TREASURY CIRCULAR NO. __4__ - 2018
20 August 2018

GUIDELINES FOR THE SETTLEMENT OF GOVERNMENT SECURITIES UNDER THE NATIONAL REGISTRY OF SCRIPLESS SECURITIES ENVIRONMENT

1. PURPOSE

This Circular is aimed at defining the guidelines for the settlement of secondary market trades of government securities ("GS") using the National Registry of Scripless Securities System ("NRoSS System")-PhilPaSS DvP Facility ("NRoSS-PhilPaSS Facility") in order to provide for a smooth and efficient transition to the NRoSS System environment.

This Circular also supersedes Treasury Circular No. 04-2014 dated 22 September 2014 and its Operating Guidelines which implemented the transition to a non-restricted trading across tax categories in the secondary market trading of Philippine Peso-denominated coupon bearing treasury bonds issued by the Republic of the Philippines.

2. BACKGROUND

The Bureau of the Treasury ("BTr"), as the operator of the Registry of Scripless Securities system ("RoSS System") has embarked into a system modernization project, NRoSS System, to operate the Registry of Scripless Securities ("RoSS") capable of, among others, servicing the settlement and recording of coupon-bearing government securities across different tax status of investors.

The NRoSS System is also interfaced with BSP's Philippine Payment and Settlement System ("PhilPaSS") via the Real Time Gross Settlement ("RTGS") of BSP to achieve real time, final and irrevocable delivery-versus -payment ("DvP").

Since the NRoSS-PhilPaSS Facility is envisioned to settle secondary market trades on a DvP basis, there is therefore a need to define the rules and process therefor to ensure compliance with prevailing rules and regulations.

3. DEFINITION

For purposes of this Circular, the following terminologies shall be defined as follows:

3.1 **NRoSS Account** – refer to the securities account in NRoSS that records the GS holdings of an individual or entity who has legal title or ownership over such GS. An individual or entity who has a registered NRoSS Account in NRoSS is called an "NRoSS Account Holder".

NRoSS Accounts are classified as follows:

3.1.1 **Own Account** –refers to the securities account of an NRoSS Direct Participant.

3.1.2 **Client Account** —refers to the securities account of a client, institutional or individual. This Client Account is further classified into:

3.1.2.1 **Omnibus Client Account** – is a transitory securities account that is used or operated only by Sponsor Trading Participants and registered in its name to merely facilitate the settlement of trades of its clients.

3.1.2.2 **Sponsored Client Account** –is a securities account under the name of an institutional or individual client and, in the case of a Trust Entity, Custodian and Depository, in the name of a pooled/managed fund. It can only be created by a Sponsor Trading Participant for its clients by virtue of an authorization, Special Power of Attorney ("SPA") or other types of agreement such as but not limited to a Trust or Custodianship Agreement.

3.2 **NRoSS Direct Participant** – refers to entities authorized by the BTr to connect and access the front-end system of the NRoSS. This includes:

3.2.1 Trading Participants as defined in section 3.3 of this Rule;
3.2.2 Custodians, Trust Entities and Depositories;
3.2.3 Regulatory agencies to monitor compliance of regulated institutions; and
3.2.4 Qualified institutional buyers ("QIBs") as maybe approved by the BTr.

An NRoSS Account shall be created by the BTr for an NRoSS Direct Participant based on his functions or role in the securities market.

3.3 **NRoSS-PhilPaSS Facility** – refers to the electronic interface of the NRoSS system with the BSP's PhilPaSS via the RTGS Facility to achieve real time, final and irrevocable DvP settlement for government securities traded in the secondary market.

The NRoSS through this facility shall transmit the cash settlement instruction of a trade transaction to BSP PhilPaSS to debit or credit the Demand Deposit Account ("DDA") of the designated settlement bank with the BSP.

3.4 **Sponsored Client** – refers to clients of Sponsor Trading Participants. Securities balances of sponsored clients are maintained in a Sponsored Client Account. Sponsored Clients may include the following:

3.4.1 Trading Participants without a DDA at BSP or without an auto-debit/credit authorization from its settlement bank;
3.4.2 QIBs;
3.4.3 Other institutions which are non-trading participants; and
3.4.4 Individuals.

3.5 **Sponsor Trading Participant** – refers to a Government Securities Eligible Dealer ("GSED") or a Government Securities Broker ("GSB") which is an NRoSS Direct Participant and has a DDA with the BSP and authorized by its client to (a) open or create and operate the Sponsored Client Account by virtue of an authorization or SPA and (b) facilitate DvP settlement of both cash and securities using the NRoSS-PhilPaSS Facility.

