Credit Guarantee & Investment Facility

An Asian Bond Markets Initiative

CORPORATE BOND MARKET REPORT

PHILIPPINES

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Abbreviations

ADB	Asian Development Bank
AGBS	ASEAN Green Bond Standards
ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN member states plus the People's Republic of China, Japan, and the Republic of Korea
ASEAN6	ASEAN's 6 member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam
ASEAN6+3	ASEAN6 plus the People's Republic of China, Japan, and the Republic of Korea
BSP	Bangko Sentral ng Pilipinas (Central Bank of the Philippines)
CHF	Swiss franc
CGIF	Credit Guarantee and Investment Facility
CIS	Collective Investment Scheme
CLN	credit-linked note
CRA	credit rating agency
CRISP	Credit Rating Investors' Services Philippines
FCY	foreign currency
GDP	gross domestic product
GSIS	Government Service Insurance System
HGC	Home Guaranty Corporation
IFC	International Finance Corporation
IRR	implementing rules and regulations
JPY	Japanese yen
LCY	local currency
LTNCD	Long Term Negotiable Certificate of Deposit
NHMFC	National Home Mortgage Finance Corporation
PDEx	Philippine Dealing and Exchange Corporation
PhilEXIM	Philippines Export-Import Credit Agency
PHILGUARANTEE	Philippine Guarantee Corporation
PhilRatings	Philippine Rating Services Corporation
PHP	Philippine peso
QIB	qualified institutional buyer
RBC	risk-based capital
RTB	retail treasury bond
S&P	Standard & Poor's
SEC Philippines	Securities and Exchange Commission of the Philippines
SPT	Special Purpose Trust
SRO	self-regulatory organization
SSS	Social Security System
USD	United States dollar
VUL	variable unit-linked insurance

Data Description

The data used in this report are based on the available information from Bloomberg. Other data sources on corporate bonds include Philippine Dealing and Exchange Corporation (PDEx), in which its data were as of 27 December 2019. In terms of industries, the classification of the Philippine Stock Exchange (PSE) was used.

Market visits were organized on 2–3 October 2019, 23–27 April 2020, 28 May 2020, and 11 June 2020 to provide more information on the secondary sources.

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This paper is part of the Association of Southeast Asian Nations (ASEAN) corporate bond market research under the Finance Department of CGIF. Led by Dong Woo Rhee, Chief Financial Officer, with assistance from Soleil Corpuz, Research Analyst, this research effort aims to show the characteristics of corporate bond markets in the ASEAN region. For any questions or comments on the contents of this report, please contact research@cgif-abmi.org.

Report Summary

1) The Philippine Corporate Bond Market Characteristics

- The Philippine corporate bond market is more developed than those of Indonesia and Viet Nam. The corporate bond market of the Philippines is about 8.08% of gross domestic product in 2019, versus only 2.8% in Indonesia and 1.7% in Viet Nam.
- Remarkable regulatory changes took effect in 2015. The Securities and Exchange Commission (SEC) Philippines introduced a shelf registration program, which was an attempt to make the corporate bond issuance process more flexible. Another SEC Philippines initiative was the recognition and adoption of the ASEAN Green Bond Standards (AGBS), which would be among the possible frameworks for green corporate bond issuance in the Philippines.

2) Specific Characteristics of the Philippine Corporate Bond Market

- Available corporate debt securities in the Philippines include commercial papers, corporate bonds and notes, and long-term negotiable certificate of deposit (LTNCD). Commercial papers are those debt instruments with maturity of 365 days or less. Corporate bonds and notes are debt securities with medium- to long-term maturities. Market convention is for corporate bonds to be publicly offered, while corporate notes are privately placed. Banks issue LTNCDs with maturity of at least 5 years.
- Majority of corporate bonds in the Philippines are issued with 5- to 10-year maturities. The simple average term to maturity at issuance of the outstanding bonds is 7.1 years.
- There are more callable bonds than ordinary bullet maturity bonds in the corporate bond market of the Philippines. This is a unique characteristic for the Philippines as the corporate bond markets of other ASEAN countries are dominated by bullet maturity bonds in terms of maturity type.
- Most corporate bonds in the country are rated AAA, another unique characteristic of the Philippine corporate bond market.

3) Investors

- Investments in corporate bonds are still small compared to investments in government bonds. For instance, banks still invest more in government bonds than corporate bonds. In addition, social security fund heavily invests in long term government bonds. Insurance companies also have relatively smaller investments in corporate bonds, as they achieve duration from government bonds. Another consideration is the supply of bonds in the market. As there is greater availability of government bonds compared to corporate bonds, institutional investors would have to hold more government bonds in their portfolio.
- Most investors would also like to hold the bonds until maturity. This contributed to the lack of liquidity in the secondary market.
- Though there are no official figures on the ranking of institutional investors for corporate bonds in the Philippines, market players consider the top investor groups to include trust operations of banks, asset management companies, insurance companies, and pension funds.
- The trust operations of banks and asset management companies would have preference for relatively shorter tenor of corporate bonds (3–5 years); while insurance companies would lean more on the longer tenors available in the market (7–10 years). Preference for the currency of corporate bonds would be in Philippine peso to support their asset and liability management needs.

4) Other Market Participants

- The issuers are predominantly established conglomerates and their subsidiaries. This relates to the findings that most of the rated outstanding corporate bonds in the Philippines have Aaa ratings according to the local rating scale.
- The SEC Philippines is the main regulator for corporate bonds. Another market participant is the Philippine Dealing and Exchange Corporation (PDEx), which is the only fixed income securities exchange operator. It is also a self-regulatory organization for the fixed income market in the country.

5) Credit Spreads

- There is no apparent generalization on trends in credit spreads on the corporate bonds in the Philippines. There is no obvious evidence that longer term bonds are required to have more spread than shorter term bonds and that unrated bonds are required to have more spread than rated bonds.

6) Guaranteed Bonds

- Guaranteed bonds are not popular in the Philippines as they took only 0.7% of total value of outstanding corporate bonds according to available data in 2019, the lowest ratio in the ASEAN6 region (includes ASEAN member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam).
- Three multilateral organizations—Asian Development Bank, Credit Guarantee and Investment Facility (CGIF), and GuarantCo—participated in Philippine peso (PHP) guaranteed bonds as guarantors in 2019. Out of these three, CGIF is the most active in terms of the number of corporate bonds guaranteed.

7) Cross-Border Corporate Bonds

- Foreign companies issued green bonds denominated in PHP. One example was the USD90 million-equivalent "Mabuhay Bond" of the International Finance Corporation. This was the first PHP-denominated green bond issued by a multilateral organization. Another notable bond issuance was from Sindicatum Renewable Energy, which was also a green bond and guaranteed by GuarantCo. This was the first PHP-denominated green bond listed in the London Stock Exchange.
- Philippine companies also issue bonds denominated in foreign currencies (FCY). Some of these FCY-denominated bonds have notable features. For instance, the Bank of the Philippine Islands issued green bonds denominated in United States dollar and Swiss franc in 2019. Other bonds issued by companies such as Petron and SMC Global Power were intended for capital raising purposes.

8) Regulatory Direction

- A regulation in 2015 that affected the issuance of corporate bonds is shelf registration. The effect was significant – corporate bond issuance increased 134% between 2015 and 2016.
- The Bangko Sentral ng Pilipinas (BSP) encouraged the issuance of bonds among banks instead of LTNCDs. In 2018, the BSP eased the procedures for the issuance of bonds. This was followed by another BSP circular in 2019, which stipulated a moratorium on the issuance of LTNCD beginning January 2021. These actions would influence the funding channels of banks from LTNCDs to bonds.
- The green bonds market has been developing in the Philippines. There is an increased awareness for sustainability among Philippine conglomerates, who are the experienced issuers in the local market. The key sectors that are open for green bond issuances are renewable energy, financials, and the real estate. As green bond issuances increase, there is a need to develop a local investor base for green bonds.
- The potential passage of the Collective Investment Scheme Law may induce more activity in the corporate bond market of the Philippines. The possible effect includes widening of the investor base and streamlining of the tax treatment for products under the collective investment scheme in the country.

1. The Philippine Corporate Bond Market Characteristics

1.1. Overall Characteristics

The Philippines joins the ranks of Indonesia and Viet Nam in terms of the development of corporate bond markets. Although having a small relative size to gross domestic product (GDP) and market capitalization, the Philippine corporate bond market is still considered as a promising market in the Association of Southeast Asian Nations (ASEAN).

In 2015, the Securities and Exchange Commission of the Philippines (SEC Philippines) implemented new policies and programs to make corporate bond issuance easier as indicated in the 2015 Securities Regulation Code (SRC) Implementing Rules and Regulations (IRR).[1] An example is the enhancement of the shelf registration program. Under this program, securities that are intended to be issued in tranches at more than one instance after the effective date of registration may be registered for an offering to be made on continuous or delayed basis for up to 3 years from the date of effective registration.[2] This way, issuers may issue bonds when market conditions are favorable for them. In the previous IRR, issuers had to file updated registration statements to SEC Philippines for each succeeding offering.

In addition, in 2015, the Philippines adopted the ASEAN Green Bond Standards (AGBS) as a framework for Philippine corporates to issue green bonds. To date, there are already three Philippine peso (PHP)-denominated green bonds issued that are aligned with the AGBS.

1.2. Corporate Bond Market Size

The Philippines is the second smallest country among the ASEAN6+3 in terms of the absolute corporate bond market size.[3] It is also the third smallest country in terms of the relative corporate bond market size when the economic scale of each country in the ASEAN6+3 is considered, such as GDP and market capitalization. At the end of December 2019, the size of the Philippine corporate bond market was equivalent to USD29.7 billion, which is about 11% of the country's market capitalization and 8% of GDP.

[1] Securities and Exchange Commission (SEC) Philippines. 2015. *2015 Implementing Rules and Regulations of the Securities Regulation Code (Republic Act 8799).* Rule 8.1.2 Delayed and Continuous Offering and Sale of Securities (Shelf Registration). http://www.sec.gov.ph/wp-content/uploads/2015/08/2015-SRC-Rules-Published-in-Phil-Star-Manila-Bulletin-October-25-2015.pdf

[2] SEC Philippines. 2017. *SEC shelf registration program boosts corporate bond issuance.* Press Release. 3 February 2017. https://www.sec.gov.ph/wp-content/uploads/2017/02/2017PresssReleases_SEC-Shelf-Registration-Program.pdf

[3] ASEAN6+3 refers to the Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam (ASEAN6), plus the People's Republic of China, Japan, and Republic of Korea.

Table 1.1: Corporate Bond Market, Market Capitalization, and Gross Domestic Product of ASEAN6+3, 2019

Country	LCY Corporate Bond Market (A)	Market Capitalization[a] (B)	GDP (C)	A/B	A/C
Philippines	**29.70**	**270.54**	**367.45**	**10.98%**	**8.08%**
Viet Nam	4.41	187.48	260.53	2.30%	1.69%
Indonesia	32.10	523.42	1,141.93	6.13%	2.81%
Thailand	127.44	541.38	568.22	23.54%	22.43%
Malaysia	174.08	399.86	347.22	43.53%	50.14%
Singapore	127.34	495.39	377.12	25.71%	33.77%
People's Republic of China	4,336.99	7,340.33	14,230.02	59.08%	30.48%
Japan	791.87	6,278.67	5,105.08	12.61%	15.51%
Republic of Korea	1,259.44	1,441.51	1,595.80	87.37%	78.92%

ASEAN6+3 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam plus People's Republic of China, Japan, and Republic of Korea; GDP = gross domestic product; LCY = local currency

Note: Values in USD billion.

