PHILIPPINE INTERPRETATIONS COMMITTEE (PIC)

Questions and Answers (Q&As)

Q&A No. 2026 - 02

Accounting for the Transition to a Gross Settlement Convention for the Bond Market

BACKGROUND

In line with continuing efforts to develop the Philippine capital markets and enhance interoperability with global standards, a group of stakeholders in the public and private sectors has initiated a project to align the Philippine bond market with global trading conventions. Under the current convention, the settlement amount for Philippine bonds is calculated with a price adjustment commonly referred to as the Tax on Premium/Discount. This adjustment represents the difference between the present value of the bond's cash flows discounted at the gross yield (i.e., Gross Price) and the present value discounted at the yield net of 20% Final Withholding Tax (i.e., Net Price). The resulting price adjustment is embedded in the settlement amount and is recognized in the books of market participants either as part of the carrying value of the bond or as a separate miscellaneous account.

Illustrative deal ticket showing the Tax on Premium/Discount and Tax on Accrued Interest components

Deal Ticket

08/07/2025 11:12:25 Trade Date : 08/07/25 11:12:25
Trader : [redacted] DOMESTIC : PIID2537J015
At : [redacted] ISIN : PHY6972FRD42
CUSIP : N.A.
SELLS : 19.69M (M) of RPGB 6 ⅛ 10/24/37 Issuer : PHILIPPINE GO
Dated : 10/24/12
Gross Prc : 100.169422 Gross Yld: 6.105000
Net Price : 100.145296 Net Yield: 4.884
Settlement: 08/11/25
Notes : [redacted] THANKS FOR THE DEAL!
** Principal : PHP 19,723,359.25 **
** Tax (on Discount/Premium): -4,750.51 ** ❶
** Accrued(17 days): 56,950.59 **
** Tax on Accrued [20%]: -11,390.12 ** ❷
** Total : PHP 19,764,169.21 **

❶ **Tax on Premium/Discount** - represents the difference between the present value of the bond's cash flows discounted at the gross yield (i.e., Gross Price) and the present value discounted at the yield net of 20% Final Withholding Tax (i.e., Net Price). The Tax on Premium/Discount is a pricing adjustment embedded in the settlement computation and does not, by itself, represent an amount remitted to the Bureau of Internal Revenue.

❷ **Tax on Accrued Interest** - Represents the 20% final withholding tax on coupon income earned during the accrual period. It is reflected as a deduction in the accrued interest payable by the buyer, as the buyer will ultimately receive the coupon net of withholding tax at the next payment date.

Under the proposed gross bond settlement convention, the settlement amount will no longer include the price adjustment referred to as the Tax on Premium/Discount. This is consistent with a global convention under which bonds are settled gross of taxes among market participants. Accrued interest will continue to be settled by trading participants in the secondary market net of the related final withholding tax, subject to the final market structure and operational arrangements to implement the gross bond settlement convention.

This Q&A addresses the accounting implications of the market-wide transition to remove the settlement adjustment commonly referred to as “Tax on Premium/Discount” from the computation of the bond settlement amount.

This Q&A does not address future changes, if any, to the settlement, collection or remittance arrangements relating to withholding tax on accrued interest. Such matters should be assessed separately once the relevant market structure and operational arrangements have been finalized.

Issue:
What is the appropriate accounting treatment for financial assets affected by the market-wide transition to a gross bond settlement convention?

Consensus:
The removal of the “Tax on Premium/Discount” adjustment represents a change in the market settlement convention and in the observable pricing inputs used by market participants. It does not, by itself, change the contractual terms or contractual cash flows of the underlying financial assets.

Accordingly, the changes incorporated into fair value measurement of the financial asset, and the accounting treatment depends on the classification and measurement category of the affected financial asset under PFRS 9:

- For financial assets measured at fair value through profit or loss, the effect of the revised settlement convention is reflected in profit or loss as part of the fair value remeasurement at the date the new market convention is adopted.
- For financial assets measured at fair value through other comprehensive income, the effect is reflected in other comprehensive income as part of the fair value remeasurement at the date the new market convention is adopted.
- For financial assets measured at amortized cost, the change does not result in a modification gain or loss, recalculation of the effective interest rate, or remeasurement of the gross carrying amount, provided there is no change in the contractual terms or contractual cash flows of the instrument. The effect of the new settlement convention is reflected prospectively in the initial measurement and effective interest rate of financial assets acquired after the transition date.

Basis for conclusion:

Under PFRS 13, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction under current market conditions. Fair value is a market-based measurement reflecting the assumptions that market participants would use, including prevailing market conventions, in the principal (or most advantageous) market at the measurement date. Accordingly, pricing/settlement conventions applied by market participants form part of the observable inputs used in determining fair value.

On the other hand, PAS 8 defines accounting policies as the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. A change in

accounting policy therefore arises when there is a change in the recognition, measurement, or presentation principles applied by the entity. PAS 8 also defines accounting estimates as monetary amounts in financial statements that are subject to measurement uncertainty. A change in accounting estimate arises when there is a revision of assumptions or inputs used in applying an existing measurement framework, typically resulting from new information or developments.

In this case, the transition from a net-of-tax to a gross-of-tax settlement convention represents a change in the pricing mechanism applied by market participants in the principal market, rather than a change in the contractual terms of the financial instrument or in the valuation techniques applied by entities. Accordingly, the change:

- does not constitute a change in accounting policy under PAS 8, as there is no change in the applicable accounting principles, classification, or measurement basis applied to the financial instrument;
- does not represent a change in accounting estimate requiring separate accounting under PAS 8, because the effect of the revised settlement convention is reflected through the application of existing measurement requirements under PFRS 13 and PFRS 9;

Consistent with PFRS 13, which requires fair value to reflect current market conditions and market participant assumptions at the measurement date, the effect of the transition is reflected through fair value measurement prospectively from the date of adoption of the new settlement convention.

Following the considerations above, the accounting for the removal of the “Tax on Premium/Discount” adjustment should be consistent with the measurement basis of the underlying financial instrument under PFRS 9, in accordance with the applicable classification and measurement category.

Accordingly:

- For **financial assets measured at fair value through profit or loss (FVTPL)**, the removal of the pricing adjustment should be reflected as part of the fair value remeasurement at the date of transition. Consistent with PFRS 9, such effects are recognized in profit or loss, within the same line item used for fair value changes (i.e., unrealized mark to market gains/losses or equivalent fair value gain/loss item).

- For **financial assets measured at amortized cost (under hold to collect business model)**, the assessment is anchored on changes to the contractual terms of the instrument that affect the timing or amount of future cash flows between the issuer and the holder.

  Under PFRS 9, an entity shall recalculate the gross carrying amount of the financial asset and shall recognize a modification gain or loss in profit or loss when the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset.