3.6 **Standard Settlement Account** – refers to the NRoSS Account that Trading Participants shall use to settle own or client trades using the NRoSS-PhilPaSS Facility. See **Annex A** for the list of Standard Settlement Account per Trading Participant and transaction type.

3.7 **Trading Participant** – refers to an NRoSS Direct Participant which is also a (a) Securities and Exchange Commission ("SEC")-licensed dealer including GSEDs who buys and sells for own account or account of Qualified Buyer ("QBs"), (b) SEC-licensed broker including GSBs who buys and sells for account of QBs and non-QBs or (c) QBs which are allowed by the SEC to buy and sell securities directly with SEC-licensed dealers and brokers.

4. POLICY GUIDELINES

4.1 All Philippine Peso-denominated GS shall be held and recorded in the electronic registry book of the NRoSS System. The BTr will announce at a later date the migration of foreign currency-denominated GS to the NRoSS.

4.2 Trading Participants shall settle all their secondary market GS trades including that of their Sponsored Clients on a DvP basis using NRoSS-PhilPaSS Facility.

4.3 A Standard Settlement Account ("SSA") shall be used by Trading Participants to promote efficiency and mitigate operational risk in settling trade transactions at NRoSS.

4.4 Cash settlement at the NRoSS-PhilPaSS Facility involves the DDA with the BSP of the designated settlement bank. An NRoSS Direct Participant without a DDA or without an auto-debit/credit authorization from its settlement bank

shall designate a Sponsor Trading Participant which shall facilitate the settlement of its own and client trades.

4.5 Secondary market transfers of Philippine Peso-denominated coupon bearing GS across tax categories shall be allowed. Such transfers shall be monitored by a tax-calculation facility under the NRoSS System which provides an environment where holders of the Treasury Bonds belonging to any tax classification will be allowed to transfer and settle the same between and among themselves.

4.6 Trading Participants shall ensure that securities of Sponsored Clients are maintained in the proper Client Account. Securities of tax-exempt institution ("TEI") clients shall be timely placed in their own TEI Sponsored Client Account for proper tax monitoring and calculation.

5. SETTLEMENT ACCOUNT UNDER NROSS-PHILPASS FACILITY

5.1 Trading Participants shall designate an NRoSS Account and a DDA at BSP to settle all trade transactions.

5.2 A Trading Participant with a DDA at BSP or with an auto-debit/credit authorization from its settlement bank shall settle the cash and securities leg of its own trade transaction including that of its Sponsored Clients.

5.3 A Trading Participant without a DDA at BSP or without an auto-debit/credit authorization from its settlement bank shall designate a Sponsor Trading Participant so that the latter can create a Sponsored Client Account for the former. The Sponsor Trading Participant shall facilitate the settlement (i.e., authorize and approve the settlement of securities and cash at NRoSS) of its Sponsored Client's trade transactions.

5.4 Specific NRoSS Accounts shall be used by Trading Participants as their SSAs in all their trade transactions to avoid settlement fails on account of incorrect securities account numbers (**Annex A**).

6. SETTLEMENT RULES AND PROCESS

6.1 Secondary market trades for settlement in the NRoSS-PhilPaSS Facility shall originate from the following:

6.1.1 Authorized trading platform or trade quotation system connected to the NRoSS following SEC-approved trading rules and convention applicable to such platform or system; or

6.1.2 NRoSS DvP Module following BTr rules and consistent with over-the-counter rules issued by the SEC.

6.2 For trades transacted through an authorized trading platform or trade quotation system, Trading Participants shall:

6.2.1 Either input their SSA or, if allowed, register their SSA in the platform or quotation system. Refer to **Annex A** for the SSA per Trading Participant.

6.2.2 If applicable, Trading Participants shall also authorize such trades for settlement in facilities provided therefor (e.g., New PDS Gateway). Only duly matched trades shall be transmitted to NRoSS for settlement.

6.2.3 Trading Participants or through their Sponsor Trading Participants shall authorize the settlement of cash and securities using the NRoSS Settlement Authorization Module. Refer to **Annex B** for the Operating Guidelines on Settlement Authorization.