[a] Bloomberg's estimates on market capitalization are calculated from all shares outstanding in a country's exchange(s). These do not include exchange traded funds (ETFs) and American depositary receipts (ADRs) as they do not directly represent companies. Estimates include only actively traded, primary securities on the country's exchange(s) to avoid double counting. Bloomberg's estimates may be lower than those reported in other sources.

Sources: Asian Bonds Online for corporate bond market size and gross domestic product (as of December 2019); Market capitalization in domestic exchanges (in current values, 2019) from Bloomberg.

Table 1.2 shows that as of December 2019, the corporate bond market size of the Philippines is about 30% of its government bond market size and 17% of corporate loan market size. These statistics indicate that bond investors spend more on government bonds than in corporate bonds and that Philippine companies rely more on bank loans than on bond issuances for their funding.[4]

Table 1.2: Corporate Bond Market, Government Bond Market, and Corporate Loan Market of ASEAN6+3, 2019

Country	LCY Corporate Bond Market (A)	Government Bond Market (B)	Corporate Loan Market (C)	A/B	A/C
Philippines	**29.70**	**101.49**	**171.19**	**29.26%**	**17.35%**
Viet Nam	4.41	49.24	N/A	8.96%	N/A
Indonesia	32.10	198.52	238.10	16.17%	13.48%
Thailand	127.44	192.99	487.44	66.03%	26.14%
Malaysia	174.08	186.81	179.29	93.19%	97.09%
Singapore	127.34	135.75	317.22	93.80%	40.14%

[4] The Manual of Regulations for Banks by the Bangko Sentral ng Pilipinas (BSP)—the central bank of the Philippines—specified that the credit exposure of a bank to a single entity, or the single borrower's limit (SBL), should not exceed 25% of the total net worth of a bank. The SBL is the total credit commitment of a bank to or on behalf of the borrower. The BSP may, from time to time, increase the SBL or grant a separate SBL. For example, the BSP increased the SBL from 25% to 30% for 6 months from 19 March 2020 as part of operational relief for banks amidst the Corona Virus Disease 2019 pandemic. (Bangko Sentral ng Pilipinas. 2020. *Memorandum 2020-11*. http://www.bsp.gov.ph/downloads/regulations/attachments/2020/m011.pdf) As corporates stretch their SBL, they may turn to bond market for more financing.

People's Republic of China	4,336.99	7,749.89	13,900.72	55.96%	31.20%
Japan	791.87	10,196.64	18,430.81	7.77%	4.30%
Republic of Korea	1,184.25	654.39	992.29	180.97%	119.35%

ASEAN6+3 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam plus People's Republic of China, Japan, and Republic of Korea; LCY = local currency

Notes:

1. Values are in USD billions.
2. Data for Republic of Korea is as of third quarter (Q3) of 2019, since the data for corporate loan market in the country is reported as of Q3 2019.

Source: Asian Bonds Online for corporate bond market size and government bond market size (as of December 2019); Corporate loan market size (as of December 2019) from the central bank of each country.

2. Specific Characteristics of the Philippine Corporate Bond Market

2.1. Issuance Methods

Corporate debt securities in the Philippines include commercial papers, long term negotiable certificate of deposit (LTNCD) and bonds. A commercial paper is the evidence of indebtedness with a maturity of 365 days or less. Thus, bonds will have a maturity of more than 365 days. On the other hand, the LTNCD is a bank instrument that can have a maturity of at least 5 years.[5]

The Philippines allows for both public offering and private placement of bonds. Private placement of bonds is for 19 or less Qualified Institutional Buyers (QIBs). The QIBs include banks, registered investment houses, insurance companies, pension funds or retirement funds. If beyond the 19 investors, bonds will be issued via a public offer.

Privately placed bonds are called corporate notes according to market convention. Private placements are not registered with SEC Philippines and are typically unrated.[6] There is no available information for the size of private placements in the Philippines. As such, the data presented in this report may not capture the absolute size of all corporate bond issuances.

2.2. Issue Size

Based on available data from Bloomberg, as of December 2019, the average issue size of PHP-denominated corporate bonds is USD132.77 million. This is considered as the second biggest next to the average issue size of Singapore (at USD157.80 million).[7]

Table 2.1: Comparison of Average Issue Sizes of Local Currency Corporate Bonds in ASEAN6, 2019 (USD millions)

Country	Average Issue Size	Minimum Issue Size	Maximum Issue Size
Philippines	**132.77**	**1.86**	**670.54**
Thailand	65.11	0.14	1,360
Viet Nam	60.55	0.50	414.27
Indonesia	36.03	0.75	634.87
Malaysia	57.49	>0.01	3,430.00
Singapore	157.80	248.96	1,100.00

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam; USD = United States dollar
Source: Bloomberg.

[5] As the main regulator for banks and non-bank financial institutions, the BSP defined debt securities among banks to include both fixed-rate and floating rate instruments, negotiable certificates of deposit, non-convertible preferred shares, and convertible bonds which trade like debt securities. (BSP. 2017. *Manual of Regulations for Banks, December 2017*. http://www.bsp.gov.ph/downloads/regulations/MORB/2017_MORB.pdf)

[6] Asian Development Bank (ADB). 2017. *ASEAN+3 Bond Market Guide 2017. Philippines.* https://www.adb.org/sites/default/files/publication/371586/asean3-bond-market-phi-2017.pdf

[7] One possible factor which influences the issuance size in the Philippines is the transaction cost for issuing bonds. According to a market participant, a bond becomes economical at issue sizes of over PHP5 billion (or approximately USD100 million) as the transaction cost for bank loans is cheaper for amounts that are smaller than PHP5 billion.

2.3. Maturity Distribution

As of December 2019, average maturity of PHP corporate bonds was about 7.1 years. This is the third longest after Malaysia (9.3 years) and Singapore (7.7 years). It is unique in the Philippines that the outstanding corporate bond issuances are dominated by bonds with 5 to 10 years maturities. They occupy 69% of the corporate bond issuances in the Philippines, which is the highest ratio in ASEAN6.

Table 2.2: Comparison of Maturity Distribution of Corporate Bonds in ASEAN6, 2019 (%)

Country	Up to 3 years	>3 to 5 years	>5 to 10 years	>10 years	Perpetual	Average Maturity (Y)
Philippines	**13**	**8**	**69**	**10**	**0**	**7.1**
Thailand	40	26	27	6	1	5.4
Viet Nam	39	27	28	6	0	5.8
Indonesia	44	32	20	4	0	5.0
Malaysia	15	15	35	33	2	9.3
Singapore	10	21	46	9	13	7.7

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam; Y = year
Note: Figures may not add up to 100% due to rounding off. Average maturity refers to simple average of original maturities of bonds.
Source: Bloomberg.

It is widely mentioned by the market participants that the reason the issuances with 5 to 10 years maturities dominate the corporate bond market in the Philippines is because of the present tax regulations affecting LTNCDs issued by banks.[8] The interest incomes that investors receive from investing in LTNCDs are exempt from withholding taxes, as long as they are issued with maturity of longer than 5 years. With tax incentives given to investors, banks would be more inclined to issue LTNCDs since they may be able to lower the interests from LTNCDs as much as the exemption. Based on the data, LTNCDs take up 17% of total number of outstanding corporate bonds in the Philippines in 2019. Specifically, they occupy 54% of the total issuances of banks. The LTNCDs, having maturities between 5 and 5.5 years, imply that banks do not prefer long-term bond issuances unless they are incentivized.

Table 2.3 shows that financial sector companies, mostly banks, issue 25% of the bonds with up to 3 years maturities—the highest ratio for this maturity range among sectors—even if they issue 60% of the bonds with 5 to 10 years maturities. It is well-known that banks also prefer to issue 1.5 years to 3 years bonds for their asset and liability management (ALM) purpose.

[8] As noted by an ADB report, one relevant feature of the bond and note issuance in the Philippines is the incentive for issuances with longer tenors. Current tax regulations encourage debt issuance which resembles deposit substitutes with a tenor of more than 5 years. They are classified as long term deposit or investment certificate. This is done so that favorable tax consideration may be gained for its distribution to investors. As a result, the market has been issuing bonds as deposit substitutes (for instance, LTNCD) with maturity of at least 5 years and 1 day so that investors may benefit from this concession.
(ADB. 2020. *ASEAN+3 Multi-Currency Bond Issuance Framework, Implementation Guidelines for the Philippines*. February. https://www.adb.org/sites/default/files/publication/561241/ambif-implementation-guidelines-philippines.pdf)

Table 2.3: Maturity Distribution of Philippine Peso Corporate Bonds, by Industry, 2019 (%)

Sector	Up to 3 years	3 to 5 years	5 to 10 years	Over 10 years
Financials	25	4	60	12
Property	3	7	84	7
Industrial	17	13	59	11
Holding Firms	3	15	73	9
Others	--	6	89	6
Total	13	8	69	9

Note: Figures may not sum up to 100% due to rounding off. Industries were based on the classification of the Philippine Stock Exchange (PSE).
Source: Bloomberg.

The LTNCDs are debt instruments that can be issued by banks. Other debt instruments issued by banks do not hold such kind of tax incentive.[9] One recent development is a moratorium by the BSP on LTNCDs, which aimed to shift the funding channel of banks from LTNCDs to bonds. The BSP issued an indefinite moratorium on issuance of LTNCDs beginning January 2021.[10] The tax incentive for LTNCDs may also be removed in the coming years, as part of the Philippine government's tax reform program, which would put a uniform rate of 15% final tax on interest income regardless of the type of issuer, term or maturity, currency, and type of investor.[11] These changes would affect the overall maturity distribution of bonds in the Philippines.

As the dominance of issuances with 5 years to 10 years maturities in the financial sector is influenced by the tax incentives, there is also a dominance of this maturity distribution in other sectors. For example, the property sector also has a sizeable number of bonds with this maturity distribution, with most bonds in the 7-year and 10-year maturities. One reason for this preference in relatively longer tenor is to match the existing projects of the property developers. Market experts shared that the dominance of 5 years to 10 years maturities in other sectors is also related to the funding requirements of the companies in those sectors.

2.4. Maturity Type

In 2019, about 57% of outstanding PHP corporate bonds were callable bonds—bonds that an issuer, at its discretion, may redeem prior to their maturity. Unlike other ASEAN bond markets, the Philippine bond market is dominated by callable bonds, as indicated in Table 2.4.

[9] Another feature of LTNCDs which separates it from other bonds is that they are still considered as a bank deposit product. As a bank deposit product, LTNCDs are covered by the Philippine Deposit Insurance Corporation (PDIC).
[10] BSP. 2019. *Circular No. 1059. Series of 2019.* Moratorium on the Issuance of Long-Term Negotiable Certificate of Time Deposit. http://www.bsp.gov.ph/downloads/regulations/attachments/2019/c1059.pdf.
[11] The tax reform program referred here is the Comprehensive Tax Reform Program, which would have four packages. The tax reform on passive income and financial taxes is part of Package 4. The program has not yet been implemented at the time this report was written. (National Tax Research Center. 2018. Analysis of Tax Revenues on Passive Income and Financial Intermediation: 2008-2017. *NTRC Tax Research Journal.* Volume XXX.5. http://www.ntrc.gov.ph/images/journal/2018/j20180910b.pdf)

Table 2.4: Comparison of Maturity Type of Corporate Bonds in ASEAN6, 2019 (%)

Country	Straight	Callable	Sinkable	Convertible	Others
Philippines	**40**	**57**	**2**	**--**	**2**
Thailand	79	19	1	0	2
Viet Nam	83	8	1	7	--
Indonesia	99	1	0	0	0
Malaysia	90	4	0	2	3
Singapore	73	11	0	1	15

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam
Note: Figures may not add up to 100% due to rounding off. "0%" denotes < 1% ratio.
Source: Bloomberg.

