USD } 9.58 - \text{USD } 1.92 - 0 - 0 \\ = \text{USD } 10,041.57$$

6.2.1.2.1 Any adjustments that may arise from the calculated applicable tax withheld from/paid by the seller for selling without balance shall be reflected on the seller's coupon proceeds on coupon payment date.

Such adjustment on coupon payment will not take place if, on settlement deadline of Firm A's sell transaction, Firm A's SATT balance for USDRTB 03-01 remains nil or Firm A's buy transaction for USDRTB 03-01, failed to settle.

Sale transaction initially made without balances in SATT may eventually settle and may arise to adjustment if:

(1) The applicable withholding taxes computed for the sale transaction made without balances is greater than the withholding taxes computed for the balances used to

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settle the sale transaction without balances in the SATT;
or

(2) The applicable withholding taxes computed for the sale transaction made without balances is lesser than the withholding taxes computed for the balances used to settle the sale transaction without balances in the SATT.

Adjustment = Applicable withholding taxes of sale without balances in SATT – Applicable withholding taxes of the balance used to settle the sale transaction without balances in the SATT

Case 4.b: For Firm A's buy transaction, Firm A bought USD 10,000.00 FV of USDRTB from Firm B at a yield of 2.755%. Firm B held the balance from its account since issue date, April 29, 2010. Firm B is exempt from withholding tax. The settlement amount paid by Firm A to Firm B is computed as:

$$SA = CP + AI - (FV) * (\text{coupon rate}) * (\text{seller's applicable withholding tax rate}) * (HP/360) - WTAIS - WTPH$$

Where:

HP = 12; days elapsed from April 29 to May 11, 2010

CP = USD 100.339/100

FV = USD 10,000.00

AI = USD 9.58

WTAI = 0 ; seller Firm B is exempt

WAIS = 0; balance held since issue date

WTAIPH = 0; balance held since issue date

$$SA = \text{USD } 10,033.90 + \text{USD } 9.58 - 0 - 0 - 0$$
$$= \text{USD } 10,043.48$$

The adjustment on coupon date for Firm A that sold without balances in SATT is computed as:

Adjustment = (WTAI + WAIS + WTAIPH) of sale without balances – (WTAI + WAIS + WTAIPH) of the balance that settled the sale without the balance in SATT trade.

Where:

From Case 4.a: For Firm A's sale without balances

$$WTAI + WAIS + WTAIPH = \text{USD } 1.92 + 0 + 0$$

From Case 4.b.1: For Firm A's buy transaction

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$$\text{WTAI} + \text{WAIS} + \text{WTAIPH} = 0 + 0 + 0$$

$$\text{Adjustment} = \text{Sale taxes} - \text{Buy taxes} = \text{USD } 1.92 - 0$$

On coupon payment date, adjustment of USD 1.92 shall be added to Firm A's coupon proceeds.

Otherwise, for instances where the applicable withholding taxes of the sale without balances in SATT are lesser than the applicable withholding tax for balances that settles the sale, adjustment shall be deducted from Firm A's coupon proceeds.

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6.2.2 Seller which is exempt from tax.

6.2.2.1. **Sale with the applicable balances in the SATT.** Settlement amount shall be computed based on the Clean Price plus Accrued Interest less Passed on Withholding Taxes.

$$\text{SA} = \text{CP} + \text{AI} - \text{WTAIS} - \text{WTPH}$$

6.2.2.2 **Sale without the applicable balances in the SATT.** Tax-exempt sellers should not sell without the applicable balances in their SATT. Nevertheless, should the tax-exempt seller sell without such balance, the settlement amount shall be computed based on the Clean Price plus the Accrued Interest less the adjustment for selling without such ISIN balances. This adjustment for selling without applicable balance shall be computed as the product of the highest applicable withholding tax rate, the Accrued Interest earned on the Bonds and the Holding Period, where the Holding Period reckoned from LCP. The Holding Period reckoned from LCP assumes that the seller shall get the required balance from taxable source(s) that held the balance since LCP date.

$$\text{SA} = \text{CP} + \text{AI} - \text{WTAIS} - \text{WTAIPH} - \text{adjustment for selling without balance in SATT}$$

Where:

$$\text{Adjustment for selling without balance} = (\text{FV}) * (\text{coupon rate}) * (\text{holding period set at LCP/360}) * (\text{highest applicable withholding tax rate})$$

Such adjustments arising from the calculated settlement amount for selling without applicable balance shall be reflected on the tax exempt seller's coupon proceeds on coupon payment date.

