INVESTMENT IN GOVERNMENT BONDS AND SECURITIES
(source: Bureau of Treasury)

On many occasions, the Philippine National Government or its agencies issue debt securities to finance deficits and development projects. Selling to the buying public originates from the Bureau of Treasury (BTr), through a network of licensed dealers. Government securities (GS) are no longer certificated, they are known as “scriptless”. GS discount and coupons are subject to 20% final income tax, which is withheld upon floatation of Treasury Bills, or upon payment of the coupon for Treasury Bonds. No other tax is imposed on the secondary market buyer.

Government and government-owned and controlled corporations also offer shareholding to the public in the form of bonds or securities. Government securities are unconditional obligations of the State, and backed by its full taxing power, making them practically free from default.

1. Treasury Bills

Treasury Bills (T-bills) are direct and unconditional obligations of the national government. They are issued by the BTr. They carry maturity of one year or less and can be traded in the secondary market before maturity. Various tenors of T-bills exist: (1) 91 day, (2) 182 or (3) 364 days. Banks that comprise majority of the Government Security Eligible Dealers (GSED) bid for T-bills in the weekly auctions held by the BTr. The banks then resell the T-bills to investors.

Treasury Bills do not bear interest. They are issued and sold at a discount from face value and are redeemed at maturity for the full face value of the instrument.

2. Treasury Notes

Fixed Rate Treasury Notes (FXTNs) are direct and unconditional obligations of the national government. They are issued by the Bureau of Treasury (BTr). They are interest bearing and carry a term of more than one year and can be traded in the secondary market before maturity. The tenors for these debt instruments can vary.

3. Retail Treasury Bonds

Retail Treasury Bonds (RTBs) are like treasury notes but are usually longer in maturity (10 years and above). They are direct and unconditional obligations of the national government that primarily caters to the retail market or the end-users. They are issued by the Bureau of Treasury (BTr). They are interest bearing and carry a term of more than one year and can be traded in the secondary market before maturity. RTBs are safe, liquid and offer attractive returns to investors.

The interest coupons of treasury bonds are paid to the investor quarterly. Further, RTBs serve as a critical part of the government’s program to make government securities available to small investors. They are issued to mobilize savings and encourage retail investors to purchase long-term papers. In contrast to PhP 500,000 in the wholesale market, the minimum placement of RTBs is PhP 5,000.

4. Dollar Linked Peso Notes (DLPN)

Dollar Linked Peso Notes (DLPNs) are direct and unconditional obligations of the national government and are issued by the BTr. They are interest bearing and
carry a term of more two (2) and three (3) years and can be traded in the secondary market before maturity. The notes track the movement of the Philippine Peso and US Dollar exchange rate. Payments of interest and principal are linked to the movement of the exchange rate and computed based on the foreign exchange factor.

**Purchasing GS**

Institutions that buy these government securities include mutual funds, pension funds, insurance companies, commercial banks, corporations, state and local governments, central bank, and international investors. Individual clients buy or hold government bonds through common trust funds/unit investment trust funds, mutual funds, or pension plans. Those who opt to purchase government securities through these channels tend to look for dependable income, relative safety, and diversification. Retail investors may also purchase GS through eligible/qualified dealers or commercial banks.

Although government bonds are the safest and are relatively “risk-free”, it does not mean they are immune from credit/default risk, credit spread risk, or downgrade risk. Credit or default risk is the possibility the issuer will fail to meet the terms of the obligations with respect to the timely payment of interest and principal. Credit spread risks refer to the probability of an increase in the spread of the bond over a default-free security (i.e., US Treasury security) and a decline in the price of that bond. Downgrade risks pertain to the chance a credit rating firm (e.g., Fitchratings, Moody’s, or Standard and Poor’s) will lower the rating of a bond. In this regard, downgrade risks are closely associated with credit spreads risks.

**Securities Dealer**

Securities dealer is a financial institution organized usually as a corporation or partnership, whose principal business is to buy and sell securities, whether registered or exempt from registration, for the dealer's own account or for the account of client/s. A securities dealer is required to obtain a license from the Securities and Exchange Commission pursuant to the Revised Securities Act.

**Government Securities Eligible Dealer**

Government Securities Eligible Dealer (GSED) is a SEC-licensed securities dealer belonging to a service industry supervised by the Government which has met the (1) P100M unimpaired capital and surplus account; (2) the statutory ratios prescribed for the industry; and (3) has the infrastructure for an electronic interface with the Automated Debt Auction Processing System (ADAPS) and the official Registry of Scripless Securities (ROSS) both of the BTr using Bridge Information Systems (BIS), and acknowledged by the BTr as eligible to participate in the primary auction of government securities.
List of Government Securities Eligible Dealers (GSEDs)
(source: http://www.treasury.gov.ph)

A. BANKS

1. Allied Banking Corporation
2. Asia United Bank
3. Asiatrust Development Bank
4. Banco de Oro Unibank, Inc.
5. Bank of Commerce
6. Bank of the Philippine Islands
7. BDO Private Bank
8. China Banking Corporation
10. Citibank, N.A.
11. Citibank Savings, Inc.
12. Citystate Savings Bank
13. Deutsche Bank
14. Development Bank of the Philippines
15. East West Banking Corporation
16. Export and Industry Bank
17. Hongkong and Shanghai Banking Corp., Ltd.
18. ING Bank
19. JP Morgan Chase Bank, National Association
20. Land Bank of the Philippines
21. Maybank Philippines, Inc.
22. Metropolitan Bank and Trust Company
23. AIG Philam Savings Bank
24. Philippine Bank of Communications
25. Philippine Business Bank
26. Philippine National Bank
27. Philippine Veterans Bank
28. Planters Development Bank
29. Rizal Commercial Banking Corp.
30. Robinsons Savings Bank
31. The Royal Bank of Scotland (Philippines), Inc.
32. Security Bank Corp.
33. Standard Chartered Bank
34. Union Bank of the Philippines
35. United Coconut Planters Bank

B. Non-Banks (with Quasi-Banking License)

36. AB Capital and Investment Corp
37. BPI Capital Corporation
38. First Metro Investment Corporation
39. Multinational Investment Bank Corporation

C. Non-Banks (without Quasi-Banking License)

40. BDO Capital and Investment Corporation
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**Source:** Money Market Association of the Philippines ([www.mart.com.ph](http://www.mart.com.ph))
For more information on the latest government securities offerings, please contact:

**Bureau of Treasury**  
Department of Finance  
Palacio del Gobernador Building  
Intramuros, Manila 1002  
Tel. No. (632) 522-8122  
Website: [www.treasury.gov.ph](http://www.treasury.gov.ph)