In Table 2.5, callable bonds are dominant in most sectors in the Philippines except the financial sector. As almost half of the bonds issued by banks are LTNCDs, which are straight bonds, the financial sector is not dominated by callable bonds. According to market participants, callable bonds are initiated more by issuers than investors because the corporate bond issuers in the country are mostly big companies or affiliates of local conglomerates. As such, these issuers can lead the bonds to be structured in their preferred way as their bonds are popular to investors. As the bonds issued by the companies are generally long, the issuers prefer to have call options that would enable them to refinance with lower rates when market interest rates go down.

Table 2.5: Ratio of Philippine Peso Corporate Bonds by Industry and Maturity Type, 2019 (%)

Sector	Straight	Callable	Sinkable	Others
Financials	80	20	--	--
Property	16	82	--	2
Industrial	30	59	4	7
Holding Firms	12	85	--	3
Others	6	83	11	--
Total	40	57	2	2

Note: Figures may not add up to 100% due to rounding off. "0%" denotes < 1% ratio. Industries were based on the classification of the Philippine Stock Exchange (PSE).
Source: Bloomberg.

2.5. Coupon Type

Fixed coupon type is the most common coupon type in the Philippine corporate bond market. While fixed coupon is also observed to be dominant in other ASEAN6 countries, the dominance of this type in the Philippines is the second highest, next to Indonesia. However, based on market participants, corporate notes, which are not captured in the available data, have floating coupon structure in general.

Table 2.6: Comparison of Coupon Type of Corporate Bonds in ASEAN6, 2019 (%)

Country	Fixed	Floating	Step Coupon	Variable	Zero	Others
Philippines	**93**	**1**	**0**	**3**	**3**	**--**
Thailand	88	--	1	11	0	--
Viet Nam	39	45	3	11	1	--
Indonesia	97	0	1	0	2	--
Malaysia	73	16	2	1	8	0
Singapore	77	1	3	19	--	--

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam
Note: Figures may not add up to 100% due to rounding off. "0%" denotes < 1% ratio.
Source: Bloomberg.

In addition, quarterly coupon payment is the most common coupon payment frequency in the Philippines.

Table 2.7: Ratio of Philippine Peso Bonds According to Coupon Frequency and Sector, 2019 (%)

Sector	Monthly	Quarterly	Semi-Annual	Others
Financials	2	94	4	--
Property	--	69	31	--
Industrial	--	50	35	15
Holding Firms	--	76	24	--
Others	--	89	11	--
Total	1	76	20	3

Note: Figures may not add up to 100% due to rounding off. Industries were based on the classification of the Philippine Stock Exchange (PSE).
Source: Bloomberg.

2.6. Payment Rank

Unsecured bonds occupy 89% of the corporate bonds in the Philippines, as seen in Table 2.8. It is mostly in line with other ASEAN countries where unsecured bonds dominate their corporate bond markets.

Table 2.8: Comparison of Payment Rank of Corporate Bonds in ASEAN6, 2019 (%)

Country	Secured	Unsecured	Subordinated
Philippines	**4**	**89**	**7**
Thailand	5	92	3
Viet Nam	8	90	1
Indonesia	19	77	4
Malaysia	54	41	6
Singapore	3	83	13

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam
Note: Figures may not add up to 100% due to rounding off.
Source: Bloomberg.

In terms of sector, subordinated bonds occupy 20% of the bonds issued in the financial sector—the highest subordinated bonds ratio among the sectors. This is due to the BSP's risk-based capital adequacy ratio requirements for banks, wherein subordinated debt can qualify for Tier 2 Capital under Basel III framework.[12]

Table 2.9: Ratio of Philippine Peso Corporate Bonds According to Payment Rank and Sector, 2019 (%)

Sector	Secured	Unsecured	Subordinated
Financials	1	79	20
Property	--	100	--
Industrial	11	89	--
Holding Firms	--	100	--
Others	17	83	--
Total	4	89	7

Note: Figures may not add up to 100% due to rounding off. Industries were based on the classification of the Philippine Stock Exchange (PSE).
Source: Bloomberg.

2.7. Credit Ratings

Table 2.10 shows that 94% of the rated corporate bonds in the Philippines have AAA ratings in the local rating scale, which is the highest ratio across ASEAN6 countries. This is one of the unique characteristics in the Philippine corporate bond market.

Table 2.10: Comparison of Credit Ratings Across ASEAN6 Countries, 2019 (%)

Country	AAA	AA	A	BBB	BB	Below BB
Philippines	94	6	--	--	--	--
Thailand	6	15	65	13	1	0
Indonesia	52	16	23	6	1	2
Malaysia	35	55	6	0	1	4
Singapore	--	6	22	72	--	--

ASEAN6 = Association of Southeast Asian Nations member countries Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam
Note: The calculation of the dispersion of credit ratings is based on the number of rated corporate bonds. Unrated corporate bonds are not included. Rating agencies used for each market are PhilRatings for the Philippines, TRIS Rating for Thailand, PEFINDO for Indonesia, RAM for Malaysia, Fitch for Singapore. No credit ratings available for Viet Nam. "0" denotes < 1% share.
Source: Bloomberg.

The high ratio of AAA-rated bonds can be attributed to the profile of issuers which access the corporate bond market. Most companies who tap the bond market belong to established group of companies. (More information will be provided in the next section, "Issuers".) The financial sector is the only sector where Aa-rated bonds can be observed to have as much as Aaa-rated bonds.

[12] BSP. *BSP's New Risk-based Capital Adequacy Framework (Exposure Draft)*. http://www.bsp.gov.ph/regulations/Basel/b2_fullexposure.pdf

Table 2.11: Ratio of Philippine Peso Corporate Bonds with Credit Ratings by Sector, 2019 (%)

Sector	Aaa	Aa
Financials	50	50
Property	93	7
Industrial	100	--
Holding Firms	100	--
Others	82	18
Total	94	6

Notes:
1. Figures may not sum up to 100% due to rounding off.
2. Basis of the ratios was in terms of number of rated bonds issued.
3. Unrated corporate bonds are not included.
4. Ratings are based on the rating scale of the local credit rating agency, PhilRatings.
5. Industries were based on the classification of the Philippine Stock Exchange (PSE).
Source: Bloomberg.

Another implication of this characteristic is the perceived rating cliff in the local market. From the data, the Philippines has a rating cliff of Aaa. This also signals one of the challenges in the Philippine corporate bond market, where lower-rated companies may find it hard to access the corporate bond market.

3. Investors

The key investors in the Philippine corporate bond market include banks, social insurance systems, insurance companies, trust companies, and mutual fund companies.

Table 3.1 provides a summary of the investment appetite among selected institutional investor groups in the Philippine corporate bond market. Mutual funds, as managed by asset management companies, may have a shorter tenor requirement since most of their investors are catering to retail (which are not necessarily high net worth investors). On the other hand, life insurance and social insurance have an appetite for 7- to 10-year bonds. For these investors, corporate bonds are pursued to take advantage of the higher yields compared to those of PHP-denominated government bonds. Hence, investors prefer to hold corporate bonds until maturity.

Table 3.1: Summary of Investment Appetite for Corporate Bonds Among Investor Groups

	Banks		Asset Management Companies	Social Insurance	Insurance Companies
	Own Funds	Trust			
Tenor	Less than 10 years	3–5 years	3–5 years	7–10 years	7–10 years
Currency	PHP and USD	PHP and USD	PHP and USD	PHP	PHP and USD
Minimum Credit Rating [a]	BBB and above	BBB and above	BBB+ and above	A and above	BBB+ and above

PHP = Philippine peso, USD = United States dollar

[a] Credit rating is by the Philippine Rating Services Corporation (PhilRatings).

Source: Interviews with market participants

Based on market interviews, the trust operations of banks and asset management companies would have a sizeable corporate bond holding among other local institutional investors in the Philippines. Insurance companies and social insurance would follow. Banks, in terms of managing their own funds, would tend to have a relatively smaller holding of corporate bonds compared to other institutional investors.

While some investors like banks, asset management companies and insurance companies invest in USD-denominated corporate bonds, these occupy only marginal shares of their bond portfolios. Overall, the preference is predominantly in PHP. The USD-denominated bond investments are generally limited to United States Treasuries or ROP bonds that are denominated in USD.[13]

In terms of investment decisions, the Philippine corporate bond market has no strict regulations as to the minimum credit rating requirements for investing. The indicated minimum credit rating shown in Table 3.1 refers to the internal criteria of investors. As indicated in Section 2.7 ("Credit Ratings"), there is a concentration of Aaa-rated bonds in the corporate bond market. This implies that some institutional investors have their own internal credit assessment and ratings with which the eligibility of a corporate bond is determined. Externally unrated bonds, therefore, can be eligible for investment subject to their internal criteria.

[13] According to the Department of Finance, ROP bonds are foreign currency-denominated issuances of the Philippine government. (Department of Finance. 2017. Successful issuance of 25-year ROP bonds underscores investor confidence in Duterte leadership. *News & Views*. https://www.dof.gov.ph/successful-issuance-of-25-year-rop-bonds-underscores-investor-confidence-in-duterte-leadership/) In the Philippine market, local players would recognize ROP Bonds to be generally in USD.

3.1. Banks

In 2019, the investment portfolio of banks continued to increase to PHP3,735 billion. Investments in counterparties are mostly in securities issued by the Philippine national government, which accounted for 68.3% (around PHP2,521 billion) of the total investment portfolio of banks. Reserve requirements for banks influence the investments of banks in government bonds since some of these are eligible to become part of a bank's reserves.[14]

Banks can be institutional investors of corporate bonds in two ways: through its treasury operations and trust operations.

Treasury Operations

Banks' investment decisions are based on their liabilities. Since liabilities are short term in nature, the investments should also be in short term. As mentioned by one market participant, deposits are short term in the Philippines (less than 1 year), which is why banks' investments should support short-term liquidity requirements. In the same manner, the preferred currency for investments is PHP. Banks would also hold corporate bonds until maturity.

Trust Operations

The trust department of a bank serves as its asset management arm, especially for retail investors. Among the products managed by the trust departments is the unit-investment trust fund (UITF). It is an open-ended trust fund, which can be denominated in PHP or any allowed currency. Only trust entities are allowed to offer UITF to end-investors. Trust operations of financial institutions are supervised by the BSP. Financial institutions with trust operations primarily include universal and commercial banks, thrift and savings banks, and trust corporations. As of 27 August 2019, there are 35 BSP-supervised financial institutions that have trust authority. Out of these, 24 institutions are universal and commercial banks and 5 are thrift banks.[15]

Trust operators have appetite for corporate bonds with 3–5 years maturities. They may also consider some 7-year bonds in their portfolio. As noted by one market participant, these maturities represent the overall demand in trust operations. In addition, the preferred currency for investments is PHP.

The investment strategy of trust operators is to hold the corporate bonds until maturity. At times, they would sell the bonds to fund their liquidity requirements. As the corporate bond market of the Philippines is illiquid, trading of corporate bonds, therefore, depends on client requirements and market situation. It would be challenging to trade based on the spreads.