  In the case of the transition to a gross bond settlement convention, the removal of tax on premium and discount component does not give rise to a change in the contractual terms or contractual cash flows of the financial instrument. The “Tax on Premium/Discount” represents a settlement convention component rather than a contractual feature, and the bond continues to provide for the same gross coupon and principal payments as specified in the contract. The transition therefore reflects a change in the mechanics of settlement convention, and does not alter the amount or timing of contractual cash flows.

  Accordingly, for outstanding financial assets measured at amortized cost prior to the transition date:
  - there is no remeasurement of the carrying amount;
  - there is no recalculation of the EIR; and
  - there is no recognition of gain or loss at the transition date.

The financial asset continues to be measured using the original EIR, with interest income recognized accordingly, and tax effects accounted for separately. The impact of the change in the settlement convention does not affect the subsequent measurement of outstanding financial assets at amortized cost as of the date of transition, and only affects the initial measurement and EIR of subsequent acquisitions of financial assets under the new convention.

Certain entities may be required to make presentation alignment upon transition arising from their historical accounting and presentation practices for Tax on Premium/Discount balances. Refer to the section on *Presentation and disclosures in relation to change in settlement convention* and *Appendix C* for further discussion.

- For **financial assets measured at fair value through other comprehensive income (FVOCI),** the impact of the removal of the pricing adjustment shall be reflected as part of the fair value adjustment recognized in other comprehensive income at the date of transition. Such effects are presented within the fair value reserve for debt instruments at FVOCI within equity, consistent with the treatment of fair value movements under PFRS 9. There is no impact on profit or loss at the transition date, and the effective interest rate (EIR) of previously recognized instruments is not recalculated, as the contractual cash flows remain unchanged.

Refer to Appendix B for illustrative entries.

Timing of transition impact recognition

The timing of recognition of the transition impact should be considered in the context of the applicable measurement requirements under PFRS 9, as discussed above. Accordingly:

- For **financial assets measured at fair value (FVTPL and FVOCI)**, the impact of the removal of the pricing adjustment shall be reflected at the date of transition, as part of the fair value remeasurement of the financial asset. This reflects that fair value measurement under PFRS 13 is determined based on current market conditions at the measurement date and the change in settlement convention represents a change in how market prices are determined and observed. Accordingly, the impact is recognized:
    - immediately in profit or loss for financial assets measured at FVTPL; or
    - immediately in other comprehensive income for financial assets measured at FVOCI,

  consistent with the existing presentation requirements under PFRS 9.
- For **financial assets measured at amortized cost**, the effect of the new settlement convention is recognized prospectively, and will be reflected only through the initial measurement and effective interest rate of financial assets acquired after the transition date.

Presentation and disclosures in relation to change in settlement convention

PFRS 13 requires entities to disclose information that enables users of financial statements to assess the valuation techniques and inputs used in measuring fair value. To the extent that the adoption of the revised settlement convention affects the pricing inputs, assumptions, or other factors used in determining the fair value of affected securities, entities should consider whether additional disclosures are necessary to satisfy the disclosure objectives of PFRS 13.

The appropriateness and extent of such disclosure should be assessed in the context of the specific facts and circumstances of the reporting entity, including the significance of the affected financial instruments and the materiality of the resulting impact on the financial statements. Where the effect of the revised settlement convention is material, explanatory disclosures are necessary to enable users to understand the nature of the change, the related accounting treatment, and its impact on the measurement of the affected financial instruments.

Accordingly, the disclosure objectives in PFRS 13, together with the general principles of materiality and fair presentation, provide an appropriate basis for entities to include explanatory disclosures where the effects of the transition are significant to the fair value measurements or to the financial statements as a whole.

Where material, entities should include the following information in their disclosures:

(i) the nature of the change in settlement convention and the date of implementation;
(ii) the financial statement line items affected;
(iii) the quantitative effects recognized in profit or loss, other comprehensive income, equity and/or the carrying amounts of affected financial instruments, as applicable; and
(iv) any significant presentation considerations affecting comparability between periods.

Some entities may have historically maintained Tax on Premium/Discount balances separately from the related financial assets (i.e., presented separately as miscellaneous asset or liability account) and, for the case of financial assets classified as amortized cost and FVOCI, presented the amortization of such balances within tax-related line items, while for the case of financial assets classified as FVTPL, presented as part of trading gains or loss upon disposal. The guidance discussed in the following paragraph assumes that, notwithstanding such separate presentation, the amortized cost measurement of the financial asset and the application of the effective interest method are based on the net acquisition amount of the financial asset. Following the adoption of the revised settlement convention, entities should align the presentation of such amounts with the accounting treatment described above.

For financial assets classified under amortized cost, entities shall offset any remaining Tax on Premium/Discount balance against the related premium or discount component of the financial assets upon transition, effectively reflecting the carrying amounts to a net-of-tax position. Such adjustments are intended to align the presentation of the financial asset among the market participants. While this may result in changes in the carrying amount presented for the financial asset at amortized cost and the related asset or liability balances, the adjustment does not represent a modification of the contractual cash flows of the instrument, and does not give rise to a gain or loss upon transition. Following the reclassification, the remaining premium or discount shall be amortized using an effective interest rate determined based on the net acquisition amount of the outstanding financial assets prior to change in settlement convention.

For FVTPL and FVOCI financial assets, the Tax on Premium/Discount balances do not form part of the carrying amount of the financial assets. Accordingly, upon transition, such balances are derecognized through profit or loss and other comprehensive income, respectively.

In applying this guidance, entities should consider the objective of comparability between reporting periods. Where the impact on comparative financial information is material, entities should consider whether the alignment of comparative financial information would provide more useful information to users of the financial statements and enhance comparability between reporting periods. Appropriate disclosure should be provided regarding the nature and effect of any such alignment, including affected financial statement line items and the impact on comparability, where relevant.

Refer to Appendix C for the illustrative entries for entities that have accounted for tax premium/discount balances separately and Appendix D for illustrative disclosures.

Effective Date and Transition
This PIC Q&A shall be applied prospectively from the date the revised bond settlement convention becomes effective.

The transition reflects a change in market settlement convention and observable market inputs and does not represent a change in accounting policy or a modification of contractual cash flows. Accordingly, retrospective application is not required other than for any material presentation alignment of comparative information with respect to historical presentation practices for Tax on Premium/Discount balances for certain entities.

For financial assets measured at fair value, the effect of the revised settlement convention shall be reflected through fair value measurement at the transition date. For financial assets measured at amortized cost, the transition does not result in modification accounting, recalculation of the original effective interest rate, or recognition of a gain or loss solely as a consequence of the transition.

Date approved by PIC: September 23, 2026

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Date approved by FSRSC: October 5, 2026

Appendix A: Excerpts from the PFRS Accounting Standards

Definition of fair value (exit price) (PFRS 13, par. 9):
"Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

Market participant assumptions (PFRS 13, par. 22; PFRS 13, par. 15-16):
PFRS 13, para. 22
An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability...

PFRS 13, para. 15 to 16
A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:
(a) in the principal market for the asset or liability; or
(b) in the absence of a principal market, in the most advantageous market for the asset or liability.

