TREASURY CIRCULAR NO. **3 - 2 0 2 1**

15 September 2021

SUBJECT	:	**REVISED OPERATING GUIDELINES FOR TRADING AND SETTLEMENT OF THE ONSHORE FOREIGN CURRENCY DENOMINATED TREASURY BONDS**
DATE	:	**15 SEPTEMBER 2021**

This Treasury Circular is hereby issued to amend the Operating Guidelines for Trading and Settlement of the Onshore Foreign Currency Denominated Treasury Bonds (Annex A) of Treasury Circular No. 1-2019 dated 04 March 2019.

The revised guidelines hereto attached as Annex A shall form part of the aforementioned Circular and shall supersede all issuances, orders, rules and regulations of the Bureau that may be inconsistent with it.

This Treasury Circular shall take effect immediately.

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**OPERATING GUIDELINES FOR TRADING AND SETTLEMENT OF
THE ONSHORE FOREIGN CURRENCY DENOMINATED TREASURY BONDS**

1. Account Structure

   NRoSS Account refers to the securities account in NRoSS that records the Government Security (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:

   1.1 Own Account - refers to the securities account of an NRoSS Direct Participant.

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

   > 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.

   > 1.2.2 Sponsored Client Account - is a securities account under the name of an institutional or individual client, and in 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.

2. Usability of Existing NRoSS Account

   Investors may hold the Bonds using their existing NRoSS Accounts that holds their balances for the peso-denominated Government Securities (GS) provided that the account's tax category applies for the US Dollar-denominated securities, otherwise, a new securities account must be created.

3. Creation of NRoSS Account with Tax Category Other Than 20%

   The creation of new NRoSS Accounts with tax category other than the 20% Final Withholding Tax (FWT) shall be subject to the documentary requirements as may be prescribed and with the final approval in the NRoSS system by the Bureau.

4. Standard Settlement Account - refers to the NRoSS Account that Trading Participants shall use to settle GS trades in the secondary market in order to promote efficiency and mitigate operational risk in settling trade transactions at NRoSS.

4.1 For Brokers, the Client Omnibus Account shall be used.

4.2 For the Dealers, the Own Account shall be used for proprietary transactions while the Client Omnibus Account shall be used for its sponsored clients.

5. Cash Settlement Account – The cash settlement involves the PDDTS Account of the designated settlement bank as defined in the PDEX PDSClear System, which will settle the cash leg in the PDDTS System.

6. Tax Tracking

   6.1 Handling of Balances of the Bonds in the NRoSS Account

   The NRoSS Account shall reflect the balances of the Bonds that shall be subject of tax-tracking.

6.1.1	For settled sell trades, the Bonds earmarked for the trade will be subtracted from the balance in the NRoSS Account.
6.1.2	For buy trades, the Bonds subject of the buy transactions shall form part of the remaining balance of the NRoSS Account, only after the trade is tagged as settled in the NRoSS Account.

   6.2 At the start of day of an interest payment date, with respect to remaining balances in the NRoSS Account:

6.2.1	For NRoSS system tracking purposes only, the acquisition date of remaining balances in NRoSS Account shall be deemed to be reset as of the said date. The NRoSS Account shall indicate that the remaining balance is held in the NRoSS Account at the start of the said coupon date.
6.2.2	For the NRoSS tracking purposes only for that particular coupon period, all withholding tax position corresponding to the remaining balances in NRoSS Account shall be reset to zero on the coupon date.

   6.3 Computation of the Tax Assumed by the Republic

   The Bonds has a tax assumed feature of which the following formula shall be used for the computation of the Final Withholding Tax (FWT):

   FWT Due = [Interest Amount/(1-FWT Rate)]*FWT Rate

   The Interest Amount shall be computed based on Holding Period, which is the length of time the Bonds are held by the holder in NRoSS Account within a coupon payment period.