3.2. Asset Management Companies

In the Philippine context, mutual funds are defined as an investment company that pools funds of many individual and institutional investors to form a massive asset base.[16] Mutual funds are governed by the Investment Company Act of the Philippines.[17]

[14] The composition of reserves of banks is found in Section 252 of the Manual of Regulation for Banks (2018) of the Bangko Sentral ng Pilipinas. (BSP. 2018. 252 Composition of Reserves. *Manual of Regulations for Banks.* https://morb.bsp.gov.ph/252-composition-of-reserves/)

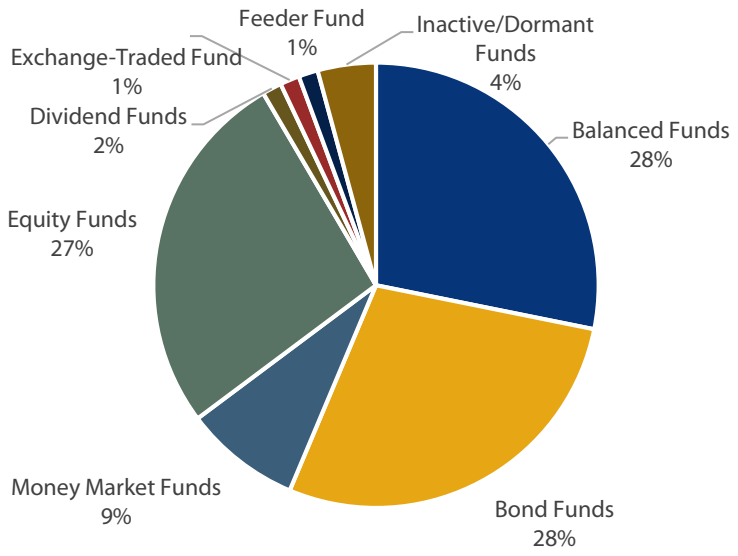
[15] The remaining 6 entities are composed of other non-bank financial intermediaries and trust corporations. BSP. 2020. *List of BSP Supervised Financial Institutions with Trust Authority*. 18 June. http://www.bsp.gov.ph/banking/trust1.pdf (accessed 27 August 2019)

[16] Philippine Investment Funds Association. *Mutual Funds 101*. https://www.pifa.com.ph/mf_101.html

[17] SEC Philippines. https://www.sec.gov.ph/wp-content/uploads/2019/11/2018IRRofInvestmentCompanyAct.pdf

As of 7 October 2019, there were 71 investment companies/mutual funds registered at SEC Philippines. Mutual fund companies are divided into 8 types, as illustrated in the figure below. About 28% of existing mutual funds were classified as bond funds, 28% were balanced funds, and 27% were equity funds.[18]

Figure 3.1: Distribution of Mutual Fund Companies, as of October 2019



Source: Securities and Exchange Commission (SEC) Philippines.

In a meeting with a local asset management company, it was noted that most investments are still in government bonds due to its relatively larger supply in the market compared to corporate bonds. Mutual fund companies would prefer to invest in corporate bonds listed with the Philippine Dealing and Exchange Corporation (PDEx) to gain on trading.[19]

At present, mutual funds have appetite for corporate bonds with 3–5 years maturity. This investment appetite reflects the current market conditions. In later part of 2019, the PHP-yield curve was generally flat. As interest rates were generally low and additional yields from longer tenor bonds were marginal, investors would shift to shorter tenor corporate bonds.

The minimum credit rating for investments is BBB. However, as it is rare to find corporate bonds rated Aa or below, the corporate bonds in mutual funds are mostly Aaa-rated.

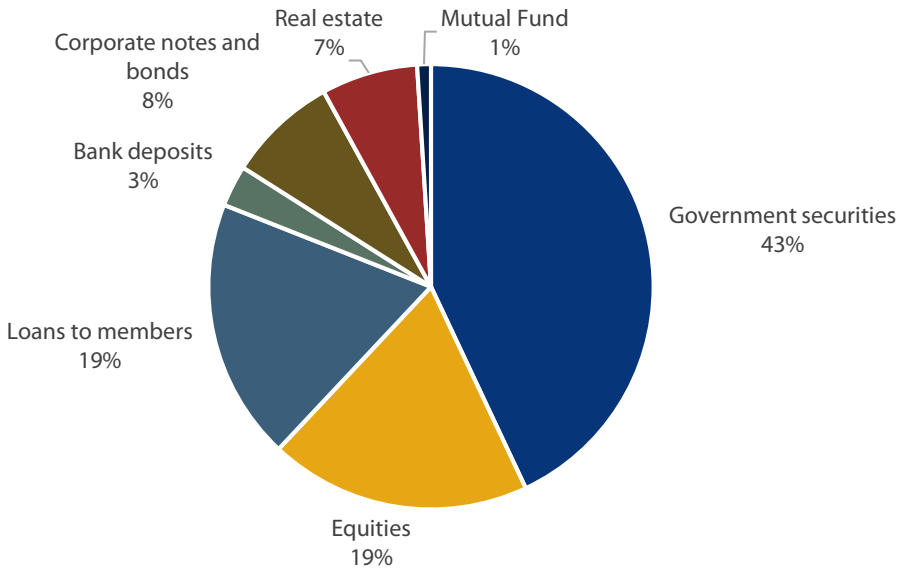
3.3. Social Insurance

Two of the three government agencies that are tasked to manage social insurance in the Philippines are the Government Service Insurance System (GSIS) and the Social Security System (SSS). The GSIS is the social insurance program for government employees, while SSS is for privately employed or voluntary nationals.

[18] SEC Philippines. https://www.sec.gov.ph/wp-content/uploads/2019/12/2019CGFD_ListofInvestmentCompaniesMutualFunds.pdf
[19] For more information on the listing of bonds at PDEx, please see Section 4.3.

The fixed income portfolio of GSIS reached PHP459.7 billion in 2017.[20] On the other hand, as of end of 2018, SSS investment reserve fund (IRF) amounted to PHP495.6 billion.[21] The composition of investments is shown in Figure 3.2, wherein government securities formed majority of investments.

Figure 3.2: SSS Investment Reserve Fund, 2018



SSS = Social Security System
Source: SSS Philippines. 2018.

The management of the investment reserve fund of the SSS is subject to investment areas and statutory limitations are provided in the Social Security Act.[22] The scope of allowable investments leans towards Philippine government bonds.

Table 3.2: Investment Areas and Statutory Limitations for Bonds

	Maximum limitations and explanation
Philippine government bonds	15% of IRF
Philippine government bonds for domestic infrastructure projects	30% of IRF
Bonds issued by government financial institutions or government corporations	30% of IRF
Bonds issued by banks	40% of IRF

[20] Government Service Insurance System (GSIS). *2017 Annual Report*. Higher Level of Transformation. https://www.gsis.gov.ph/downloads/transparency/2017-GSIS-Annual-Report.pdf?csrt=1290409605873981721 4
[21] The investment reserve fund (IRF) is defined as revenues of the SSS that are not needed to meet the current administrative and operational expenses of the organization (Section 1, Rule 42 of the IRR of Social Security Act of 2018). https://www.sss.gov.ph/sss/DownloadContent?fileName=IRR-RA11199-SS-Act-of-2018.pdf
[22] Footnote 21.

Bonds of prime corporation or multilateral institutions to finance domestic projects	40% of the IRF
Mutual funds	If local mutual fund, investment should not exceed 40% of IRF. If foreign mutual fund, investment should not exceed 1% of the IRF in the first year, which shall be increased by 1% for each succeeding year, but in no case shall exceed 15% of the IRF.
FCY deposits or investment grade rated FCY-denominated bonds and other securities	Investment should not exceed 1% of the IRF in the first year, which shall be increased by 1% for each succeeding year, but in no case shall exceed 15% of the IRF. Foreign bonds and stocks should be listed at the exchange of the issuer's country.

FCY = foreign currency, IRF = investment reserve fund
Source: Rule 42, IRR of Social Security Act of 2018 of the Philippines.
https://www.sss.gov.ph/sss/DownloadContent?fileName=IRR-RA11199-SS-Act-of-2018.pdf

The overall demand is leaning more on government bonds and equities than corporate bonds. As funds are managed for retirement and pension need of its members, conservative and long-term investments are pursued.[23]

The preference for corporate bonds is to have a maturity that is relatively longer in the market—from 7 years onwards. Though they may be allowed to invest in foreign currency bonds, SSS prefer to invest in PHP since the liabilities are in local currency. Credit ratings are also being considered, with a minimum requirement of A+. Similar to other institutional investors in the Philippines, the dominance of higher rated bonds in the market encouraged them to have their own internal credit criteria for selecting corporate bond investments.

3.4. Insurance Companies

Insurance companies remain as strong investors of debt securities in the Philippines. Like other markets, the insurance industry in the Philippines is segmented into life insurance and non-life insurance companies.

General investment guidelines of insurance companies operating in the Philippines is also guided by regulations from the Insurance Commission of the Philippines.[24]

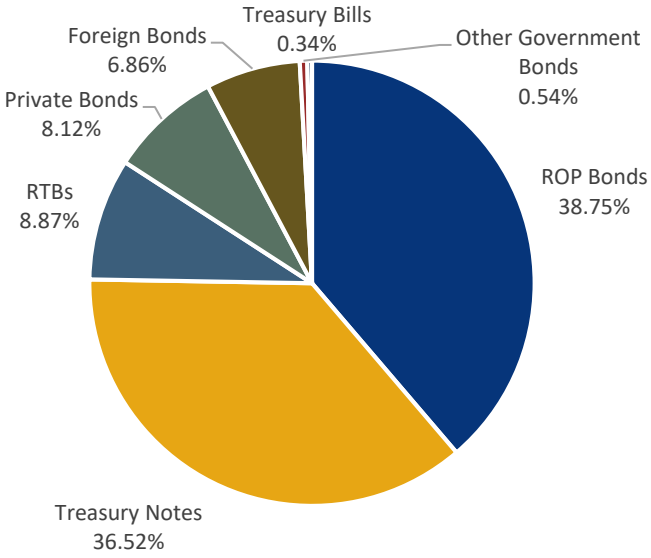
Life Insurance

In 2017, life insurance companies had a total investment of PHP1,281.15 billion.[25] The investments in segregated fund assets were the highest—equivalent to about 50% of the total investments of life insurance companies, while another 27% were invested in government bonds.[26]

In terms of investments in government securities and private securities, only about PHP33.54 billion were invested in private bonds, which was about 8.12% of total bond investments. About 85% of bond investments of life insurance companies were placed in government bonds, namely, ROP bonds, treasury notes, retail treasury bonds (RTBs), treasury bills, and other government bonds. Figure 3.3 shows the composition of bond investments of the life insurance segment.

[23] From a meeting with SSS.
[24] Department of Finance, Insurance Commission. Amended Insurance Code R.A.10607. https://www.insurance.gov.ph/issuances/laws/amended-insurance-code/
[25] Department of Finance, Insurance Commission. 2019. *2017 Annual Report*. https://www.insurance.gov.ph/wp-content/uploads/2019/04/2017-IC-Annual-Report.pdf
[26] By definition, "segregated fund assets" represent the amount of investment fund owned by unit-linked policyholders in addition to insurance coverage. (Department of Finance, Insurance Commission. 2016. *Circular Letter Number 2016-65*. https://www.insurance.gov.ph/wp-content/uploads/2017/02/CL2016_65.pdf)

Figure 3.3: Composition of Bond Investments of Life Insurance in the Philippines, 2017



ROP Bonds = foreign currency-denominated issuances of the Philippine government,[a] RTBs = retail treasury bonds
[a] Definition from the Department of Finance, https://www.dof.gov.ph/successful-issuance-of-25-year-rop-bonds-underscores-investor-confidence-in-duterte-leadership/. In the Philippine market, local players would recognize ROP Bonds to be generally in United States dollar denomination.
Source: Department of Finance, Insurance Commission.