Definition of accounting policies and estimates (PAS 8, par. 5)
Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.

Change in accounting policy (PAS 8, par. 14)
An entity shall change an accounting policy only if the change:
(a) is required by an IFRS; or
(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

Change in accounting estimates (PAS 8. par. 32 and 34)
PAS 8, par. 32
An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information…

PAS 8, par. 34
An entity may need to change an accounting estimate if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in an accounting estimate does not relate to prior periods and is not the correction of an error.

Modification of contractual cash flows (PFRS 9, par. 5.4.3)
When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with this Standard, an entity shall recalculate the gross carrying amount of the financial asset and shall recognize a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate…

Appendix B - Illustrations

To further illustrate the accounting implications discussed above, presented below are illustrative journal entries from both the seller's and buyer's perspectives.

The illustration is based on a scenario where the security is transferred between market participants under both the existing (net-of-tax) and proposed (gross-of-tax) settlement conventions.

The carrying amount of the financial asset in the seller's books may include a premium or discount arising from prior acquisition and subsequent amortization using the effective interest method.

For purposes of clarity and focus, the numerical illustration emphasizes the impact of the change in settlement convention at the point of transfer and on subsequent accounting by the buyer. The entries are therefore not intended to fully reflect the historical amortization of premium or discount in the seller's books.

The entries are presented in simplified form to highlight the key accounting effects of the change in settlement convention and are not intended to be exhaustive of all possible scenarios. In practice, actual transactions may vary depending on specific facts and circumstances, including differences in carrying amounts, effective interest rates, and holding periods of the parties involved.

It is acknowledged that there may be diversity in existing accounting and operational practices across entities in relation to the recognition and tracking of "Tax on Premium/Discount" balances. Depending on systems, processes, and historical accounting approaches, such amounts may be embedded within the carrying amount of the financial asset or maintained through separate accounts or subledger mechanisms.

Notwithstanding such diversity, the accounting conclusions set out above are based on the underlying economic substance of the instrument and are intended to be applied consistently across entities.

General case facts

- A fixed-rate bond with a face value of Php1,000,000, and coupon rate of 10% payable annually and maturing on 31 December 2030 was purchased by Seller A on 1 January 2026:
    - Scenario 1: purchased at premium – Yield rate is at 8%
    - Scenario 2: purchased at discount – Yield rate is at 12%
- On 30 June 2026, the Seller A sold the security to Buyer B:
    - Scenario 1: Sold at a premium – Yield rate is at 7%
    - Scenario 2: Sold at a discount - Yield rate is at 13%
- Final withholding tax of 20% applies to coupon income
- On 1 July 2026, the market transitions from a net-of-tax settlement convention ("Before amendment") to a gross-of-tax settlement convention ("After amendment").
- Assume there is no change in the market value of the security between 30 June 2026 and 1 July 2026.
- Both Seller A and Buyer B are accounting for the investment securities based on net price (i.e., no miscellaneous liability was recognized by Seller A and Buyer B for the Tax on Premium/Discount). The following accounts are used in the journal entries:
    - Investment - Par: represents the principal amount of the security

  - Investment – Premium: represents the gross premium as a result of the difference between the coupon rate and the yield rate of the security. This is an adjunct account to arrive at the carrying amount of investment securities.
  - Investment – Tax on premium: represents the related tax on premium (i.e., pricing adjustment), this is a contra-account to arrive at the carrying amount of investment securities.
  - Investment – Discount: represents the gross discount as a result of the difference between the coupon rate and the yield rate of the security. This is a contra-account to arrive at the carrying amount of investment securities.
  - Investment – Tax on discount: represents the related tax on discount (i.e., pricing adjustment), this is a adjunct-account to arrive at the carrying amount of investment securities.

- Fair values of the securities as of 31 December 2026 are as follows:
  - Scenario 1: Yield rate at 6.5%
  - Scenario 2: Yield rate at 12%

Scenario 1a – Investments are classified as financial assets at fair value through profit or loss (FVTPL) - premium

Below are the additional information based on the case facts (amounts in Php):

	Gross	Net	Tax on Premium/ Coupon
Fair value - 1 January 2026 [A]	1,079,854	1,066,671	13,183
Fair value - 30 June 2026 [B]	1,112,673	1,093,317	19,356
Net change on fair values [B-A]	32,819	26,646	(6,173)
Accrued interest to 30 June 2026 [C]	50,000	40,000	10,000
Dirty Price - Buyer's purchase [B+C]		1,133,317	
Fair value – 31 Dec 2026	1,119,903	1,098,827	21,076
Net unrealized gains – June to Dec 2026	7,230	5,510	1,720

Note: the entries below segregate the accounts for premium and tax on premium for proper identification. For some entities, these may have been recorded in one FVTPL investment account.

	Seller A's Books		Buyer B's Books	
Transactions before the market convention amendment				
1 Jan 26 - Seller A's Purchase	(Dr) FVTPL Investment - Par (Dr) FVTPL Investment - Premium (Cr) FVTPL Investment - Tax on Premium* (Cr) Cash	1,000,000 79,854 (13,183) (1,066,671)		
Jan – June 2026 Accrual of interest before sale	(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)		
Jan – June 2026 Remeasurement of FVTPL Investment	(Dr) FVTPL Investment - Premium (Cr) FVTPL Investment - Tax on Premium* (Cr) FV gains on FVTPL Investment	32,819 (6,173) (26,646)		
30 June 2026 Buyer's purchase at a premium	(Dr) Cash (Dr) Investment - Tax on premium* (Cr) Investment - Par (Cr) Investment – Premium	1,093,317 19,356 (1,000,000) (112,673)	(Dr) FVTPL Investment - Par (Dr) FVTPL Investment – Premium* (Cr) FVTPL Investment - Tax on premium (Cr) Cash	1,000,000 112,673 (19,356) (1,093,317)
30 June 2026 Accrued interest at purchase	(Dr) Cash (Cr) Accrued interest receivable	40,000 (40,000)	(Dr) Accrued interest receivable (Cr) Cash	40,000 (40,000)

	Seller A's Books		Buyer B's Books	
Transactions after the market convention amendment				
1 July 2026 Remeasurement as a result of amendment			(Dr) Investment - Tax on Premium* (Cr) FV gains on FVTPL	19,356 (19,356)
Accrued interest subsequent to buyer's purchase			(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)
Receipt of coupon interest			(Dr) Cash (Cr) Accrued interest receivable	80,000 (80,000)
31 Dec 2026 Fair value adjustment			(Dr) Investment – Premium* (Cr) FV gains on FVTPL	7,230 (7,230)

*presented as part of the carrying amount of financial asset

Scenario 1b – Investments are classified as financial assets at amortized cost (AC) – premium (Held to collect or HTC investments)

Below are the additional information based on the case facts (amounts in Php):

	Gross	Net	Tax on Premium/ Coupon
Fair value - 1 January 2026 [A]	1,079,854	1,066,671	13,183
Amortization – Jan to June 2026 [B]	7,333	5,867	1,466
Amortized cost – 30 June 2026 [C] = [A-B]	1,072,521	1,060,804	11,717
Fair value - 30 June 2026 [D]	1,112,673	1,093,317	19,356
Gain on sale of AC Investment [D-C]		32,513	
Accrued interest to 30 June 2026 [E]	50,000	40,000	10,000
Dirty Price - Buyer's purchase [D+E]		1,133,317	
Amortization – Buyer – June to Dec 2026	11,056	9,387	1,669
Amortized cost – 31 Dec 2026	1,101,616	1,083,930	17,686

Note: the entries below segregate the accounts for premium and tax on premium for proper identification. For some entities, these may have been recorded in one AC Investment account.

