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 answers common questions about the International Bond Pricing Initiative — an industry-wide move to align the Philippine bond market with international pricing standards.

Section for UITF Investors

These questions are most relevant to over the counter and online investors in Unit Investment Trust Funds (UITFs) 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, including covered bonds held in the UITF portfolios. More importantly, the contractual cash flows of the underlying bonds held by the UITF 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. Will UITFs be affected, and which UITFs may be covered?

UITFs with investments in Philippine peso-denominated fixed-income securities covered by the new pricing convention may be affected. These may include money market, bonds, balanced or multi-asset, and other UITFs that hold eligible government or corporate bonds.

Q8. As an individual or corporate UITF investor, how does the transition affect me or our corporate investment?

If the UITF where you have investment in has no exposure on covered government or corporate bonds, its NAVPU will not affected by this transition.

Closing out the price adjustment on transition date means that a fund whose covered bond holdings are, on balance, trading at a discount may experience a corresponding decrease on its NAVPU, while a fund whose holdings are, on balance, trading at a premium may experience a corresponding increase on its NAVPU

However, the end-of-day NAVPU will be affected by several factors, including prevailing market conditions at the time of the transition. Any change in reported value should therefore be considered in the context of both the change in pricing convention and other market movements.

Q9. As an individual or corporate UITF investor, how does the transition affect me or our corporate investment assuming I transfer to another fixed income UITF with another institution?

The transition is industry-wide, so transferring the investment to another institution with the same covered bond exposure will have the same effect.

Q10. Will the total number of units of the affected UITF change?

No, the total number of units of the affected UITF will not be affected by this transition.

Q11. When will these changes take effect (transition date)?

The transition will take effect on January 4, 2027.

Q12. Who can I contact if I have questions about the transition?

Please reach out to whichever of the following applies to your account:

- Branch Sales Officer/Branch Manager
- Investment or Wealth Specialist / Investment Account Officer; or
- Portfolio Manager or Trust Account Manager