In terms of currency, PHP and USD are preferred. Traditional life insurance products are invested in PHP, while variable unit-linked insurance (VUL) products may be invested in PHP or in USD. Related to this, the high investments in ROP bonds can be product driven. For instance, investment-linked insurance products (USD-denominated) are heavily invested in ROP bonds. In addition, buying Philippine government-issued bonds require no additional approval from the local market regulator, the Insurance Commission of the Philippines.

The investment appetite for corporate bonds starts from 7 years onwards.[27] Two factors affect this preference. First, corporate bonds offer higher yield over government bonds. Thus, it is better to lock in higher yields for relatively longer tenor. Second, based on data in "Maturity Distribution", there is a significant supply of 7-year bonds in the market. With only a handful of bonds to choose in the market as well as an illiquid secondary market, insurance companies would prefer to maximize the yields on such corporate bonds.[28]

Insurers can invest in both public offerings and private placements of bonds. Funds raised from traditional life insurance are placed on both publicly offered and privately offered bonds. However, funds raised from VUL products are generally invested in publicly offered bonds since they may be required to be sold.

Though there are no set regulations on specific credit ratings as minimum investment criteria, life insurance companies are still careful in selecting investible assets. In addition, there is no regulation from the Insurance Commission of the Philippines which prohibit insurers to invest in unrated bonds. Nevertheless, the commission provides guidelines on risk-based capital (RBC), wherein investing in unrated or lower-rated bonds would affect

[27] As reference, life insurance companies actively participate in 20-year government bonds in the Philippines.
[28] This investment appetite also captures that of the variable unit-linked life (VUL) insurance. Market participants noted that funds from traditional life insurance products and VUL products are invested in the same asset classes.

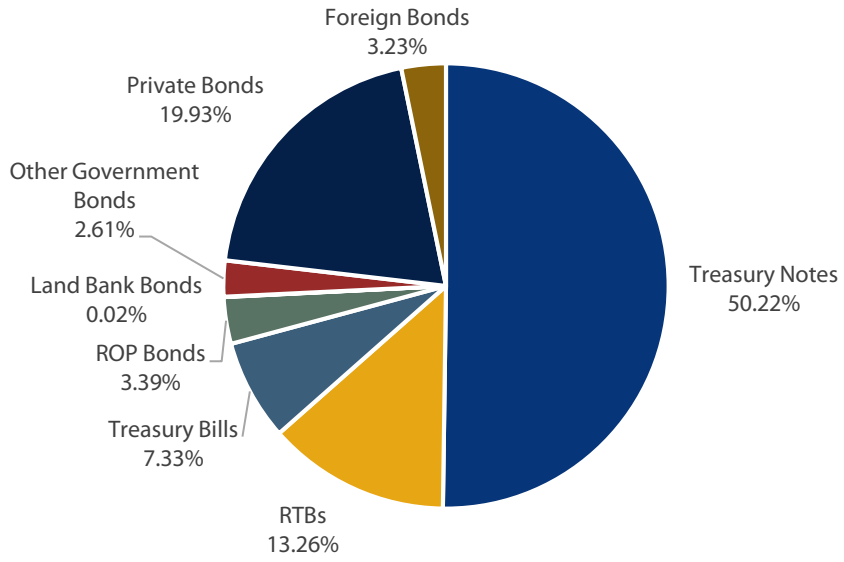
the RBC of insurers. The regulation on RBC makes insurers more prudent in assessing the bonds through their respective internal credit criteria.

Non-Life Insurance

Investments of non-life insurance companies in 2017 was only PHP96.09 billion. Highest investments were made in government securities (34% of total investments of non-life segment), stocks and/or equities (28%), and fixed deposits (16%). Investments in private securities were only 10% of total investments of the non-life insurance segment.

Non-life insurance segment's bond investments reached PHP42.45 billion in 2017, wherein treasury notes took the highest share (50.22%). Investments in private bonds took 19.93% of total bond investments.

Figure 3.4: Composition of Bond Investments of Non-Life Insurance in the Philippines, 2017



ROP Bonds = foreign currency-denominated issuances of the Philippine government,[a] RTBs = retail treasury bonds
[a] Definition from the Department of Finance, https://www.dof.gov.ph/successful-issuance-of-25-year-rop-bonds-underscores-investor-confidence-in-duterte-leadership/. In the Philippine market, local players would recognize ROP Bonds to be generally in United States dollar denomination.
Source: Department of Finance, Insurance Commission.

Non-life insurance companies would lean more on short term investments due to the nature of their products (non-life insurance contracts are on renewable term). A 5-year bond would be the maximum tenor that a non-life insurer may invest in.

3.5. Retail Investors

Retail investors (e.g., individuals and small/medium scale corporations) can also access the bond market.[29] Retail investors can primarily access the bond market through banks, as this channel seems to be the most accessible compared to other financial institutions.

Retail investors pursue yield, especially after-tax yield. As a result, LTNCDs are popular to them due to the tax incentive. Retail investors are known to prefer short tenor and non-callable bonds when other conditions are similar. While they mostly invest in PHP bonds, they also participate in the issuance of USD bonds of Philippine entities.

3.6. Foreign Investors

There is no available information on the level of holdings of foreign investors in the Philippine corporate bond market. There is disparity in terms of tax treatment between foreign investors (non-residents) and local investors. Table 3.3 shows some comparison of taxes between foreign and local investors for debt instruments.

Table 3.3: Comparison of Taxes for Corporations on Investing in Debt Instruments

	Domestic	Foreign	
		Resident	Non-Resident
Interest Income	20%	20%	30%
Trading Gains (For fixed income securities with less than 5 years maturity, regardless if traded or not through PDEx)	30%	30%	30%
Documentary Stamp Tax (On original issuance)	PHP1.50 on each PHP200 or fractional part thereof of the face value	0.75% (Equivalent ad valorem tax)	
Documentary Stamp Tax (On secondary market issuance; Assignment or transfer of any indebtedness)	PHP1.50 on each PHP200 or fractional part thereof of the face value	*None*	
Documentary Stamp Tax (Fixed income traded in secondary market or through an exchange)	Exempt	*None*	

PDEx = Philippine Dealing and Exchange Corporation, PHP = Philippine peso
Source: National Tax Research Center. May-June 2018. *A Review of Taxation of Philippine Debt Instruments. Vol. XXX.3.* Manila, Philippines

[29] Based on PDS Group Presentation (2016), retail investors are composed of individuals and small/medium scale corporations. In this presentation, as of May 2016, retail investors comprised 38% of corporate bonds in the Philippines, while institutional investors took the remaining 62%.
PDS Group. 2016. Philippine Bond Reference Rates. A presentation for the ABMF Bond Pricing Workshop on Philippine Bond Market and PDS Group Services. Tokyo. 6 June.
https://wpqr4.adb.org/LotusQuickr/asean3abmf/Main.nsf/0/70232219B1E712F648257FC4002E664D/$file/Session%202e%20PDS%20Phil%20Bond%20Ref%20Rates%20Calculation%20(ABMF%20PW%2006Jun2016)%20Release.pdf

4. Other Market Participants

4.1. Issuers

There are 285 listed companies in the Philippine Stock Exchange (PSE). As of December 2019, based on Bloomberg's data, there were 63 issuers of corporate bonds in the Philippines. Out of these companies, 40 issuers were listed companies having outstanding corporate bonds. Most of these companies belong to the first tier in market capitalization rankings. The list of frequent issuers includes the top conglomerates (either through their holding companies or through their subsidiaries) such as SM Corporation, Ayala Corporation, JG Summit Holdings, Aboitiz Group, and San Miguel Corporation.

The remaining 23 issuers are unlisted companies, with most being related to the established companies in the Philippines. The four issuers, operating in the infrastructure development field, include those from San Miguel Corporation. The four issuers accounted for 19 outstanding bonds, with a total issue amount of PHP112.8 billion. Overall, it can be said that the issuance of corporate bonds in the Philippines is dominated by the conglomerates.

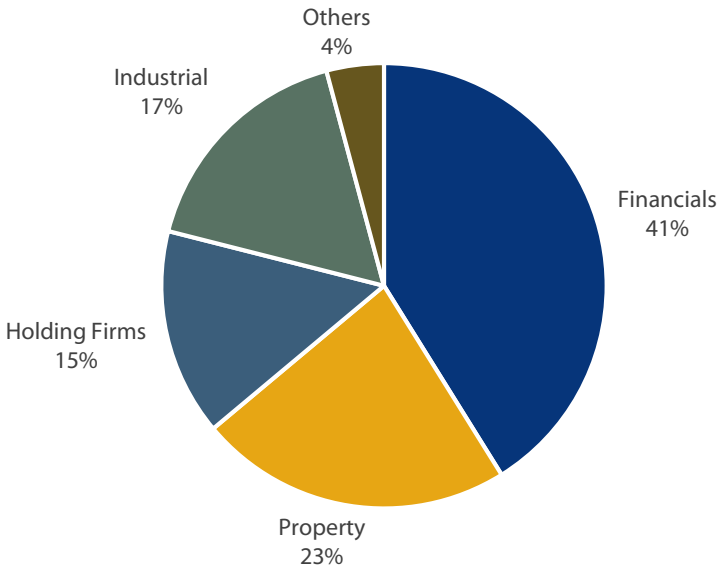
Table 4.1: Number of Listed Companies in PSE with Outstanding Bonds, Per 100 rankings, 2019

Market Cap Ranking	Number of listed companies having outstanding bonds
1 to 100	37
101 to 200	3
201 to 285	0

PSE = Philippine Stock Exchange
Source: Bloomberg; Author's calculations.

Issuer groups include Financials (41% of total issued amount), Property (23%), Holding Firms (15%), and Industrial (17%). The distribution of issuers in the Philippines is similar with those of other ASEAN countries (such as Indonesia and Viet Nam), wherein the companies in the Financial sector are the more active issuers.

Figure 4.1: Distribution of Issuers in the Philippines Based on Issued Amount, 2019



Source: Bloomberg; Author's calculations.

4.2. Securities and Exchange Commission, Philippines

The Securities and Exchange Commission of the Philippines (SEC Philippines) is the main regulator for the entire securities market in the country. SEC Philippines leads the formulation of policies concerning the entire securities market. Another important function of SEC Philippines is the supervision and monitoring of the activities of exchanges, clearing agencies, and self-regulatory organizations (SRO) in the market.

As a commitment to develop the corporate bond market in the country, SEC Philippines played a key role in coordinating the formulation of a capital market development plan for 2013–2017.[30] Part of this development plan is to "develop private debt issue (corporate bond) market" of the country.

In 2018, SEC Philippines adopted the ASEAN Green Bonds Standards (AGSB).[31] The commission approved SEC Memorandum Circular No. 12/2018 or the "Guidelines on the Issuance of Green Bonds under the ASEAN Green Bonds Standards", which provides the rules and procedures for the issuance of ASEAN green bonds in the Philippines.[32]

4.3. The PDS Group

The PDS Group is known as the provider of capital market infrastructure in the Philippines.[33] With the Philippine Dealing System Holdings Corporation as the holding company, PDS Group operates four subsidiaries which support the secondary market of corporate bonds in the Philippines. These subsidiaries include:

i. Philippine Dealing and Exchange Corporation (PDEx), which is in charge of securities trading. PDEx is the only fixed income securities exchange operator registered with SEC Philippines. It is also an SRO in the Philippine fixed income market.
ii. Philippine Depository and Trust Corporation (PDTC), which is a central securities depository and registry for debt and equity securities.
iii. Philippine Securities Settlement Corporation (PSSC), which is the payment and transfer services arm of the group. Currently, PSSC operates domestic transfer systems for two currencies: United States dollar and Chinese yuan.
iv. PDS Academy for Market Development Corporation, which mainly provides education and awareness activities on the securities market of the Philippines.