The sale of AC Investment is subject to business model assessment (including considerations whether the sale is a permissible sale for the HTC business model).

	Seller A's Books		Buyer B's Books	
Transactions before the market convention amendment				
1 Jan 26 - Seller A's Purchase	(Dr) AC Investment - Par (Dr) AC Investment - Premium (Cr) AC Investment - Tax on Premium* (Cr) Cash	1,000,000 79,854 (13,183) (1,066,671)		
Jan – June 2026 Accrual of interest before sale	(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)		
Jan – June 2026 Amortization of premium before sale	(Dr) Interest income (Dr) AC Investment - Tax on Premium* (Cr) AC Investment - Premium	5,867 1,466 (7,333)		

	Seller A's Books		Buyer B's Books	
30 June 2026 Buyer's purchase at a premium	(Dr) Cash (Dr) AC Investment - Tax on premium* (Cr) AC Investment - Par (Cr) AC Investment - Premium (Cr) Gain on sale of AC Investment	1,093,317 11,717 (1,000,000) (72,521) (32,513)	(Dr) AC Investment - Par (Dr) AC Investment - Premium (Cr) Cash (Cr) AC Investment - Tax on premium*	1,000,000 112,673 (1,093,317) (19,356)
30 June 2026 Accrued interest at purchase	(Dr) Cash (Cr) Accrued interest receivable	40,000 (40,000)	(Dr) Accrued interest receivable (Cr) Cash	40,000 (40,000)
Transactions after the market convention amendment				
1 July 2026 To close out the tax on premium			(Dr) AC Investment - Tax on premium* (Cr) AC Investment – Premium	19,356 (19,356)
Accrued interest subsequent to buyer's purchase			(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)
Receipt of coupon interest			(Dr) Cash (Cr) Accrued interest receivable	80,000 (80,000)
Amortization of premium			(Dr) Interest income (Cr) AC Investment – Premium	9,387 (9,387)

*presented as part of carrying amount of financial asset

Scenario 1c – Investments are classified as financial assets at fair value through other comprehensive income (FVOCI) - premium

Below are the additional information based on the case facts (amounts in Php):

	Gross	Net	Tax on Premium/ Coupon
Fair value - 1 January 2026 [A]	1,079,854	1,066,671	13,183
Amortization – Jan to June 2026 [B]	7,333	5,867	1,466
Amortized cost – 30 June 2026 [C] = [A-B]	1,072,521	1,060,804	11,717
Fair value - 30 June 2026 [D]	1,112,673	1,093,317	19,356
Other comprehensive income (OCI) – Gain on FVOCI Investment [E] = [D-C]	40,152	32,513	7,639
Accrued interest to 30 June 2026 [F]	50,000	40,000	10,000
Dirty Price - Buyer's purchase [D+F]		1,133,317	
Amortization – Buyer – June to Dec 2026	11,056	9,387	1,669
Amortized cost – 31 Dec 2026	1,101,616	1,083,930	17,686
Fair valuation – 31 Dec 2026	1,119,903	1,098,827	21,076
Unrealized gains for the period – June to Dec 2026	18,286	14,897	(3,389)
Cumulative Unrealized Gains – 31 Dec 2026*	35,973	32,584	(3,389)

*Represents initial unrealized gains during transition adjustment (P19,356), less subsequent amortization on the tax on premium and discount using effective interest method (EIR is retained – P1,669) and adjusted with any subsequent fair value gains and loss after transition (P18,286).

Note: the entries below segregate the accounts for premium and tax on premium for proper identification. For some entities, these may have been recorded in one FVOCI investment account.

The amortization of the tax-on-premium adjustment after the transition date reflects the continued application of the effective interest method under PFRS 9. While the fair value impact arising from the revised settlement convention is recognized immediately in OCI at the date of transition, the related premium adjustment embedded in the carrying amount of the FVOCI investment continues to be amortized over the remaining life of the instrument using the original EIR. This amortization gradually unwinds the transition-related OCI adjustment such that the carrying amount converges to the maturity amount of the instrument.

	Seller A's Books		Buyer B's Books	
Transactions before the market convention amendment				
1 Jan 26 - Seller A's Purchase	(Dr) FVOCI Investment - Par (Dr) FVOCI Investment - Premium (Cr) FVOCI Investment - Tax on Premium* (Cr) Cash	1,000,000 79,854 (13,183) (1,066,671)		

	Seller A's Books		Buyer B's Books	
Jan – June 2026 Accrual of interest before sale	(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)		
Jan – June 2026 Amortization of premium before sale	(Dr) Interest income (Dr) FVOCI Investment - Tax on Premium* (Cr) FVOCI Investment - Premium	5,867 1,466 (7,333)		
Jan – June 2026 Remeasurement of FVOCI Investment	(Dr) FVOCI Investment - Premium (Cr) FVOCI Investment - Tax on Premium* (Cr) OCI – Gains/Loss on FVOCI Investment	40,152 (7,639) (32,513)		
30 June 2026 Buyer's purchase at a premium	(Dr) Cash (Dr) FVOCI Investment - Tax on premium (Cr) FVOCI Investment - Par (Cr) FVOCI Investment – Premium*	1,093,317 19,356 (1,000,000) (112,673)	(Dr) FVOCI Investment - Par (Dr) FVOCI Investment - Premium* (Cr) FVOCI Investment - Tax on premium* (Cr) Cash	1,000,000 112,673 (19,356) (1,093,317)
30 June 2026 Accrued interest at purchase	(Dr) Cash (Cr) Accrued interest receivable	40,000 (40,000)	(Dr) Accrued interest receivable (Cr) Cash	40,000 (40,000)
30 June 2026 Recycling of OCI to P&L – Seller A	(Dr) OCI – Gains/Loss on FVOCI Investments (Cr) Realized gain on sale	32,513 (32,513)		
Transactions after the market convention amendment				
1 July 2026 Remeasurement as a result of amendment			(Dr) FVOCI Investment - Tax on Premium* (Cr) OCI - Gains/Loss on FVOCI	19,356 (19,356)
Accrued interest subsequent to buyer's purchase			(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)
Receipt of coupon interest			(Dr) Cash (Cr) Accrued interest receivable	80,000 (80,000)
Amortization of premium			(Dr) Interest income (Dr) OCI – Gains/Loss on FVOCI (Cr) FVOCI Investment – Premium	9,387 1,669 (11,056)
31 Dec 2026 Fair value adjustment			(Dr) FVOCI Investment – Premium (Cr) OCI – Gains/Loss on FVOCI	18,286 (18,286)