7. 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:

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Clean Price =

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

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 Number of Days
YTM	:	Yield to Maturity
DSC	:	No. 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

8. Settlement Date Convention.

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

9. 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)

9.1 Components of Settlement Amount

Settlement amount is composed of the Clean Price and the Accrued Interest

9.1.1 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.

9.1.2   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.

10.   Clearing and Settlement Process

10.1 Trade Participants Front Office shall execute the secondary market trades through the authorized trading platform. The details of the done trades will then be downloaded into the authorized clearing and settlement engine (i.e., currently PDEX PDSClear). Trade Participants Back Office to review and authorize accordingly the trade in PDSClear.

10.2 PDSClear sends an earmarking request to BTr-NRoSS.

10.3 If the securities in the Standard Settlement Account in NRoSS is sufficient then NRoSS earmarks the securities and sends a confirmation to PDSClear for the successful earmarking. Otherwise, NRoSS will send confirmation that earmarking was not successful due to insufficient securities. The PDSClear will reiterate the earmarking request until the prescribed settlement cut-off.

10.4 PDSClear sends a fund transfer instruction to the PDDTS

If the balance in the buyer's designated cash settlement account is sufficient then PDDTS will debit the designated cash settlement account of the Buyer and credit the designated cash settlement account of the seller. Otherwise, the fund transfer instruction is queued until the prescribed settlement cut-off.

10.5 PDDTS sends a message to PDSClear to confirm the successful transfer of funds

10.6 PDSClear sends unearmark and securities transfer instruction to NRoSS.

10.7 The NRoSS shall release the earmark securities in the seller's Standard Settlement Account and effect the securities transfer to the buyer's Standard Settlement Account. NRoSS will send a message to PDSClear to confirm the successful transfer of securities.

10.8 PDSClear tags the trade as "settled".

Illustration of the Systems Linkages
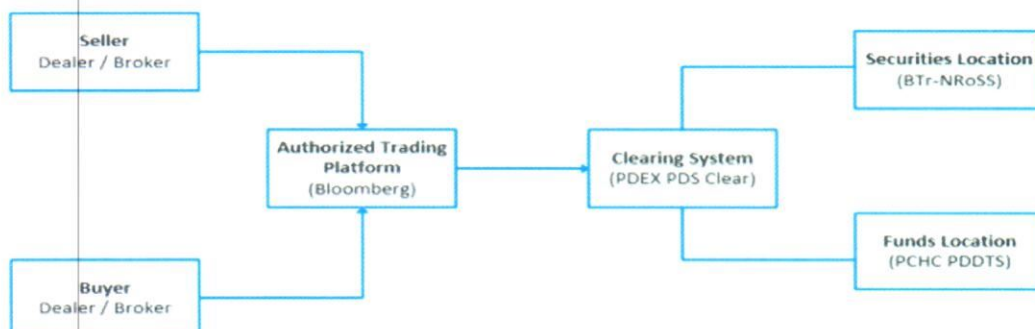
11. Unplanned Holiday.

Transaction settlements scheduled on a day that is suddenly declared as a holiday or a day when no settlement will occur (an "Unplanned Holiday") shall be settled accordingly on the next banking day.

12. Pre and Post Settlement

12.1 Trading Participants shall perform pre and post settlement transfers for purpose of properly managing balances in concerned securities accounts. These transfers shall follow the market convention timeline in settling GS trades.

Activity / Participant	Standard Settlement Account	Pre-Settlement	Post-Settlement
Broker	Omnibus Client Account	Transfer from selling client Sponsored NRoSS Account to the Omnibus Client Account	Transfer from Omnibus Client Account to the buying client Sponsored NRoSS Account
Dealer	**Own Account** - for proprietary position	none	none
	Omnibus Client Account - for Qualified Investor Buyers (QIBs)	Transfer from selling client Sponsored NRoSS Account to the Omnibus Client Account	Transfer from Omnibus Client Account to the buying client Sponsored NRoSS Account

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

13. Record Date and Coupon Date

The Record Date and Coupon Date shall be in accordance with the Closed Period as may be prescribed under the Terms and Conditions of the respective ISIN series.