The PDEx also provides information on listed corporate bonds as well as trading of listed securities. As of 27 December 2019, 191 corporate securities (including fixed rate bonds, commercial papers, and LTNCDs) were listed with PDEx.

[30] SEC Philippines Annual Report. 2013. https://www.sec.gov.ph/wp-content/uploads/2020/01/2013AnnualReport_ProtectingInvestorsStrengtheningtheMarket.pdf
[31] THE AGSB intends to enhance the transparency, consistency and uniformity of ASEAN Green Bonds. The AGSB is under the initiative of ASEAN Capital Markets Forum, which aims to develop a green asset class to support sustainable growth in ASEAN, particularly in the region's infrastructure needs. AGSB is based on International Capital Market Association's Green Bond Principles.
ASEAN Capital Markets Forum. *ASEAN Green Bond Standards.* https://www.theacmf.org/initiatives/sustainable-finance/asean-green-bond-standards
[32] SEC Philippines. MC No. 12 s.2018 – Guidelines on the issuance of Green Bonds under the ASEAN Green Bonds standards in the Philippines. https://www.sec.gov.ph/mc-2018/mc-no-12-s-2018-guidelines-on-the-issuance-of-green-bonds-under-the-asean-green-bonds-standards-in-the-philippines/
[33] PDS Group. https://www.pds.com.ph/

In order to be listed, PDEx has set minimum requirements for both issuers and their respective securities as itemized in Rule 7.2 of the PDEx Rules for Fixed Income Securities Market.[34] Rule 7.2 contains the admission criteria relating to issuers. Based on this rule, PDEx can list corporate issuers in good standing with applicable government authorities, SROs, and other exchanges that they may be listed. It is not a requirement to have credit ratings for issuers or securities in order to be listed at PDEx.[35]

4.4. Credit Rating Agencies

There are two credit rating agencies (CRAs) in the Philippines: the Philippine Rating Services Corporation (PhilRatings) and Credit Rating Investors' Services Philippines (CRISP). PhilRatings is accredited by SEC Philippines as a domestic CRA. It is also recognized by the BSP as a domestic CRA for bank supervisory purposes. In addition, PhilRatings is a BSP-recognized domestic external credit assessment institution (ECAI) which can rate domestic debt issuances in relation to BSP's implementing guidelines of Basel II.[36]

PhilRatings uses the following definitions in its credit rating scale for bond issuance. In each scale, PhilRatings may add (+) or (-) to qualify the ratings.

Table 4.2: Credit Rating Scale of Philippine Rating Services Corporation for Long Term Issuances

Credit Rating	Definition
Aaa	Highest quality with minimal credit risk. Extremely strong capacity of the issuer to meet its financial commitments.
Aa	High quality and has very low credit risk. Very strong capacity of the issuer to meet its financial commitments.
A	With favorable investment attributes and obligations considered as upper-medium grade. Strong capacity of the issuer to meet its financial commitments.
Baa	Shows adequate protection parameters and may possess certain speculative characteristics. Adverse economic conditions and changing circumstances may diminish the capacity of the issuer to meet financial commitments on its obligation.
Ba	Less vulnerable to nonpayment than other speculative issues. Major business, economic and financial uncertainties may lead to inadequate capacity of the issuer to meet financial commitments on its obligation.
B	More vulnerable to nonpayment than PRS Baa-rated obligations; But the issuer is currently capable to meet financial commitment on its obligation.
Caa	Presently vulnerable to nonpayment, with issuer's capacity to meet its financial commitment dependent on favorable business, financial and economic conditions.
Ca	Presently highly vulnerable to nonpayment and may already be in or very near default, with some prospect for partial recovery of principal or interest.
C	Already in default with very little prospect of recovery of principal or interest.

Source: PhilRatings. http://www.philratings.com/(S(qksafymj2usz2p45tq51n255))/issue.htm

[34] Philippine Dealing and Exchange Corporation (PDEx). 2013. *PDEx Rules for the Fixed Income Securities Market, As Amended*. Revised 25 July 2011. https://www.pds.com.ph/wp-content/uploads/2013/08/PDEx-Rules-for-the-Fixed-Income-Securities-Market-as-Amended-Revised-25-July-2011-2.pdf

[35] Footnote 32.

[36] Philippine Rating Services Corporation (PhilRatings). Company Profile. http://www.philratings.com/(S(s05kri45cswj0p45pujoy2fe))/profile.htm

On the other hand, CRISP is another domestic CRA also accredited by SEC Philippines, which is more recently established compared to PhilRatings. Based on market observation, PhilRatings is the more popular domestic CRA in the Philippines.

Based on SEC regulations, a credit rating is required for issuing corporate bonds and commercial papers, except for the following instances: (i) if the issuance amounts to not more than 25% of the issuer's net worth, or (ii) if there is an irrevocable committed credit line with a bank covering 100% of the proposed issuance. Corporate bonds and notes issued via private placement are not required to have a credit rating.[37]

[37] Footnote 6.

5. Credit Spreads

Credit spreads were computed for outstanding corporate bonds since there is no available yield or credit spread matrix reported by any institution or association in the Philippines. The bonds included for credit spread analysis are filtered based on the maturity type (straight bonds), coupon type (fixed coupon type), and issue price (par value). Credit spreads are computed as the difference between the coupon rate of the bond and the yield of the government bond with the same maturity on the issuance date of the corporate bond.[38] In the process of credit spread investigation, LTNCDs are excluded since their coupon rates are set lower than ordinary bonds not because of the credit matter but because of the tax incentive given to LTNCDs. After this selection process, 44 bonds were left to be analyzed for credit spreads.[39] Out of 44 bonds, only seven are rated. Table 5.1 shows the credit spread matrix based on this sample. As the credit spreads depend on the dates when the corporate bonds were issued, this table does not show contemporary credit spreads.

Table 5.1: Average Credit Spreads of Selected Philippine Peso Corporate Bonds, Per Tenor (%)

Credit Rating	1.25Y	1.5Y	1.51Y	2Y	3Y	5Y	5.25Y	5.5Y	7Y	10Y	15Y
Aaa					0.90		0.54	1.28	0.88	0.79	
Aa				1.29							
None	0.17	0.60	0.87	0.63	0.69	0.90	2.32		0.83	1.19	0.75

Y = Year

Note: Credit ratings reflect PhilRatings scale.

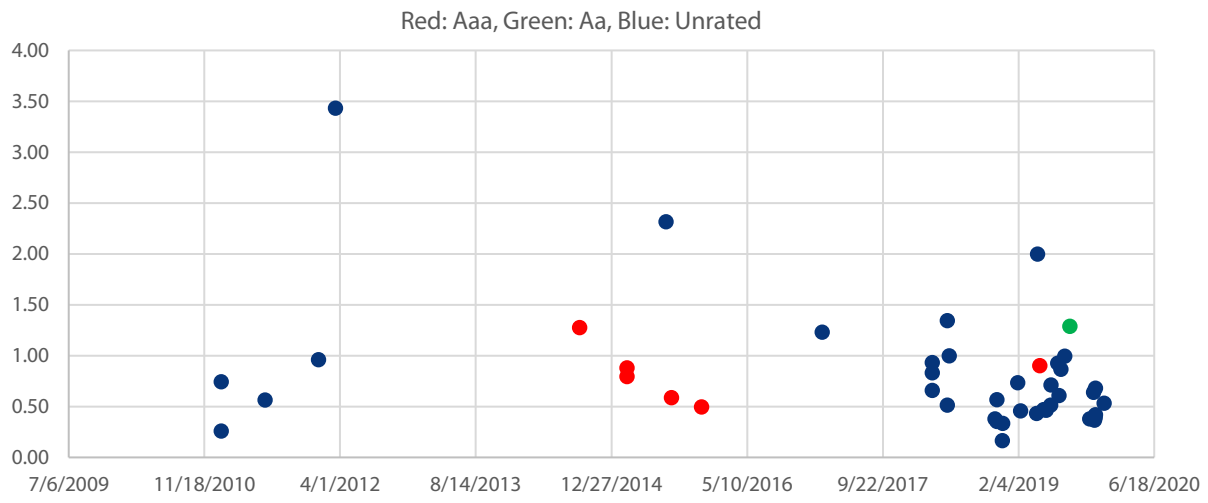
Source: Bloomberg for coupon rates; PDEx for benchmark government rates (PDST-R2) and BVAL; Author's calculations.

Figure 5.1 shows the credit spreads of Aaa, Aa, and unrated corporate bonds on the dates when they were priced.

[38] The benchmark government bond rates were taken from PDS Group's Philippine Treasury Reference Rates (PDST-R2). PDST Reference Rates is defined as the complete set of interest rates for Philippine treasury instruments composed of benchmark securities and non-bank securities, to be used as reference rates for daily market valuation of Philippine treasury instruments and/or other interest-sensitive instruments. (PDS Group. 2015. *PDST Calculation Framework.* Revised November 2014. http://www.pds.com.ph/wp-content/uploads/2015/01/PDST-Calculation-Framework-RevPost-BSP-813-21Nov2014-CLEAN_BAP-Approved-Dec-18-20141.pdf)

[39] In terms of government bond yield data, PDST-R2 was the reference for government bonds issued prior to 29 October 2018. Starting 29 October 2018, the Bankers Association of the Philippines (BAP) launched its new reference rates – the PHP BVAL Reference Rates. This replaced the PDST-R reference data. The BAP, as the benchmark administrator, engaged Bloomberg as the benchmark calculation agent. (PDS Group. 2018. *Launch of the New BAP PhP BVAL Reference Rates.* 27 October. https://www.pds.com.ph/index.html%3Fp=56409.html)

Figure 5.1: Credit Spreads Movement, Per Credit Rating (%)



Source: Bloomberg for coupon rates; PDEx for benchmark government rates (PDST-R2) and BVAL; Author's calculations.

While it is hard to generalize characteristics of credit spreads in the Philippines due to lack of data, the following are some observations made based on Table 5.1 and Figure 5.1. First, it is not apparent whether longer tenor corporate bonds require more spread than shorter ones. Second, unrated bonds are not required to invest in more spreads than rated bonds. Except for some outliers, credit spreads of unrated bonds are as low as those of rated bonds. Third, it is hard to say that current credit spreads are tighter or wider than the spreads in the past. They have long been in the general range of 0.5% to 1.0% even if there have been spreads outside of this scale all the time.

6. Guaranteed Corporate Bonds

Available data from Bloomberg stated that there were eight guaranteed corporate bonds issued by local entities in the Philippines as of December 2019. As seen in Table 6.1, the ratio of the value of guaranteed bonds of the Philippines is the lowest among ASEAN6 economies.

Table 6.1: Overview of Local Currency Guaranteed Corporate Bonds in ASEAN6 Markets, as of December 2019 (%)

Country	Ratio of Value of Guaranteed Bonds	Ratio of Number of Guaranteed Bonds
Philippines	**0.7**	**3.3**
Thailand	9.2	7.5
Viet Nam	15.8	20.0
Indonesia	1.6	0.8
Singapore	41.6	46.2
Malaysia	36.6	36.5

Source: Bloomberg; Authors' calculations.

