**Appendix A - PROPOSED MINIMUM FREQUENTLY ASK QUESTIONS**

**ON THE SINGLE PRICE CONVENTION**

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**Q: What is the Single Price Convention (SPC)?**

A: The Single Price Convention is a move to standardize the pricing of fixed income securities in the primary and secondary market. The SPC is spearheaded by the issuing arm of the government, the Bureau of the Treasury (BTr), which aims to adopt the Global Bond Formula (GBF) pursuant to [•] Memo Circular No. [•] for the Philippine Treasury Bonds and [•] Resolution No. [•] for listed corporate bonds.

**Q: What is the rationale of the SPC?**

A: BTr Memorandum dated 29 October 2012 *(see Annex A)* enumerates the foreseen benefits of adopting the SPC using the GBF. More importantly, this initiative will pave the way for all tax categories to transact with one another thus providing greater market liquidity, a more sustainable secondary market and more competitive prices due to larger number of trading participants. It will also facilitate the participation of more foreign investors thus preparing the domestic capital market for the regional bond market integration.

**Q: What is the Global Bond Formula?**

A: As illustrated in Annex A[[1]](#footnote-1), the GBF is a formula that generates a tax neutral clean price that is applicable to all market participants. To arrive at the settlement amount or cash out, the computation will involve the clean price plus accrued interest less applicable final withholding tax.

**Q: What is the difference between the Old Bond Computation and Single Price Convention using the Global Bond Formula?**

A: The total **settlement amount or cash out** generated using the Reference Yield which is the rate currently used in quoting the local bond market and the settlement amount generated using the Nominal yield used in the GBF **remains to be the same**. To illustrate:

|  |  |  |
| --- | --- | --- |
| Settlement Date: | 11 November 2013 | |
| PH Treasury Bond Series | FXTN 20-17 | |
|  | **Existing Formula** | **Global Bond Formula** |
| Years | 17.94 | 17.94 |
| Days Remaining | 6459 | 6459 |
| Frequency | 2 | 2 |
| Days Accrued | 112 | 112 |
| Maturity | 19 July 2031 | 19 July 2031 |
| Coupon | 8.000% | 8.000% |
| YTM | 4.000% | - |
| Reference Yield[[2]](#footnote-2) | - | 4.000% |
| Nominal Yield | - | 4.4616% |
| Face Amount | 50,000,000 | 50,000,000 |
| Gross Price | 150.36 | 142.96 |
| Net Price | 142.96 | 136.89 |
| Gross Value | 75,180,298.05 | 71,481,188.39 |
| Net Value | 71,481,188.39 | 68,442,613.40 |
| Tax on Premium/Discount | (3,699,109.66) | - |
| Accrued Interest | 1,244,444.44 | 1,244,444.44 |
| Withholding Tax | (248,888.89) | (248,888.89) |
|  | | |
| **Settlement Amount** | **72,476,743.95** | **72,476,743.95** |

**Q: What type of fixed income securities will be affected by the SPC?**

A: The SPC applies only to coupon-bearing treasury and listed corporate bonds. Treasury bills and other discounted and non-coupon-bearing securities will not be affected. Other securities like Tier 2 and LTNCDs have their own calculation structures and similarly will not be affected by the SPC.

**Q: Is there a change in the documentation when you buy or sell securities?**

A: Yes, there are changes in the information available in the Confirmation of Settlement as approved by the Securities and Exchange Commission under Resolution No. [•][[3]](#footnote-3): The written confirmation of settlement of the trade shall contain, at the **minimum**, the following information:

1. Parties

* Name & contact information of Trading Participant
* Account Name of Customer

1. Nature of Transaction – designation of whether the transaction was a purchase or sale for the Customer
2. Dates

* Trade Date
* Settlement Date

1. Description of the Security

* Type of Security or Issuer or ISIN
* Issue Date
* Maturity Date
* Coupon Rate

1. Breakdown of Amounts

* Face value
* Nominal yield[[4]](#footnote-4), *which shall be derived using the tax neutral GBF*
* Accrued interest
* Final withholding tax on accrued interest
* Unbundled transaction fees (broker’s fees, other charges to be paid or reimbursed to the broker)
* Settlement amount

1. Cash or Securities Disposition
2. Such other information as may be required by the SEC or PDEx from time to time

The affirmation of execution issued by the Trading Participant to its Customer shall contain the same information as that in the Confirmation of Settlement.

**Q: Can the investor ask for the equivalent price of the yield quoted to him?**

A: Yes, the broker or dealer will be able to provide the equivalent price of the yield quoted to the client.

**Q: Will there be any new fees involved in the adoption of the SPC?**

A: No, the application of the GBF in the SPC will not translate into any new fees being incurred by the investor. The fees, however, are unbundled to show the broker’s fees, PDEx/PDTC fees, whichever is applicable, and other charges.

1. The **BTr Memorandum dated October 29, 2013** should be amended to rename YTM to Nominal Yield in the Global Bond Formula where the term ‘Nominal Yield’ was agreed during the Implementation Working Committee meeting held on October 29, 2013 [↑](#footnote-ref-1)
2. Option of the Broker Dealer to disclose to its client-investors [↑](#footnote-ref-2)
3. In a letter to the **PDEx Trading Participants dated June 14, 2013** *(see Annex B)*, the PDS Group informed the Trading Participants that the changes in the Confirmation of Settlement was submitted to the SEC for approval as required under the Securities Regulation Code [↑](#footnote-ref-3)
4. *Note to broker salesmen*: It shall be the option of the Broker Dealer to include the Reference Yield in the Confirmation of Settlement and other relevant documents, as may be applicable i.e. if the clients/investors are taxable. In this event, the Confirmation of Settlement and other relevant documents will contain both the ‘Nominal Yield’ and the ‘Reference Yield’ [↑](#footnote-ref-4)