*presented as part of carrying amount of financial asset

Scenario 2a – Investments are classified as financial assets at fair value through profit or loss (FVTPL) - discount

Below are the additional information based on the case facts (amounts in Php):

	Gross	Net	Tax on Discount/ Coupon
Fair value - 1 January 2026 [A]	927,904	938,723	10,819
Fair value - 30 June 2026 [B]	902,128	916,899	14,771
Net change on fair values [B-A]	25,776	21,824	3,952
Accrued interest to 30 June 2026 [C]	50,000	40,000	10,000
Dirty Price - Buyer's purchase [B+C]		956,899	
Fair value – 31 Dec 2026	883,452	901,144	17,692
Net unrealized loss – June to Dec 2026	18,676	15,755	2,921

Note: the entries below segregate the accounts for discount and tax on discount for proper identification. For some entities, these may have been recorded in one FVTPL investment account.

	Seller A's Books		Buyer B's Books	
Transactions before the market convention amendment				
1 Jan 26 - Seller A's Purchase	(Dr) FVTPL Investment - Par (Dr) FVTPL Investment - Tax on Discount* (Cr) FVTPL Investment - Discount (Cr) Cash	1,000,000 10,819 (72,096) (938,723)		
Jan – June 2026 Accrual of interest before sale	(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)		
Jan – June 2026 Remeasurement of FVTPL Investment	(Dr) FV Loss on FVTPL (Dr) FVTPL Investment - Tax on Discount* (Cr) FVTPL Investment – Discount	21,824 3,952 (25,776)		
30 June 2026 Buyer's purchase at a discount	(Dr) Cash (Dr) FVTPL Investment - Discount (Cr) FVTPL Investment - Tax on discount* (Cr) FVTPL Investment – Par	916,899 97,872 (14,771) (1,000,000)	(Dr) FVTPL Investment - Par (Dr) FVTPL Investment - Tax on discount* (Cr) FVTPL Investment - Discount (Cr) Cash	1,000,000 14,771 (97,872) (916,899)
30 June 2026 Accrued interest at purchase	(Dr) Cash (Cr) Accrued interest receivable	40,000 (40,000)	(Dr) Accrued interest receivable (Cr) Cash	40,000 (40,000)

	Seller A's Books		Buyer B's Books	
Transactions after the market convention amendment				
1 July 2026 Remeasurement as a result of amendment			(Dr) FV loss on FVTPL (Cr) FVTPL Investment - Tax on Discount*	14,771 (14,771)
Accrued interest subsequent to buyer's purchase			(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)
Receipt of coupon interest			(Dr) Cash (Cr) Accrued interest receivable	80,000 (80,000)
31 Dec 2026 Fair value adjustment			(Dr) FV loss on FVTPL (Cr) FVTPL Investment – Discount	18,676 (18,676)

*presented as part of carrying amount of financial asset

Scenario 2b – Investments are classified as financial assets at amortized cost (AC) – discount (Held to collect or HTC investments)

Below are the additional information based on the case facts (amounts in Php):

	Gross	Net	Tax on Discount / Coupon
Fair value - 1 January 2026 [A]	927,904	938,723	10,819
Amortization – Jan to June 2026 [B]	6,323	5,059	1,264
Amortized cost – 30 June 2026 [C] = [A+B]	934,227	943,782	9,555
Fair value - 30 June 2026 [D]	902,128	916,899	14,771
Loss on sale of AC Investment [D-C]		26,882	
Accrued interest to 30 June 2026 [E]	50,000	40,000	(10,000)
Dirty Price - Buyer's purchase [D+E]		956,899	
Amortization – Buyer – June to Dec 2026	8,638	7,679	(960)
Amortized cost – 31 Dec 2026	910,766	924,577	13,811

Note: the entries below segregate the accounts for discount and tax on discount for proper identification. For some entities, these may have been recorded in one AC Investment account.

The sale of AC Investment is subject to business model assessment (including considerations whether the sale is a permissible sale for the HTC business model).

	Seller A's Books		Buyer B's Books	
Transactions before the market convention amendment				
1 Jan 26 - Seller A's Purchase	(Dr) AC Investment - Par (Dr) AC Investment - Tax on Discount* (Cr) AC Investment - Discount (Cr) Cash	1,000,000 10,819 (72,096) (938,723)		
Jan – June 2026 Accrual of interest before sale	(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)		
Jan – June 2026 Amortization of discount before sale	(Dr) AC Investment - Discount (Cr) Interest income (Cr) AC Investment - Tax on Discount*	6,323 (5,059) (1,264)		

	Seller A's Books		Buyer B's Books	
30 June 2026 Buyer's purchase at a discount	(Dr) Cash (Dr) AC Investment - Discount (Dr) Loss on sale of AC Investment (Cr) AC Investment - Tax on discount* (Cr) AC Investment – Par	916,899 65,772 26,883 (9,553) (1,000,000)	(Dr) AC Investment - Par (Dr) AC Investment - Tax on discount* (Cr) AC Investment - Discount (Cr) Cash	1,000,000 14,771 (97,872) (916,899)
30 June 2026 Accrued interest at purchase	(Dr) Cash (Cr) Accrued interest receivable	40,000 (40,000)	(Dr) Accrued interest receivable (Cr) Cash	40,000 (40,000)
Transactions after the market convention amendment				
1 July 2026 To close out the tax on discount			(Dr) AC Investment - Discount (Cr) AC Investment - Tax on discount*	14,771 (14,771)
Accrued interest subsequent to buyer's purchase			(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)
Receipt of coupon interest			(Dr) Cash (Cr) Accrued interest receivable	80,000 (80,000)
Amortization of discount			(Dr) AC Investment – discount (Cr) Interest income	7,679 (7,679)

*presented as part of carrying amount of financial asset

Scenario 2c – Investments are classified as financial assets at fair value through other comprehensive income (FVOCI) - discount

Below are the additional information based on the case facts (amounts in Php):

	Gross	Net	Tax on Discount/ Coupon
Fair value - 1 January 2026 [A]	927,904	938,723	10,819
Amortization – Jan to June 2026 [B]	6,323	5,059	(1,264)
Amortized cost – 30 June 2026 [C] = [A-B]	934,227	943,782	9,555
Fair value - 30 June 2026 [D]	902,128	916,899	14,771
Other comprehensive income (OCI) – Loss on FVOCI Investment [E] = [D-C]	32,099	26,883	(5,216)
Accrued interest to 30 June 2026 [F]	50,000	40,000	(10,000)
Dirty Price - Buyer's purchase [D+F]		956,899	
Amortization – Buyer – June to Dec 2026	8,638	7,679	(960)
Amortized cost – 31 Dec 2026	910,766	924,577	13,811
Fair valuation – 31 December 2026	940,388	950,815	10,427
Unrealized gain for the period – June to Dec 2026	29,622	26,237	(3,385)
Cumulative unrealized gains – 31 December 2026*	(15,811)	(12,426)	(3,385)

*Represents initial unrealized gains during transition adjustment, less subsequent amortization on the tax on premium and discount using effective interest method (EIR is retained) and any subsequent fair value gains and loss after transition.