6.3 Trading Participants or through their Sponsor Trading Participants shall be allowed to enter trades for settlement via the NRoSS DvP Module. Details of the trade transaction shall be entered in NRoSS by both counterparties. Once details have been successfully matched by the system, settlement of cash and securities shall follow. Refer to Annex C for the Operating Guidelines on NRoSS DvP Module (**Annex C**)

6.4 On or before settlement date, Trading Participants shall perform pre- and post-settlement transfers for purposes of properly managing balances in concerned securities accounts. These transfers shall follow the conventional market timeline in settling GS trades. **Annex D** summarizes these transfers for guidance of Trading Participants.

6.5 Trading Participants shall transfer all securities balances in the Omnibus Client Account to the relevant Sponsored Client Accounts before cut-off of each business day. The Omnibus Client Account shall be zeroed out at end of day.

7. TAX-CALCULATION MECHANICS OF THE NROSS SYSTEM

7.1 Tax Calculation Requirements and Process

7.1.1 The NRoSS Account is a prerequisite for the tax-calculation functionality of NRoSS to work. It contains the tax status of NRoSS Account Holders and their designated settlement bank.

7.1.2 For Treasury Bonds, the NRoSS System is capable of computing for the appropriate tax and coupon payment due from/to NRoSS Account Holders with different tax status. It specifically computes for the following:

    7.1.2.1   Gross coupon amount and the 20% final withholding tax;
    7.1.2.2   Tax due from holders; and
    7.1.2.3   Net tax due to BIR.

7.2 Reimbursement in NRoSS

On coupon payment date, the final reimbursable amount due to a selling tax-exempt NRoSS Account Holder shall be made.

Any shortfall or loss in amounts supposed to be received by TEI clients due to the delay in the transfer of securities to the TEI Sponsored Client Account shall be for the account of the concerned Trading Participant. The BTr will not entertain any request for adjustment of coupons paid if the cause is due to this delay which is a violation of Section 6.5 hereof.

8. REPEALING CLAUSE

Treasury Circular No. 04-2014 dated 22 September 2014 and its Operating Guidelines are hereby repealed. All other circulars, orders or memoranda inconsistent herewith are hereby repealed, modified and/or amended accordingly.

9. IMPLEMENTATION

Implementation of the guidelines set in this Circular shall commence on the date to be announced by the BTr.

ROSALIA V. DE LEON
Treasurer of the Philippines

STANDARD SETTLEMENT ACCOUNT

Trading Participant[1]	Nature of Transaction	With DDA or with auto-debit/credit authorization?	Standard Settlement Account
DEALERS	Own	Yes	Own Account
		No	Sponsored Client Account with a Sponsor Trading Participant[2]
	Client	Yes	Omnibus Client Account (Taxable)
		No	Sponsored Client Account with a Sponsor Trading Participant
BROKERS	Client	Yes	Omnibus Client Account (Taxable)
		No	Sponsored Client Account with a Sponsor Trading Participant
QIBs	Own	Yes	Own Account
		No	Sponsored Client Account with a Sponsor Trading Participant

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[1] Also an NRoSS Direct Participant

[2] **Sponsor Trading Participant** – refers to a Government Securities Eligible Dealer ("GSED") or a Government Securities Broker ("GSB") **which is an NRoSS Direct Participant and has a DDA with the BSP** and authorized by its client to (a) open or create and operate the Sponsored Client Account by virtue of an authorization or SPA and (b) facilitate DvP settlement of both cash and securities using the NRoSS-PhilPaSS Facility.

OPERATING GUIDELINES ON SETTLEMENT AUTHORIZATION
UNDER THE NROSS SYSTEM

1. Pursuant to Section 6.2.3 of Treasury Circular No. _4_ -2018 dated 20 August 2018, "Trading Participants or through their Sponsor Trading Participants shall authorize the settlement of cash and securities using the NRoSS Settlement Authorization Module".

2. Settlement authorization of trade transactions under the NRoSS Workstation Module enables Trading Participants or through their Sponsor Trading Participants to authorize or reject the settlement of cash and securities transmitted from an authorized trading platform or trade quotation system connected to the NRoSS System.

3. Once the matched trades are transmitted to NRoSS for settlement, NRoSS will validate the NRoSS Accounts (both the delivering or selling account and receiving or buying account) used as to whether such accounts appear in the registry.

   a. If both appear in the registry, NRoSS transmits the settlement instruction to the concerned Trading Participants or Sponsor Trading Participants which control such accounts. Generally, one has control over a particular NRoSS Account if it owns or sponsors such account.

   b. If one or both do not appear in the registry, NRoSS will send an "Invalid Account Number" status to platform or system where the trade emanated.

4. This is a two-sided transaction where a settlement instruction shall be authorized or rejected by the selling and buying Trading Participant or Sponsor Trading Participant.