6.1. Characteristics of Philippine Peso Guaranteed Corporate Bond Market

Bloomberg shows only eight outstanding guaranteed bonds issued by local entities as of end of 2019. From this number, two are guaranteed by subsidiaries, five are guaranteed by CGIF, and one bond is guaranteed by a government-related entity. Aside from these, Sindicatum Renewable Energy Corporation, a Singaporean entity, issued PHP-guaranteed bond. In addition, the PHP10.7 billion-bond of AP Renewables Incorporated is also a PHP-guaranteed bond, although it was not available in Bloomberg. While the ratios in Table 6.1 can be increased if these two bonds are included, it does not seem to change the fact that the guaranteed bonds are not active in the Philippines.

There are two government-related guarantors in the Philippines: Philippine Export-Import Credit Agency (PhilEXIM) and Home Guaranty Corporation (HGC). In September 2019, the Department of Finance issued Memorandum Circular 001-2009, which implemented the merger of PhilEXIM and HGC into a single guarantee agency—the Philippine Guarantee Corporation (PHILGUARANTEE).[40] The creation of PHILGUARANTEE consolidates all guarantee functions and services of the government in a single entity, including other guarantee functions extended by the government. PHILGUARANTEE offers three major guarantee programs: Corporate/MSME Programs, Housing Programs, and Agriculture Program.

The guarantees are mainly for loans extended by banks and financial institutions. Nevertheless, under the Housing Program, PHILGUARANTEE can offer guarantees for securitization.[41] Table 6.2 shows that there is one bond guaranteed by HGC outstanding as of end 2019.[42]

[40] DOF. 2019. *Memorandum Circular No. 001-2019*. Merger and Consolidation of Philippine Guarantee Programs and Agencies (PGPAs). 3 September. http://www.philexim.gov.ph/files/20190904-MEMORANDUM-CIRCULAR--NO.-001.2019-Merger--Consolidation-of-Philippine-Guarantee-Programs--Agencies-PGPAs.pdf

[41] More information on PHILGUARANTEE's guarantee programs is found in their website. (PHILGUARANTEE. Programs. https://philguarantee.gov.ph/programs/)

[42] As an update for 2020, one local real estate developer, 8990 Holdings Inc., secured a guarantee from PHILGUARANTEE for its securitization transaction to be rolled out within the first quarter of 2020. The securitization is estimated to be worth

Table 6.2: Philippine Peso Guaranteed Corporate Bond Issuers, 2019

Issuer	Industry	Guarantor	No. of Issues	Total Amount Issued (PHP millions)	Average Maturity (Y)
Bahay Bonds 2 SPT	Financial	HGC	1	120	10
Alsons Consolidated Resources	Utility	Subsidiaries	2	7,500	6
AP Renewable Incorporated	Utility	ADB	1	10,700	10
ASA Philippines Foundation	Financial	CGIF	3	2,000	5
Sindicatum Renewable Energy	Utility	GuarantCo	1	1,000	10
Aeon Credit Service Philippines	Financial	CGIF	2	1,000	4

ADB = Asian Development Bank, CGIF = Credit Guarantee and Investment Facility, HGC = Home Guaranty Corporation, PHP = Philippine peso, Y = year
Source: Bloomberg; CGIF.

Table 6.3 shows the guaranteed bonds' coupon rates and their spreads over the government bond rates with same maturities.

Table 6.3: Spreads of Philippine Peso Guaranteed Corporate Bonds Outstanding, as of end 2019

Issuer	Rating	Coupon	BM[a]	Spread	Remark
Bahay Bonds 2 SPT	PRAa	6.00%	4.91%	+1.09%	Amortizing and 10% clean-up call
Alsons Consolidated Resources (5-year maturity)	N/A	7.24%	3.93%	+3.31%	Callable at 102
Alsons Consolidated Resources (7-year maturity)	N/A	7.92%	4.61%	+3.31%	Callable at 102 and amortizing
AP Renewables Incorporated	N/A	4.48%	3.85%	+0.63%	Amortizing; Partial Guarantee (75%)
ASA Philippines Foundation	N/A	5.90%	5.02%	+0.88%	Partial Guarantee (75%)
Aeon Credit Service Philippines (3-year maturity)	N/A	7.30%	7.05%	+0.25%	
Aeon Credit Service Philippines (5-year maturity)	N/A	7.70%	7.45%	+0.25%	
Sindicatum Renewable Energy	A1(M)[b]	7.40%	6.43%	+0.97%	Settled in USD; Listed in London Stock Exchange

PHP = Philippine peso; SPT = Special Purpose Trust, USD = United States dollar
[a] "BM" refers to government rate with same maturity.
[b] Credit rating by Moody's (M).
Note: For the amortizing bonds, these were labeled as "sinkable" in Bloomberg.
Source: Bloomberg; PDEx; Author's calculations.

Due to the complicated structures (e.g., call option or amortizing) embedded in some bonds, it is hard to say whether one guaranteed bond is priced more competitively than the other. Having said that, it is obvious in Table 6.3 that Aeon's bonds were competitively priced. Their coupon rates were set at 0.25% of spread on top of the Philippine government bond yields with same maturities, given 0.5% to 1.0% spread applied to top tier corporate names in the Philippines. The reason they were issued with tight spreads may be attributed to the participation of foreign investors who were willing to take low spreads from the bonds guaranteed by the institution, CGIF, whose

PHP2.5 billion. A press release by PDS Group in its website provided more information and update. (PDS Group. 2019. 8990 to Sell Php10 Billion in Receivables, Eyes Php2.5 Billion Securitization in 2020. *Press release*. https://www.pds.com.ph/wp-content/uploads/2019/11/Disclosure-No.-3221-2019-Press-Release-8990-to-Sell-Php10-Billion-in-Receivables-Eyes-Php2.5-Billion-Securitization-in-2020.pdf)

credit rating (AA by S&P) is higher than that of the Philippine sovereign (BBB+ by S&P). In general, pure local investors require more yield from a foreign name than the top tier local names due to unfamiliarity even if it is rated higher than them in terms of the international rating scale.

6.2. Details of Philippine Peso Guaranteed Corporate Bonds

Bahay Bonds 2 SPT

Bahay Bonds 2 Special Purpose Trust (SPT) issued three bonds guaranteed by HGC in August 2012. Bahay Bonds SPT is the special purpose trust created by the National Home Mortgage Finance Corporation (NHMFC) to issue residential mortgage-backed securities. There are three bonds that are identical to one another except for coupons and maturities. HGC guarantees cash flow for each residential loan sold by NHMFC to SPT, covering the full outstanding principal amount of defaulted residential loans, and up to 11% interest rate. As such, HGC is invoked when the size of the subordinated notes reduces to zero due to absorption of losses from defaulted residential loans. Table 6.4 provides details on Bahay Bonds 2 SPT.

Table 6.4: Bahay Bonds 2 SPT

Issuer	Bahay Bonds Special Purpose Trust (SPT)
Issuer Description	A trust established by the National Home Mortgage and Finance Corporation (NHMFC)
Issue Date	17 August 2012
Issue Amount	PHP120 million
Maturity	10 years
Guarantor	Home Guaranty Corporation, a government owned corporation
Guarantee Rate	100%
Credit Rating	Aa by PhilRating (issue rating)

Alsons Consolidated Resources

Alsons Consolidated Resources issued a bond guaranteed by Alsing Power Holdings and Conal Holdings Corporation, both of which are power sector subsidiaries of the Issuer. Table 6.5 provides details on the company.

Table 6.5: Alsons Consolidated Resources

Issuer	Alsons Consolidated Resources
Issuer Description	A listed company of the Alcantara Group with subsidiaries engaged in power generation, property development and management, and other investments
Issue Date	3 December 2015
Issue Amount	PHP5,600 million for 5-year tranche / PHP1,900 million for 7-year tranche
Maturity	5 years and 7 years
Guarantor	Alsing Power Holdings and Conal Holdings, both subsidiaries of the issuer
Guarantee Rate	100%
Credit Rating	Not rated (Issuer is rated A+ by PhilRatings)

AP Renewables Incorporated

AP Renewables Incorporated issued a 10-year amortizing bond partially guaranteed (75%) by ADB in March 2016. CGIF participated in this transaction as the risk sharing partner. It was the first climate project bond in Asia. Table 6.6 provides details on AP Renewables Incorporated.

Table 6.6: AP Renewables Incorporated

Issuer	AP Renewables Incorporated
Issuer Description	A wholly owned geothermal energy producing subsidiary of Aboitiz Power Corporation
Issue Date	8 March 2016
Issue Amount	PHP10,700 million
Maturity	10 years
Guarantor	Asian Development Bank
Guarantee Rate	75%
Credit Rating	Not rated

ASA Philippines Foundation Incorporated

ASA Philippines Foundation Incorporated (ASA) issued bonds with partial guarantee (75%) from CGIF three times with the same structure. They were ASA's inaugural bond issuances that supported the Philippine government's initiative towards poverty alleviation and financial inclusion. ASA's details are provided in Table 6.7.

Table 6.7: ASA Philippines Foundation Incorporated

Issuer	ASA Philippines Foundation Incorporated
Issuer Description	Nonprofit corporation specializing in microfinance especially for women
Issue Date	10 February 2017; 28 June 2017; 10 January 2018
Issue Amount	PHP2,000 million in total
Maturity	All 5 years
Guarantor	Credit Guarantee and Investment Facility
Guarantee Rate	75%
Credit Rating	Not rated

AEON Credit Service (Philippines) Incorporated

AEON Credit Service (Philippines) Incorporated issued the bond guaranteed by CGIF in two tranches—a 3-year tranche and a 5-year tranche. It was the first debt issue under the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) guaranteed by CGIF as well as the first AMBIF issue in the Philippines. Table 6.8 provides details on AEON Credit Service.

Table 6.8: AEON Credit Service (Philippines) Incorporated

Issuer	AEON Credit Service (Philippines) Incorporated
Issuer Description	A subsidiary of AEON Financial Service Company, Ltd. Japan
Issue Date	16 November 2018
Issue Amount	PHP900 million for 3-year tranche / PHP100 million for 5-year tranche
Maturity	3 years and 5 years
Guarantor	Credit Guarantee and Investment Facility
Guarantee Rate	100%
Credit Rating	Not rated

Sindicatum Renewable Energy

Sindicatum Renewable Energy, a Singapore-based company, issued a 10-year PHP bond guaranteed by GuarantCo, a European credit guarantor established to mobilize local currency investment for infrastructure projects and to support the development of financial markets in lower income countries. It was issued together with an Indian rupee tranche as green bonds. While it is a PHP-denominated bond, payments are all settled in USD. It is also listed in the London Stock Exchange. Table 6.9 provides details on the company.

Table 6.9: Sindicatum Renewable Energy

Issuer	Sindicatum Renewable Energy
Issuer Description	A Singapore-based company which provides renewable energy project development services
Issue Date	15 August 2018
Issue Amount	PHP1,060.2 million
Maturity	10 years
Guarantor	GuarantCo
Guarantee Rate	100%
Credit Rating	A1 by Moody's

7. Cross-Border Corporate Bonds

Inbound bonds discussed in this report mean local currency (LCY) bonds issued by foreign entities. They can be settled in the same LCY or in major currencies such as USD. The ratio of inbound bonds means the ratio of LCY bonds (in this context, PHP-denominated bonds) of foreign entities to total LCY bonds issued by both local and foreign entities. Thus, this ratio implies how much foreign entities participate in the LCY bond market of the country.