Note: the entries below segregate the accounts for discount and tax on discount for proper identification. For some entities, these may have been recorded in one FVOCI investment account.

The amortization of the tax-on-premium adjustment after the transition date reflects the continued application of the effective interest method under PFRS 9. While the fair value impact arising from the revised settlement convention is recognized immediately in OCI at the date of transition, the related premium adjustment embedded in the carrying amount of the FVOCI investment continues to be amortized over the remaining life of the instrument using the original EIR. This amortization gradually unwinds the transition-related OCI adjustment such that the carrying amount converges to the maturity amount of the instrument.

	Seller A's Books		Buyer B's Books	
Transactions before the market convention amendment				
1 Jan 26 - Seller A's Purchase	(Dr) FVOCI Investment - Par (Dr) FVOCI Investment - Tax on Discount* (Cr) FVOCI Investment - Discount (Cr) Cash	1,000,000 10,819 (72,096) (938,723)		
Jan – June 2026 Accrual of interest before sale	(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)		
Jan – June 2026 Amortization of discount before sale	(Dr) FVOCI Investment - Discount* (Cr) Interest income (Cr) FVOCI Investment - Tax on Discount	6,323 (5,059) (1,264)		
Jan – June 2026 Remeasurement of FVOCI Investment	(Dr) OCI - FV Gains/Loss on FVOCI Investment (Dr) FVOCI Investment - Tax on Discount* (Cr) FVOCI Investment - Discount	26,883 5,216 (32,099)		
30 June 2026 Buyer's purchase at a discount	(Dr) Cash (Dr) FVOCI Investment - Discount (Cr) FVOCI Investment - Tax on Discount* (Cr) FVOCI Investment – Par	916,899 97,872 (14,771) (1,000,000)	(Dr) FVOCI Investment - Par (Dr) Investment - Tax on discount (Cr) FVOCI Investment - Discount* (Cr) Cash	1,000,000 14,771 (97,872) (916,899)
30 June 2026 Accrued interest at purchase	(Dr) Cash (Cr) Accrued interest receivable	40,000 (40,000)	(Dr) Accrued interest receivable (Cr) Cash	40,000 (40,000)
30 June 2026 Recycling of OCI to P&L – Seller A	(Dr) Realized loss on sale (Cr) OCI - FV Gains/Loss on FVOCI Investment	26,883 (26,883)		
Transactions after the market convention amendment				
1 July 2026 Remeasurement as a result of amendment			(Dr) OCI - FV Gains/Loss on FVOCI Investment (Cr) Investment - Tax on Discount*	14,771 (14,771)
Accrued interest subsequent to buyer's purchase			(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)
Receipt of coupon interest			(Dr) Cash (Cr) Accrued interest receivable	80,000 (80,000)
Amortization of discount			(Dr) Investment - Discount (Cr) Interest Income (Cr) OCI - FV Gains/Loss on FVOCI Investment	8,638 (7,679) (960)

	Seller A's Books		Buyer B's Books	
31 Dec 2026 Fair value adjustment			(Dr) Investment - Discount (Cr) OCI - FV Gains/Loss on FVOCI Investment	29,622 (29,622)

*presented as part of carrying amount of financial asset

Appendix C – Illustrative Transition Mechanics for Institutions Applying a Gross Presentation Approach

The illustrations below are provided solely to demonstrate the mechanics of transitioning from a historical gross presentation approach to the accounting treatment contemplated under the revised settlement convention for investment securities acquired at a premium (scenarios 1a to 1c of Appendix B), and should be considered in conjunction with the illustration provided in Appendix B.

General case facts

- For purposes of the illustrations below, assume the same facts and circumstances presented in Appendix B unless otherwise indicated.
    - Assume instead that Seller A and Buyer B account for the investment securities using a gross presentation approach, whereby Tax on Premium and Tax on Discount balances are recognized separately from the carrying amount of the related financial asset. Below represents the accounts used in the journal entries:
        - Investment - Par: represents the principal amount of the bonds
        - Investment – Premium: represents the gross premium as a result of the difference between the coupon rate and the yield rate of the security. This is an adjunct account to arrive at the carrying amount of the investment securities.
        - Tax on premium payable: represents the related tax liability account separately presented in the statement of financial position under miscellaneous liabilities.
        - Investment – Discount: represents the gross discount as a result of the difference between the coupon rate and the yield rate of the security. This is a contra-account to arrive at the carrying amount of the investment securities.
        - Prepaid tax on discount: represents the related tax on discount separately presented in the statement of financial position under miscellaneous asset.
    - The related Tax on Premium or Tax on Discount balance is accounted for as follows:
        - For FVTPL investment, the related Tax on Premium/Discount is only released to trading gains/losses upon disposal of the investment.
        - For FVOCI and amortized cost investment, the Tax on Premium/Discount is amortized on a straight-line basis over the remaining life of the instrument; and
        - The periodic amortization is presented as an adjustment to Provision for Income Tax Expense in profit or loss.
          (some entities may have presented the amortization of Tax on Premium/Discount under interest income. In such cases, the amounts recognized in provision for income tax will now be adjusted to interest income account).

Scenario 1a – Investments are classified as financial assets at fair value through profit or loss (FVTPL) – premium – gross presentation

Below are the additional information based on the case facts (amounts in Php):

	Gross	Net	Tax on Premium/ Coupon
Fair value - 1 January 2026 [A]	1,079,854	1,066,671	13,183
Fair value - 30 June 2026 [B]	1,112,673	1,093,317	19,356
Net change on fair values [B-A]	32,819	26,646	(6,172)
Accrued interest to 30 June 2026 [C]	50,000	40,000	10,000
Dirty Price - Buyer's purchase [B+C]		1,133,317	
Fair value – 30 December 2026	1,119,903	1,098,827	21,076
Net unrealized gains – June to Dec 2026	7,230	5,510	1,720

Note: the entries below segregate the accounts for premium and tax on premium for proper identification. For some entities, these may have been recorded in one FVTPL investment account.

