

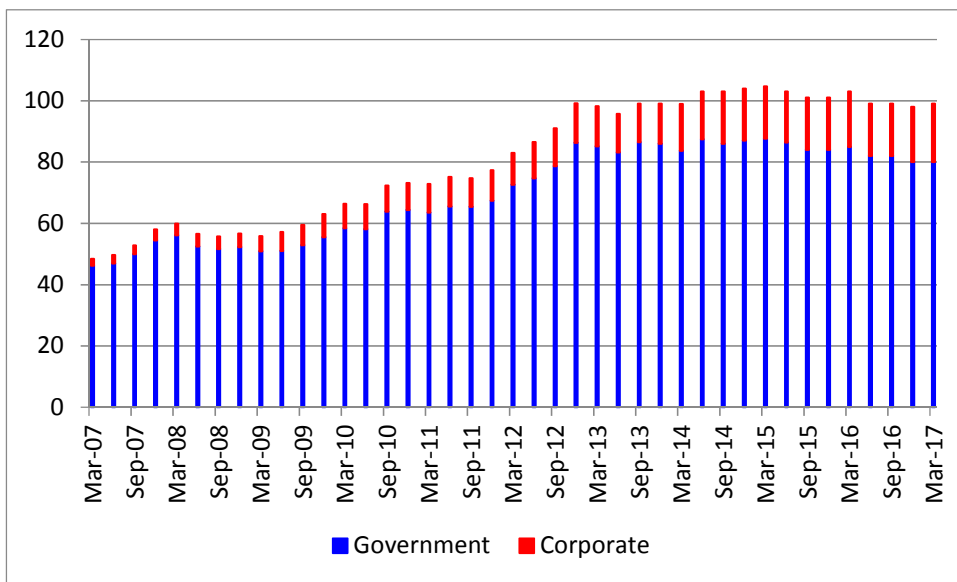
Overview

A. Introduction

The Philippine domestic bond market consists of short- and long-term bonds, mainly issued by the Government of the Philippines. The Philippine bond market is dominated by Treasury Bills and Treasury Bonds. Although the size of the Philippine corporate bond market is still small relative to government bonds, it has been growing rapidly over the years.

On 3 June 2016, the Bangko Sentral ng Pilipinas (BSP) formally adopted an interest rate corridor (IRC) system as a framework for conducting its monetary operations. The IRC is a system for guiding short-term market rates toward the BSP policy interest rate, which is the overnight reverse repurchase (RRP) rate. It consists of a rate at which the central bank lends to banks (typically an overnight lending rate) and a rate at which it takes deposits from them (deposit rate).

Figure 1.1: Local Currency Bonds Outstanding in the Philippines (USD billion)



Note: Data as of 31 March 2017 and include bonds issued by nonresidents.
 Source: *AsianBondsOnline*. Philippines Bond Market.
https://asianbondsonline.adb.org/philippines/data/bondmarket.php?code=LCY_Bond_Market_USD

The BSP, like other central banks, offers term deposits as one of its monetary tools to absorb liquidity. With the adoption of the IRC system in 2016, the term deposit facility serves as the liquidity absorption facility used by the BSP for liquidity management. The term deposit facility replaces the Special Deposit Accounts facility, which was used by the BSP from November 1998 until June 2016.

This regulatory environment is also conducive to the implementation of the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) developed by the ASEAN+3 Bond Market Forum (ABMF) under the guidance of the Asian Development Bank (ADB). The key features of the Philippine market are further enhanced by the acceptance of (i) governing law other than the laws of the Philippines for professional issuances, and (ii) documentation and disclosure standards that are closer to those found in international markets. Further details on AMBIF can be found in Chapters IX and X.

B. Regional Cooperation

The Philippines is committed to regional discussions that would allow the domestic bond market to expand its reach. In this regard, it contributes to the dialogue opened by ABMF and hopes for sustained cooperation on the notion that domestic issuers of debt securities can access foreign investors and that the trading community can extend their activities in organized markets offshore. A central premise of this endeavor is the ability to go beyond local borders while preserving the domesticity of Philippines-issued debt securities. In this regard, support is given to initiatives that focus on:

a. Regulatory Harmonization

Any endeavor to cooperate on a regional level must institute measures to ensure that appropriate regulation is in place to safeguard the activity. Hence, the thrust to look outward and join the regional discussion may result in focusing on harmonizing regulatory frameworks to the extent possible. This assures a level playing field among countries that desire a cooperative relationship and predictability in the way a regional market will operate, which is essential to building a stable and sustainable market.

b. Tax Treaty Implementation

While tax treaty implementation has been underway to enforce treaty obligations between bound states, the authorities are seeking to streamline the process to be responsive to the needs of a fast-paced and dynamic marketplace without compromising the taxing authority's verification requirements for the application of preferential treaty rates.

c. Institutionalization of Market Access

As markets unite and link with each other, the notion of organization and order remains at the forefront of the vision for regional cooperation. The organized markets within the region are envisioned to create the links that would give life to a regional trading venue that proceeds on the basis of order and cooperative processes for trading, clearing, and settlement.

The Philippines is also party to free trade agreements involving financial services liberalization, which includes ongoing negotiations on the Regional Comprehensive Economic Partnership Agreement comprising the members of ASEAN and Australia, the People's Republic of China, India, Japan, the Republic of Korea, and New Zealand; the ASEAN–Hong Kong, China Free Trade Agreement; the ASEAN–People's

Republic of China Free Trade Agreement; the ASEAN–Japan Comprehensive Economic Partnership Agreement; and the ASEAN Framework Agreement on Services.

For more information on recent initiatives and developments with relevance for the Philippine bond market, kindly also refer to Chapters IX and X.