Frequently Asked Questions (FAQs)

International Bond Pricing Initiative

A Client & Stakeholder Guide to the Transition to the International Bond Pricing Convention

About this guide.

This document explains how the transition to the gross-of-tax pricing convention may affect individual, corporate, and institutional trust, other fiduciary, and investment management accounts administered or managed by Trust Entities. This is an industry-wide market initiative. Once implemented, covered securities will be priced and valued under the new convention across participating market institutions, including Trust Entities that transact in or value those securities.

Section for Trust, Other Fiduciary, and Investment Management Accounts

These questions are relevant to clients with segregated trust, other fiduciary, and investment management accounts that may hold covered peso-denominated fixed-income securities.

Q1. What is the International Bond Pricing Initiative?

It is a financial sector initiative supported by multiple stakeholders across the public and private sectors that aligns the calculation of settlement amount for peso-denominated bonds with global bond pricing convention.

This initiative aims to streamline processes, enhance interoperability, and boost competitiveness of the Philippine bond market for local and foreign investors. Specifically, the price adjustment currently embedded into the existing bond pricing convention will be removed.

While the shift will affect the bond pricing convention, contractual coupon payments and principal maturity amounts of bond holdings will remain the same.

Q2. What exactly is changing in the way bonds are priced?

In today’s bond pricing convention, the final price and settlement amount calculated for buying or selling a bond embeds a price adjustment on the premium or discount equivalent to 20% of the quoted yield. This price adjustment is commonly referred to as the “tax on premium” and “tax on discount.”

Under the international convention, bond prices and settlement will be calculated using the full negotiated gross yield without embedding the 20% adjustment in the price formula, consistent with international practice.

Note: *“Tax on premium” and “tax on discount” are not actual taxes remitted to the BIR.*

Q3. Why is the Philippine market making this change?

The change aims to align the Philippine bond market with global standards, making it more accessible, transparent, and efficient:

- **Global Access**: Makes Philippine bonds comparable and accessible to local and foreign investors by adopting internationally recognized market conventions.
- **Transparency**: Removes price adjustment under the current convention.
- **Standardization**: Promotes consistent pricing and settlement across the market.

Q4. Is this initiative mandatory?

Yes. Once implemented, the new pricing convention will apply to eligible peso-denominated bonds covered by the initiative. More importantly, the contractual cash flows of the covered bonds are not changed by the pricing convention.

Q5. Which securities or investments are covered?

The covered securities are eligible peso-denominated, coupon-bearing securities, including:

- Fixed Rate Treasury Notes (FXTNs);
- Retail Treasury Bonds (RTBs);
- Other eligible coupon-bearing peso-denominated Government Securities; and
- Peso-denominated Corporate Bonds.

Q6. Which securities or investments are NOT covered?

The new pricing convention currently does not apply to the following securities:

- Treasury Bills (T-Bills);
- BSP Bills and BSP Securities;
- Zero-coupon Bonds;
- Cash Management Bills (CMBs); and
- Non-peso fixed income instruments.

For these securities, there will be no change in the applicable pricing convention as a result of this transition.

Q7. Which trust, other fiduciary, and investment management accounts will be affected?

Accounts that hold or transact in covered Philippine peso-denominated fixed-income securities will be affected. These include segregated trust, other fiduciary, and investment management accounts that hold eligible government or corporate bonds.

Accounts without exposure to covered securities are generally not expected to be affected. Once implemented, covered securities will be subject to the new convention across participating market institutions. The impact on a particular account will depend on its actual holdings and prevailing market conditions.

Q8. How will the impact on a trust or investment management account be reflected?

For a segregated or discretionary trust, other fiduciary services, or investment management account, the transition effect on reported asset value will depend on the accounting classification or business model of the covered bonds held in the account and the accounting basis used.

For bonds carried on a net basis, the direction of the impact will depend on whether the bonds are trading at a premium or discount at the transition date.

For bonds carried on a gross basis, the impacts will instead depend on whether the bonds were trading at a premium or discount at the time of purchase.

The time-of-purchase distinction does not apply to bonds carried on a net basis.

The industry consulted with the Financial Reporting Standards Council (FSRSC) for this initiative. FSRSC was established by the Professional Regulatory Commission (PRC) whose main function is to establish generally accepted accounting principles in the Philippines. Based on FSRSC's recommendation considering Philippine Financial Reporting Standards (PFRS) 9, fair value adjustment should be as follows:

FVTPL	**Asset Value Impact** on Transition Date: Tax on Premium: Unrealized Trading Gain Tax on Discount: Unrealized Trading Loss
FVOCI	**Asset Value Impact** on Transition Date: Tax on Premium: Other Comprehensive Gain Tax on Discount: Other Comprehensive Loss
HTC	**No Asset Value impact** on Transition Date for outstanding holdings Subsequent purchases post-transition shall follow the new convention Note: Gross Basis must close-out outstanding Tax on Premium/Discount against the bond carrying amount (no change in amortization)

Q9. Can the transition result in an increase or decrease in the reported value of my account?

Because covered bonds will be valued using the new pricing convention, their reported market values may change when the new convention takes effect.

The impact will depend on the securities held, the size of the position, and market movements occurring at the same time. Any change in reported value should therefore be understood in the context of both the pricing transition and prevailing market conditions. It is important to note that the transition does not change the contractual terms of the bonds, including their coupon payments and principal amount payable at maturity.

Q10. How will the international pricing convention affect price calculation?

On transition date, bonds that are trading at a premium will see the calculated bond price increase. Bonds that are trading at a discount will see the calculated bond price decrease.

The amount of price increase or decrease will depend on the remaining term of the bond and the difference between the bond’s coupon rate and the yield at which you acquired the bond. Longer years to maturity and bigger yield differentials will cause bigger price adjustments.

Note that bond prices are driven by economic prospects and market conditions. While price calculations may go up or down, actual price change on transition date will be driven by market forces.

Q11. What happens if a covered bond is sold after the transition or held to maturity?

If a covered bond is sold after the transition, the transaction will be priced and settled under the new pricing convention together with prevailing market conditions at the time of sale. The realizable amount may therefore differ from the amount that would have resulted in the previous pricing convention.

If the bond is held until maturity, the transition does not change its contractual coupon payments or principal amount payable at maturity.

Q12. Will all trust and investment management accounts experience the same financial impact?

The financial impact is account specific. Different accounts may hold different securities, different position sizes, or securities subject to different accounting classifications or carrying amounts. Accordingly, the direction and amount of any transition-related adjustment may vary from one account to another and will be reflected in the account’s reporting after the transition.

Q13. As an individual or corporate IMA investor, how does the transition affect me or our corporate investment assuming I transfer to another institution with the same exposure?

The transition is industry-wide, so transferring the investment to another institution with the same covered-bond exposure will not avoid it.

Q14. Does the transition change my risk profile, investment objectives, or client suitability assessment?

The transition to gross pricing is a change in the market pricing and settlement convention for covered securities. It does not, by itself, change a client’s investment objectives, risk tolerance, financial circumstances, or agreed investment parameters. Existing suitability, fiduciary, and account-governance requirements continue to apply. The client’s governing agreement, investment objectives, risk profile, and applicable limits and restrictions remain the basis for the administration or management of the account.

Q15. When will the transition take effect?

The transition will take effect on January 4, 2027.

Q16. Who can I contact if I have questions about the transition?

Please reach out to your Relationship Manager, Investment or Wealth Specialist, or Trust Account/ Account / Portfolio Manager for further inquiries.