	Seller A's Books		Buyer B's Books	
Transactions before the market convention amendment				
1 Jan 26 - Seller A's Purchase	(Dr) FVTPL Investment - Par (Dr) FVTPL Investment - Premium (Cr) Cash (Cr) Tax on premium payable*	1,000,000 79,854 (1,066,671) (13,183)		
Jan – June 2026 Accrual of interest before sale	(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)		
Jan – June 2026 Remeasurement of FVTPL Investment	(Dr) FVTPL Investment - Premium (Cr) FV gains on FVTPL Investment	32,819 (32,819)		
30 June 2026 Buyer's purchase at a premium	(Dr) Cash (Dr) Realized gains on FVTPL Investment (Dr) Tax on premium payable* (Cr) Investment - Par (Cr) Investment – Premium	1,093,317 6,172 13,183 (1,000,000) (112,673)	(Dr) FVTPL Investment - Par (Dr) FVTPL Investment - Premium (Cr) Tax on premium payable* (Cr) Cash	1,000,000 112,673 (19,356) (1,093,317)
30 June 2026 Accrued interest at purchase	(Dr) Cash (Cr) Accrued interest receivable	40,000 (40,000)	(Dr) Accrued interest receivable (Cr) Cash	40,000 (40,000)

	Seller A's Books		Buyer B's Books	
Transactions after the market convention amendment				
1 July 2026 Remeasurement as a result of amendment			(Dr) Tax on Premium Payable* (Cr) FV gains on FVTPL	19,356 (19,356)
Accrued interest subsequent to buyer's purchase			(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)
Receipt of coupon interest			(Dr) Cash (Cr) Accrued interest receivable	80,000 (80,000)
31 Dec 2026 Fair value adjustment			(Dr) Investment - Premium (Cr) FV gains on FVTPL	7,230 (7,230)

*presented as part of miscellaneous liabilities

Scenario 1b – Investments are classified as financial assets at amortized cost (AC) – premium (Held to collect or HTC investments) – gross presentation

Below presents additional information based on the case facts (amounts in Php):

	Gross	Net	Tax on Premium/ Coupon
Fair value - 1 January 2026 [A]	1,079,854	1,066,671	13,183
Amortization – Jan to June 2026 [B]	7,333	5,867	1,466
Amortized cost – 30 June 2026 [C] = [A-B]	1,072,521	1,060,804	11,717
Fair value - 30 June 2026 [D]	1,112,673	1,093,317	19,356
Gain on sale of AC Investment [D-C-unamortized tax on premium of 11,865]		32,513	
Accrued interest to 30 June 2026 [E]	50,000	40,000	10,000
Dirty Price - Buyer's purchase [D+E]		1,133,317	
Amortization – Buyer – June to Dec 2026	11,056	9,387	1,669
Amortized cost – 31 Dec 2026	1,101,616	1,083,930	17,686

Note: the entries below segregate the accounts for premium and tax on premium for proper identification. For some entities, these may have been recorded in one AC Investment account.

The sale of AC Investment is subject to business model assessment (including considerations whether the sale is a permissible sale for the HTC business model).

The illustration demonstrates how institutions that historically maintained separate Tax on Premium/Discount balances may align their accounting treatment with the revised settlement convention to achieve a consistent accounting outcome prospectively.

Upon transition, the outstanding Tax on Premium/Discount balance is offset against the related premium or discount component of the financial asset. Accordingly, the carrying amount of the financial asset as presented in the statement of financial position may change upon transition. However, such adjustment reflects a presentation alignment arising from the removal of the Tax on Premium/Discount component from the market settlement convention and does not represent a modification of contractual cash flows, a modification gain or loss, or a recalculation of the instrument's original effective interest rate.

	Seller A's Books		Buyer B's Books	
Transactions before the market convention amendment				
1 Jan 26 - Seller A's Purchase	(Dr) AC Investment - Par (Dr) AC Investment - Premium (Cr) Tax on Premium Payable* (Cr) Cash	1,000,000 79,854 (13,183) (1,066,671)		
Jan – June 2026 Accrual of interest before sale	(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)		
Jan – June 2026 Amortization of premium before sale	(Dr) Interest income (Dr) Tax on Premium Payable* (Cr) AC Investment – Premium (Cr) Provision for Income Tax Expense	7,333 1,466 (7,333) (1,466)		
30 June 2026 Buyer's purchase at a premium	(Dr) Cash (Dr) Tax on Premium Payable* (Cr) AC Investment - Par (Cr) AC Investment - Premium (Cr) Gain on sale of AC Investment	1,093,317 11,717 (1,000,000) (72,521) (32,513)	(Dr) AC Investment - Par (Dr) AC Investment - Premium (Cr) Cash (Cr) Tax on Premium Payable*	1,000,000 112,673 (1,093,317) (19,356)
30 June 2026 Accrued interest at purchase	(Dr) Cash (Cr) Accrued interest receivable	40,000 (40,000)	(Dr) Accrued interest receivable (Cr) Cash	40,000 (40,000)
Transactions after the market convention amendment				
1 July 2026 To close out the tax on premium			(Dr) Tax on Premium Payable* (Cr) AC Investment – Premium	19,356 (19,356)
Accrued interest subsequent to buyer's purchase (same treatment under Phase 1 completion)			(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)
Receipt of coupon interest			(Dr) Cash (Cr) Accrued interest receivable	80,000 (80,000)
Amortization of premium			(Dr) Interest income (Cr) AC Investment – Premium	9,387 (9,387)

*presented as part of miscellaneous liabilities

Scenario 1c – Investments are classified as financial assets at fair value through other comprehensive income (FVOCI) – premium – gross presentation

Below are the additional information based on the case facts (amounts in Php):

	Gross	Net	Tax on Premium/ Coupon
Fair value - 1 January 2026 [A]	1,079,854	1,066,671	13,183
Amortization – Jan to June 2026 [B]	7,333	5,867	1,466
Amortized cost – 30 June 2026 [C] = [A-B]	1,072,521	1,060,804	11,717
Fair value - 30 June 2026 [D]	1,112,673	1,093,317	19,356
Other comprehensive income (OCI) – Gain on FVOCI Investment [E] = [D-C]	40,152	32,513	7,639*
Accrued interest to 30 June 2026 [F]	50,000	40,000	10,000
Dirty Price - Buyer's purchase [D+F]		1,133,317	
Amortization – Buyer – June to Dec 2026	11,056	9,387	1,669
Amortized cost – 31 Dec 2026	1,101,616	1,083,930	17,686
Fair valuation – 31 December 2026	1,119,903	1,098,827	21,076
Unrealized gains for the period – June to Dec 2026	18,287	14,897	(3,389)
Cumulative Unrealized Gains – 31 December 2026**	35,973	32,584	(3,389)

*For purposes of illustration, this is closed out to realized gains/losses on FVOCI investment upon disposal.
**Represents initial unrealized gains during transition adjustment, less subsequent amortization on the tax on premium and discount using effective interest method (EIR is retained) and any subsequent fair value gains and loss after transition.

Note: the entries below segregate the accounts for premium and tax on premium for proper identification. For some entities, these may have been recorded in one FVOCI investment account.