5. If settlement details are correct, the selling and buying Trading Participant or Sponsor Trading Participant shall authorize the transaction for settlement. NRoSS observes a four (4)-eyes check convention so duly authorized maker-checker of each Trading Participant or Sponsor Trading Participant shall take part in the authorization process. Participants shall access Settlement/Operations/Authorize (maker) and Settlement/Operations/Approve (checker).

6. Settlement instructions may be rejected if: a) settlement details are incorrect; b) an NRoSS Direct Participant which received the settlement instruction did not make such trade or the trade was inadvertently routed to such NRoSS Direct Participant; or c) an NRoSS Direct Participant does not have requisite authority to authorize such settlement instruction.

7. A settlement instruction that is not authorized or is rejected will be "cancelled" and will be reported to the trading platform or trade quotation system that transmitted such settlement instruction.

8. Trading Participants or Sponsor Trading Participants shall be reponsible for correcting a rejected settlement instruction within established settlement timeline.

9. Refer to the Participant User Guide for specific operational mechanics of this Module.

Figure 1. Sample settlement instruction for authorization

Transaction

Details	Operation Code	PDEX Trade	Reference	20180522T0000001
	Delivering Agent	Sample Participant A	Receiving Agent	Sample Participant B
Accounting	ISIN	BOND0523Y555	Status	Authorize

SWIFT Input

Delivering Agent   TESTPHMMAAA   Receiving Agent   TESTPHMMBBB

Delivering Account   TESTAAA1ABCDE01 Client Available

Delivering Client Details   Sample Client

ISIN	BOND0523Y555	Business Status	Active
Instrument	T-BONDS 5 YEAR	Processing Status	Enter
Face Amount	500,000.00 PHP	Settlement Amount	480,000.00 PHP
Business Date	04/11/2018	Value Date	04/11/2018
Creation Date	04/11/2018		
Deliverer Reference	trans2018041120002		
Receiver Reference	trans2018041120002		
Priority	1		

Cancel   Authorize   Reject

OPERATING GUIDELINES ON DELIVERY VERSUS PAYMENT MODULE
UNDER THE NROSS SYSTEM

1. Pursuant to Section 6.3 of Treasury Circular No. __4__ -2018 dated 20 August 2018, "Trading Participants or through their Sponsor Trading Participants shall be allowed to enter trades for settlement via the NRoSS DvP Module. Details of the trade transaction shall be entered in NRoSS by both counterparties. Once details have been successfully matched by the system, settlement of cash and securities shall follow".

2. The NRoSS DvP Module allows Trading Participants or Sponsor Trading Participants to settle trade transactions in NRoSS both the cash and securities legs on a DvP basis. It shall be used by Trading Participants or Sponsor Trading Participants for:

   2.1. Trade transactions allowed to be executed and settled outside an Trading Platform or Trade Quotation System connected to NRoSS; and

   2.2. Business Continuity purposes.

3. Trading Participants or Sponsor Trading Participants (both the buyer and seller) shall input all the trade details required in the NRoSS DvP Module. The module requires a two-sided transaction where Message Type 543 shall be used by the selling participant (Figure 1) and Message Type 541 (Figure 2) shall be used for the buying participant.

Figure 1. Sample MT 543 (sell)

Message Type	543
Operation Type	Delivery Versus Payment
Reference *	
Trade Date *	08/16/2018
Settlement Date *	08/16/2018
ISIN *	
Face Amount *	
Yield *	
Cash Currency	PHP
Delivering Agent *	TESTPHMMAAA
Delivering Account Type	Own
Receiving Agent	

Figure 2. Sample MT 541 (buy)

Message Type	541
Operation Type	Delivery Versus Payment
Reference *	
Trade Date *	08/16/2018
Settlement Date *	08/16/2018
ISIN *	
Face Amount *	
Yield *	
Cash Currency *	PHP
Delivering Agent *	
Receiving Agent	TESTPHMMAAA
Receiving Account Type *	Own

4. Once a Trading Participant or Sponsor Trading Participant enters a buy or sell transaction, a Settlement Allegement Report (Message Type 578) will be generated by NRoSS. Such allegement report will be sent to the trade counterparty of the Trading Participant or Sponsor Trading Participant for purposes of informing the former that the latter is alleging a DvP transaction.

5. The trade counterparty shall enter match trade details as mentioned in Paragraph 3 hereof if details of the alleged transaction are correct. NRoSS offers a feature where alleged trade transactions are automatically populated in the counterparty screen for review and approval. NRoSS observes a four (4)-eyes check convention so duly authorized maker-checker of each Trading Participant or Sponsor Trading Participant shall take part in the authorization process.

