Frequently Asked Questions (FAQs)

International Bond Pricing Initiative

A Salesmen 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. The questions are grouped General, Investment Impact, Buying and Selling, Corporate & Institutional Investors FAQs.

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.

For illustration, under the current convention, if negotiated yield is 10.00%, bond price will be calculated using a net effective yield of 8.00% (10% net of the 20% price adjustment). While for the alternative/international convention, if negotiated yield is 10.00%, the bond price is calculated directly using an effective yield of 10.00%.

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.

Q9. 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

Section 2 — Impact on Returns, Prices and Investment Value

Q10. Will my coupon payments or maturity proceeds change?

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

Q11. 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.

Q12. 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 international 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.

Q13. Does this mean my bonds were previously priced incorrectly?

No. The previous convention was valid and appropriate under prevailing market practice. The market is simply adopting a different standard that is more closely aligned with international practice.

Section 3 — Buying and Selling

Q14. 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.

Q15. Will future bond purchases use the new convention?

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

Q16. Where can I get information specific to how my own portfolio will look?

Your financial institution will provide updated statements reflecting the new convention after the transition. If you have questions before then about how the change may appear on your statement, please contact your Relationship Manager or Investment Specialist.

Section 4 — For Corporate & Institutional Investors

Q17. Will this require changes to our treasury or accounting systems?

Possibly. Depending on your internal processes, some operational or system enhancements may be needed. Your finance, treasury, accounting, and technology teams should coordinate with their service providers as required.

Q18. Will this affect our investment policies or limits?

The initiative does not change the contractual terms or credit quality of the securities. However, institutions should review their internal valuation methodologies, accounting treatment, and investment policies to ensure they remain aligned with the new pricing convention.

Q19. Will institutions see accounting gains or losses on transition?

Institutions maintaining accounting records may observe one-time accounting gains or losses as the outstanding tax-on-premium or tax-on-discount balances are closed out on the transition date. The impact will vary depending on the accounting classification in accordance with PFRS 9. The accounting adjustments reflect the change in convention, not a change in the underlying economics of the investment.

Q20. For institutions maintaining books, what is the accounting treatment for the transition adjustment?

Based on the recommendation of the Financial Reporting Standards Council (FSRSC), the outstanding tax on premium/discount is closed out on the transition date, with the change in pricing convention incorporated into fair value measurement under PFRS 13.

The effect of the transition is applied prospectively from the date the new convention is adopted, and the close-out should be consistent with the instrument's PFRS 9 classifications:

- FVTPL (Fair Value through Profit or Loss): The transition adjustment is recognized immediately in P&L - tax on premium is an unrealized trading gain; tax on discount is an unrealized trading loss.
- FVOCI (Fair Value through Other Comprehensive Income): The adjustment is recognized in OCI / Equity Reserve - tax on premium is a comprehensive gain; tax on discount is a comprehensive loss. The transition adjustment shall be amortized into Interest Income following the Effective Interest Rate method post-transition.
- HTC (Held to Collect / Amortized Cost): No immediate P&L or Equity impact on transition date for existing holdings; contractual amortization continues under the original effective interest rate. For entities following the Gross Basis, the carrying value of existing holdings may change because of the close-out of tax on premium/discount. Subsequent purchases follow the new gross convention.

Please refer to the cascaded info-session materials on the International Bond Pricing Initiative for details on the handling of the transition date close-out of the tax on premium/discount by PFRS9 classification.