The amortization of the tax-on-premium adjustment after the transition date reflects the continued application of the effective interest method under PFRS 9. While the fair value impact arising from the revised settlement convention is recognized immediately in OCI at the date of transition, the related premium adjustment embedded in the carrying amount of the FVOCI investment continues to be amortized over the remaining life of the instrument using the original EIR. This amortization gradually unwinds the transition-related OCI adjustment such that the carrying amount converges to the maturity amount of the instrument.

	Seller A's Books		Buyer B's Books	
Transactions before the market convention amendment				
1 Jan 26 - Seller A's Purchase	(Dr) FVOCI Investment - Par (Dr) FVOCI Investment - Premium (Cr) Tax on Premium Payable* (Cr) Cash	1,000,000 79,854 (13,183) (1,066,671)		

	Seller A's Books		Buyer B's Books	
Jan – June 2026 Accrual of interest before sale	(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)		
Jan – June 2026 Amortization of premium before sale and the related tax effect	(Dr) Interest income (Cr) FVOCI Investment – Premium (Dr) Provision for income tax (Cr) Tax on premium payable*	7,333 (7,333) 1,466 (1,466)		
Jan – June 2026 Remeasurement of FVOCI Investment	(Dr) FVOCI Investment - Premium (Cr) OCI – Gains/Loss on FVOCI Investment	40,152 (40,152)		
30 June 2026 Buyer's purchase at a premium	(Dr) Cash (Dr) Tax on premium payable* (Dr) Realized gains/loss on FVOCI Investment (Cr) FVOCI Investment - Par (Cr) FVOCI Investment – Premium	1,093,317 11,717 7,639 (1,000,000) (112,673)	(Dr) FVOCI Investment - Par (Dr) FVOCI Investment - Premium (Cr) Cash (Cr) Tax on premium payable*	1,000,000 112,673 (1,093,317) (19,356)
30 June 2026 Accrued interest at purchase	(Dr) Cash (Cr) Accrued interest receivable	40,000 (40,000)	(Dr) Accrued interest receivable (Cr) Cash	40,000 (40,000)
30 June 2026 Recycling of OCI to P&L – Seller A	(Dr) OCI – Gains/Loss on FVOCI Investments (Cr) Realized gains/loss on FVOCI Investment	40,152 (40,152)		
Transactions after the market convention amendment				
1 July 2026 Remeasurement as a result of amendment			(Dr) Tax on Premium Payable (Cr) OCI – Gains/Loss on FVOCI	19,356 (19,356)
Accrued interest subsequent to buyer's purchase			(Dr) Accrued interest receivable (Dr) Final tax expense (Cr) Interest income	40,000 10,000 (50,000)
Receipt of coupon interest			(Dr) Cash (Cr) Accrued interest receivable	80,000 (80,000)
Amortization of premium			(Dr) Interest income (Dr) OCI – Gains on FVOCI (Cr) FVOCI Investment – Premium	9,387 1,669 (11,056)
31 Dec 2026 Fair value adjustment			(Dr) FVOCI Investment – Premium (Cr) OCI – Gains/Loss on FVOCI Investments	18,287 (18,287)

*presented as part of miscellaneous liabilities

Appendix D
Illustrative Disclosures in the Notes to the Financial Statements

The following is an illustrative example of a note disclosure for explanatory purposes only. It is not intended to be prescriptive, and the nature and extent of disclosures will depend on each entity's specific facts and circumstances.

Change in Bond Settlement Convention
In 20xx, the Philippine bond market transitioned to a gross settlement convention for affected peso-denominated coupon-bearing securities. Under the previous convention, the settlement amount was calculated with a price adjustment commonly referred to as the "Tax on Premium/Discount", representing the difference between (i) the present value of the bond's gross cash flows discounted at the gross yield, and (ii) the present value of the bond's cash flows net of the applicable withholding tax on coupon income, discounted at the corresponding yield net of tax. This price adjustment was embedded in the settlement amount and was recognized in the books of market participants either as part of the carrying value of the bond or as a separate balance sheet account. Under the revised convention, the settlement amount no longer includes this price adjustment. Bond yields continue to be quoted on a gross basis, and the applicable withholding tax on coupon income continues to be remitted by the relevant withholding agent in the same manner as under the current convention.

This change reflects a market-wide shift in settlement convention and observable market inputs and does not constitute a change in the contractual terms of the underlying financial instruments.

The Company accounted for the change based on the classification and measurement category of the affected financial assets under PFRS 9. For financial assets measured at fair value, the effect was recognized through fair value remeasurement at the date of adoption. For financial assets measured at amortized cost, the transition did not result in modification accounting because the contractual cash flows of the affected instruments remained unchanged.

The impact of the transition to the gross-of-tax settlement convention was recognized at the date of market adoption and is non-recurring in nature.

The quantitative impact on the financial statements at the date of change of market convention is summarized below:

	Amount	Impact on profit or loss	Impact on equity	Impact on total assets	Impact on total liabilities[1]
Fair value gains/(losses) on financial assets at fair value through profit or loss	₱xx	₱xx	₱xx	₱xx	₱–
Fair value gains/(losses) on financial assets at fair value through other comprehensive income	xx	–	xx	xx	–
Deferred tax income/(expense) effect of the change	xx	xx	xx	xx	–
Offset of tax on premium/discount to related financial asset[1]	xx	–	–	xx	xx
Impact of effective interest rate amortization[2]	xx	xx	xx	xx[2]	xx[2]
		₱xx	₱xx	₱xx	₱xx

[1]Applicable for institutions applying the gross presentation approach for Tax on Premium/Discount. The adjustment reflects a balance sheet presentation alignment and does not affect net income, total comprehensive income, equity, or net assets. An entity may elect not to include this line item where the effect is immaterial or comparative information has been appropriately aligned (see suggested disclosure below instead).
[2]Applicable only if the impact of the current practice of amortization and the amortization based on effective interest method as required by PFRS Accounting Standard is deemed material. Impact on total asset or total liabilities will depend if the outstanding position of the tax on premium/discount is prepaid tax/tax payable position.

Additional considerations for entities historically applying a gross presentation approach

For institutions that historically maintained Tax on Premium/Discount balances separately from the carrying amount of the related financial instruments and presented the related amortization through income tax-related line items, and where the effect on comparative information is considered material, the following is an illustrative disclosure that may be considered in addition to the disclosures above:

Impact on comparative information

The Bank aligned the presentation of comparative amounts associated with the amortization of Tax on Premium/Discount balances with the presentation adopted following implementation of the revised settlement convention. As a result, the comparative period amounts related to the amortization of Tax on Premium/Discount have been reclassified between Provision for Income Tax Expense and Interest Income. The reclassification resulted in a decrease in Interest Income and a corresponding decrease in Provision for Income Tax Expense amounting to ₱xx in 20xx, and a decrease in the total asset and total liabilities amounting to ₱xx as of December 31, 20xx. The presentation alignment has no impact on net income, total comprehensive income, total equity, or cash flows.