6. If the details of the alleged transaction are incorrect, the trade counterparty may amend the details of the transaction. Once the amendment is duly authorized by the maker-checker, a new Settlement Allegement Report will be sent to the originator Trading Participant or Sponsor Trading Participant.

7. As long as the transaction is not matched from both the buyer and the seller, the status "Waiting for Matching" will be displayed at NRoSS. At this time, the buyer or seller originating the DvP transaction may still cancel the same. Once the transaction is matched, parties will not be able to cancel the transaction.

8. Refer to the Participant User Guide for specific operational mechanics of this Module.

PRE- AND POST-SETTLEMENT TRANSFERS

A. Sell Transaction

Trading Participants ("TP")	Nature of Transaction	With DDA or with auto-debit/credit authorization?	Standard Settlement Account	Pre-settlement Transfer
DEALERS	Own	Yes	Own Account	None
		No	Sponsored Client Account with a Sponsor Trading Participant ("Sponsor TP")	*To be performed by Dealer-TP and its Sponsor TP:* Transfer of Portfolio from Dealer-TP Own Account to its Sponsored Client Account with Sponsor TP
	Client	Yes	Omnibus Client Account (Taxable)	*To be performed by Dealer-TP:* Transfer of Portfolio Single from Sponsored Client Account to Omnibus Client Account
		No	Sponsored Client Account with a Sponsor TP	*To be performed by Dealer-TP:* 1. Transfer of Portfolio Single from Sponsored Client Account to Omnibus Client Account *To be performed by Dealer-TP and its Sponsor TP:* 2. Transfer of Portfolio from Dealer-TP Omnibus Client Account to Dealer-TP Sponsored Client Account with Sponsor TP
BROKERS	Client	Yes	Omnibus Client Account (Taxable)	*To be performed by Broker-TP:* Transfer of Portfolio Single from Sponsored Client Account to Omnibus Client Account
		No	Sponsored Client Account with a Sponsor TP	*To be performed by Broker-TP:* 1. Transfer of Portfolio Single from Sponsored Client Account to Omnibus Client Account *To be performed by Broker-TP and its Sponsor TP:*

				2. Transfer of Portfolio from Broker-TP Omnibus Client Account to Broker-TP Sponsored Client Account with Sponsor TP
QIBs	Own	Yes	Own Account	None
		No	Sponsored Client Account with a Sponsor TP	**To be performed by QIB-TP and its Sponsor TP:** Transfer of Portfolio from QIB-TP Own Account to its Sponsored Client Account with Sponsor TP

B. Buy Transaction

Trading Participants	Nature of Transaction	With DDA or with auto-debit/credit authorization?	Standard Settlement Account	Post-settlement Transfer
DEALERS	Own	Yes	Own Account	None
		No	Sponsored Client Account with a Sponsor TP	**To be performed by Dealer-TP and its Sponsor TP:** Transfer of Portfolio from Dealer-TP Sponsored Client Account to the Dealer-TP Own Account
	Client	Yes	Omnibus Client Account (Taxable)	**To be performed by Dealer-TP:** Transfer of Portfolio Single from Omnibus Client Account to Sponsored Client Account
		No	Sponsored Client Account with a Sponsor TP	**To be performed by Dealer-TP and its Sponsor TP:** 1. Transfer of Portfolio from Dealer-TP Sponsored Client Account to Dealer-TP Omnibus Client Account **To be performed by Dealer-TP:** 2. Transfer of Portfolio Single from Omnibus Client Account to Sponsored Client Account
BROKERS	Client	Yes	Omnibus Client Account (Taxable)	**To be performed by Broker-TP:** Transfer of Portfolio Single from Omnibus Client Account to Sponsored Client Account
		No	Sponsored Client Account with a Sponsor TP	**To be performed by Broker-TP and its Sponsor TP:**

QIBs	Own			1. Transfer of Portfolio from Broker-TP Sponsored Client Account to Broker-TP Omnibus Client Account **To be performed by Broker-TP:** 2. Transfer of Portfolio Single from Omnibus Client Account to Sponsored Client Account
QIBs	Own	Yes	Own Account	None
		No	Sponsored Client Account with a Sponsor TP	**To be performed by QIB-TP and its Sponsor TP** (if QIB-TP intends to consolidate his balance in its Own Account): Transfer of Portfolio from QIB-TP Sponsored Client Account to the QIB-TP Own Account