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Example:

Case 5.a: On June 14, 2010, Firm C buys USD 10,000.00 of USDRTB 03-01 for value date June 15, 2010. Firm C has no balance of in its SATT. Before Firm C's buy transaction settles, Firm C sold USD 10,000.00 of USDRTB 03-01 for value date June 15, 2010 and yield of 2.755%. Firm C is withholding tax exempt. Settlement amount for Firm C's sell transaction is computed as:

$$SA = CP + AI - \text{Adjustment for selling without balance in SATT}$$

Where :

HP = 46; reckoned from last coupon or issue date is newly issued hence equal to the days elapsed since issue date, April 29, 2010 to June 15, 2010

CP = USD 100.327/100

FV = USD 10,000.00

AI = USD 36.74

Adjustment = (USD 10,000.00)*(.02875)*(.20)*(46/360)= USD 7.35

$$\begin{aligned} SA &= \text{USD } 10,032.73 + \text{USD } 36.74 - \text{USD } 7.35 \\ &= \text{USD } 10,062.12 \end{aligned}$$

Case 5.b: For Firm C's buy transaction, Firm C bought USD10,000.00 FV of USDRTB 03-01 from Firm D at a yield of 2.755%. Firm D's withholding tax rate is 20%. Firm D has held the balance since June 11, 2010 and is the buyer in Case 3. The settlement amount paid by Firm C to Firm D is computed as:

$$SA = CP + AI - (FV) * (\text{coupon rate}) * (\text{seller's applicable withholding tax rate}) * (HP/360) - WTAIS - WTAIPH$$

Where:

HP = 4; days elapsed from June 11 to June 15, 2010

CP = USD 100.327/100

FV = USD 10,000.00

AI = USD 36.74

WTAI = USD 10,000.00 * (2.875%) * (20%) * (4/360) = USD 0.64;

WTAIS = USD 0.24; tax withheld on AI by Firm D when the balance was bought in Case 3. This is being passed on to Firm C.

WTAIPH = USD 4.31 + USD 1.92 = USD 6.23; Withholding taxes from previous holders collected by Firm D from the purchase in Case 3.

$$\begin{aligned} SA &= \text{USD } 10,032.73 + \text{USD } 36.74 - \text{USD } 0.64 - \text{USD } 0.24 - \text{USD } 6.23 \\ &= \text{USD } 10,062.36 \end{aligned}$$

The adjustment on coupon date for Firm C, a tax exempt that sold without balances in SATT is computed as:

$$\begin{aligned} \text{Firm C's Adjustment on coupon date} = & (\text{WTAI} + \text{WTAIPH} + \\ & \text{adjustment for selling without balances}) - \\ & \text{applicable withholding taxes withheld for the} \\ & \text{balance used to settle the sell trade} \end{aligned}$$

Where:

From Case 5.a: For Firm C's sale without balances

$$\begin{aligned} \text{WTAIS} + \text{WTAIPH} + \text{Adjustment for selling without balance} \\ = 0 + 0 + 0 + \text{USD } 7.35 \\ = \text{USD } 7.35 \end{aligned}$$

From Case 5.b: For Firm C's buy transaction

$$\begin{aligned} \text{WTAI} + \text{WTAIS} + \text{WTAIPH} &= \text{USD } 0.64 + \text{USD } 0.24 + \text{USD } 3.23 \\ &= \text{USD } 7.11 \end{aligned}$$

$$\begin{aligned} \text{Adjustment} &= \text{Sale taxes} - \text{Buy taxes} = \text{USD } 7.35 - \text{USD } 7.11 \\ &= \text{USD } 0.24 \end{aligned}$$

On coupon payment date, adjustment of USD 0.24 shall be added to Firm C's coupon proceeds.

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.

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