Frequently Asked Questions (FAQs)

International Bond Pricing Initiative

A Client Guide to the Transition to a Gross-of-Tax 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.

Please note: *As the initiative is still evolving, some details may be refined as consultations with regulators and market participants continue.*

Section 1 — General FAQs (For All Investors)

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.

The contractual terms of your bonds do not change – you remain entitled to the same coupon payments and the same principal amount at maturity.

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. This is an industry-wide initiative adopted by Philippine financial institutions and regulators. Once implemented, eligible bonds will follow the new convention. Because the change applies across the market, all peso fixed income investors will be affected.

However, if you hold your bonds until maturity, your contractual coupon payments and maturity proceeds remain unchanged.

Q5. Which investments are covered?

Eligible peso-denominated, coupon-bearing securities, including:

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

Q6. Which 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.

Q6. When will these changes take effect (the transition date)?

The adoption of International Bond Pricing Convention is effective **January 4, 2027**.

Q7. Do I need to sign new documents or provide new instructions?

No. You do not need to sign new documents or provide new instructions. The transition will be implemented across the market by participating financial institutions and will not require additional documentation or instructions from clients.

Q8. Will there be additional fees or charges?

No. The initiative does not introduce any additional fees or charges.

Section 2 — Impact on Returns, Prices and Investment Value

Q9. Will my coupon payments or maturity proceeds change?

No. Your contractual coupon rate, scheduled interest payments, and principal amount at maturity remain the same.

Q10. Will the market price or statement valuation of my bond change?

Yes. Eligible bonds may reflect a one-time adjustment to their statement valuation on the transition date as a result of the change in pricing convention.

The actual impact may vary depending on how the bond is accounted for and the price at which it was originally purchased. As a result, the change in valuation may differ across bonds and financial institutions.

This adjustment is only a change in valuation and does not affect the bond's contractual coupon payments or the principal amount due at maturity.

Clients may request an updated portfolio summary from their financial institution after the transition to view the applicable changes in the valuation of their eligible bonds.

Q11. If I sell my bond before maturity, will this affect the amount I receive?

Yes. The price and settlement amount under the new convention will be different from those under the previous pricing convention as it will reflect the new gross-of-tax pricing formula.

However, the price you actually receive when you sell will depend on several factors, including prevailing interest rates, market demand and, for corporate bonds, the issuer's credit quality, in addition to the pricing convention.

Section 3 — Buying and Selling

Q12. Will the process of buying or selling bonds change?

No. The investment process remains largely the same. Most of the changes relate to the market's pricing and settlement convention rather than how you place your investment instructions.

Q13. Will future bond purchases and sales use the new convention?

Yes. All eligible bonds purchased after implementation will follow the new convention.

Q14. Who can I contact if I have questions about the transition?

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

- Relationship Manager;
- Treasury Sales Officer; or
- Investment Specialist / Investment Account Officer