Table 7.1 shows that the Philippines and Indonesia have higher inbound ratios than other countries except Singapore. However, most of the bonds in Philippine peso (15 out of 16) and Indonesian rupiah (573 out of 578) issued by foreign entities are settled in major currencies and traded outside of the local markets. In this sense, the real inbound bonds in the Philippines and Indonesia are as negligible as Thailand and Malaysia.

On the other hand, outbound bonds refer to foreign currency (FCY) bonds issued by local entities. The ratio of outbound bonds refers to the ratio of FCY bonds of Philippine corporate entities to total bonds issued by Philippine entities. Thus, this ratio implies how much local entities rely on offshore markets for their bond financing. Table 7.1 shows that the Philippines is the second highest next to Singapore in terms of outbound ratio even if there is a huge gap between the two countries.

Table 7.1: Cross-Border Corporate Bonds in ASEAN6 Countries, 2019 (%)

Country	Ratio of Inbound Bonds	Ratio of Outbound Bonds
Philippines	18	12
Thailand	1	5
Indonesia	39	8
Malaysia	1	4
Singapore	44	77
Viet Nam	3	4

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam
Note: The ratios are based on the number of corporate bonds issued.
Source: Bloomberg; Authors' calculations.

7.1. Philippine Peso Bonds of Foreign Entities

As of December 2019, there were 16 PHP-denominated bonds issued by 10 foreign entities (Table 7.2). The following is a summary of the characteristics of these bonds.

- There is only one inbound cross-border bond, which is the bond issued by International Finance Corporation (IFC). Except for IFC bond whose coupons and principal are settled in PHP, other PHP bonds issued by foreign entities are settled in major currencies like USD.
- They are mostly issued by entities from the financial sector. Out of 10 foreign issuers, 4 are multilateral financial institutions and 5 are private banks or financial institutions. Sindicatum Renewable Energy is the only issuer which is not from the financial sector.
- More than a third (6 out of 15) of the issues are credit linked note (CLN), all of whose the reference entity is the Philippine government.
- There are two green bonds—one issued by IFC and the other issued by Sindicatum Renewable Energy—which are especially guaranteed by GuarantCo.

The bond of IFC was dubbed as "Mabuhay Bond" and was hailed as the first green bond issued in PHP by a multilateral development institution. In a statement from IFC, this bond aims to support the local capital market and renewable energy in the Philippines. The bond proceeds will be used to finance the capital expenditure program of the Energy Development Corporation's geothermal power plants.[43] Sindicatum Renewable Energy's bond was also the first PHP-denominated green bond to be listed in the London Stock Exchange.

Table 7.2: List of Philippine Peso Bonds of Foreign Companies

Issuer	No. of Issues	Total Amount Issued (PHP million)	Redemption Currency	Average Maturity (Y)	Remark
Asian Development Bank	1	10,680	USD	4.05	
European Bank for Reconstruction and Development	2	1,900	USD	2.5	
International Bank for Reconstruction and Development	2	6,150	USD	3.98	
	1	300	EUR	5	
International Finance Corporation	1	4,804	PHP	14.75	Green bond
Nomura	1	2,557.4	USD	10	
Morgan Stanley	1	254.5	USD	5	
Goldman Sachs	3	1,902	USD	7	Credit-linked note whose reference entity is the Philippine government
JP Morgan Chase	1	337	USD	4.96	Credit-linked note whose reference entity is the Philippine government
Signum	2	2,335	USD	15	Credit-linked note whose reference entity is the Philippine government
Sindicatum Renewable Energy	1	1,060.2	USD	10	Green bond guaranteed by GuarantCo

EUR = euro, PHP = Philippine peso, USD = United States dollar, Y = Year
Source: Bloomberg.

Table 7.3 shows the spreads of PHP bonds issued by foreign entities on top of the Philippine government bond rates with same maturities. CLNs are excluded as they are not appropriate for spread analysis. The IFC bond is also excluded because of the amortizing call option structure which is also not adequate for spread analysis.

One prominent observation in Table 7.3 is that most of the spreads are negative, which means that the issuers can fund with less funding costs than the Philippine government. It is because they are rated higher than the Philippine government and, at the same time, they are traded outside of the Philippines and settled in major currencies. No matter how high the ratings of foreign issuers are relative to the ratings of the Philippine government, it is observed that their bonds pay higher costs than the government bond in the local market as long as they are traded in the local market and settled in the local currency. For local investors, they have no incentive to accept lower yields from foreign names whose international credit ratings are higher than their government because the government bonds are already considered risk-free by local investors and they are the

[43] International Finance Corporation (IFC). 2018. IFC Issues First Peso-Denominated Green Bonds to Support Capital Markets and Climate-Smart Investments in the Philippines. *News release*. 25 June. https://ifcextapps.ifc.org/IFCExt/Pressroom/IFCPressRoom.nsf/0/166E58526DB2E5B3852582B7000BB9DA

most liquid in the local market. Bonds issued by Nomura and Sindicatum Renewable Energy show positive spreads even if they are rated higher than the Philippine government and settled in major currencies.

Table 7.3: Credit Spreads for Philippine Peso-Denominated Bonds of Foreign Entities

Issuer Name	Issuer Credit Rating[a]	Tenor (Y)	Coupon Rate (%)	Philippine Government Bond Yield (%)	Credit Spread
Asian Development Bank	AAA (F)	4.05	5.25	6.13	-0.88
European Bank for Reconstruction and Development	Aaa (M)	2	4.5	5.28	-0.78
		3	4.5	5.32	-0.83
International Bank for Reconstruction and Development	Aaa (M)	2.95	3.13	4.06	-0.92
		5	3	5.15	-2.15
		5	4.5	5.31	-0.81
Morgan Stanley Fin LLC	A3 (M)	5	3.8	4.22	-0.42
Nomura Bank International PLC	A- (S&P)	10	6.75	6.04	0.71
Sindicatum Renewable	A1 (M)	10	7.4	6.77	0.63

Y = Year
[a] Credit rating from Fitch (F), Moody's (M), and Standard & Poor's (S&P)
Source: Bloomberg for coupon rates; PDEx for reference rates; Authors' calculations.

7.2. Foreign Currency Bonds of Philippine Companies

There are 32 outstanding FCY-denominated bonds issued by 20 Philippine entities as of end of 2019. Banks are the most active issuers of FCY bonds, followed by entities from the industrial sector. In terms of currency, USD is dominant with 29 out of the 32 issuances being USD-denominated. The remaining three are composed of two Japanese yen issues and one Swiss franc issue. In addition, 26 of these bonds are listed at different international exchanges such as the Singapore Exchange, Swiss Exchange, and Luxembourg Stock Exchange. Aside from bonds issued by the Power Sector Assets and Liabilities Management Corporation (PSALM) and banks that are all rated by at least one of the international rating agencies, others are not rated.

Table 7.4: List of Foreign Currency Bonds of Philippine Companies, 2019

Issuer	Currency	Number of Issues	Total Amount Issued (million)	Average Maturity (Y)	Credit Rating	Remark
Bank						
BDO Unibank Incorporated	USD	2	1,000	5.25	Baa2	
Bank of the Philippine Islands	USD	2	900	5	Baa2	Green bond
	CHF	1	100	2	Baa2	Green bond
Development Bank of the Philippines	USD	1	300	10	Baa2	

Philippine National Bank	USD	2	1,050	5	Baa2	
Rizal Commercial Banking Corporation	USD	4	1,313	5.25	Baa2	
Security Bank	USD	2	600	5	Baa2	
Union Bank of the Philippines	USD	1	500	5	Baa2	
Services						
International Container Terminal Services Incorporated	USD	1	450	10	N/A	
MRT III Funding Corporation Ltd.	USD	1	1,220	22.51	N/A	
Industrial						
Energy Development Corporation	USD	1	300	10	N/A	
Maynilad Water Services	USD	1	125	13	N/A	
Megaworld Corporation	USD	2	450	10	N/A	
Petron Corporation	USD	1	500	-	N/A	Perpetual call
Power Sector Assets and Liabilities Management Corporation (PSALM)	USD	3	1,779	23	BBB+	Guaranteed by the Philippine government
	JPY	2	61,750	19	Aaa	Guaranteed by the Philippine government and Asian Development Bank
SMC Global Power	USD	3	1,600	-	N/A	All perpetual call
Holding firms						
SM Investments	USD	1	350	10	N/A	
San Miguel Corporation	USD	1	800	10	N/A	

CHF = Swiss franc, JPY = Japan yen, USD = United States dollar, Y = Year
Notes:
1. Average maturity refers to simple average based on the date of issuance.
2. Industry classification is based on Philippine Stock Exchange (PSE).
3. Credit ratings are from either Moody's or Standard & Poor's.
Source: Bloomberg.

Interesting characteristics were observed from Table 7.4. First, Bank of the Philippine Islands (BPI) is keen on issuing green bonds. Out of the three FCY bonds issued by BPI, two are green bonds, one USD bond, and one Swiss franc (CHF) bond. A contributing reason for this is that the Ayala Group, the group company which BPI is part of, is keen on promoting green bonds.[44]

[44] In addition to BPI's green bond, one of the companies under the Ayala Group, AC Energy Inc., also issued three green bonds in 2019. They were not included in Table 7.4 because they were issued by AC Energy's subsidiary located in the Cayman Islands. For more information on AC Energy's green bond initiative, go to: PDS Group. 2019. *Press Release.* 27

Second, Petron Corporation and SMC Global Power are the issuers who took advantage of FCY bond issuances to increase their capitals. Both of them issued only callable perpetual bonds which are the typical instruments to raise Tier 2 capital.

Finally, PSALM, a utility agency of the Philippine government, issued three USD bonds with guarantee from the Philippine government and two JPY bonds with guarantee from both the Philippine government and ADB. The JPY bonds are rated Aaa by Moody's because of the guarantee from ADB, an AAA-rated institution; whereas USD bonds are rated BBB+ by S&P following the rating of the Philippine government.

November. https://www.pds.com.ph/wp-content/uploads/2019/11/Disclosure-No.-3228-2019-Press-Release-AC-Energy-Successfully-Launches-First-Ever-Perpetual-Fixed-for-life-Green-Bond.pdf

8. Regulatory Direction

In terms of the entire capital market development of the country, SEC Philippines, BSP, and the Bureau of Treasury of the Philippines created a roadmap for development of the local currency debt market. The immediate focus is to improve liquidity of the market, to enable price discovery, and to improve regulatory oversight and surveillance framework. While the roadmap centers on the government bond market, it is expected to have a positive effect on corporate bonds as well, especially the improvement in price discovery.

For corporate bonds, SEC Philippines had earlier revised the Securities Regulation Code to include the shelf registration program. As a result, corporate bonds registered at SEC Philippines increased by 134% between 2015 and 2016. It is expected that the shelf registration program will further contribute to more issuances in the coming years.

Changes in Reserve Requirements for Banks

A recent development was the move of BSP to reduce the reserve requirement for bonds issued by banks and quasi-banks from 6% to 1% starting November 2019. BSP considers this as a step which could achieve many positive developments in the Philippine financial market. First, the move would lower the bond issuer's intermediation costs. Second, it would also enable the streamlining of rules and requirements for the issuance of debt instruments among banks and quasi-banks. Lastly, it aims to encourage banks to tap the local corporate bond market as part of their respective liquidity management.

BSP's Easing of Process for Bond Issuances Among Banks

The BSP had earlier amended its regulations to simplify the process of bond issuance in its Circular No. 1010.[45] In this circular, banks may issue bonds and commercial papers without prior BSP approval as long as it follows the set "prudential criteria" and the bonds be listed and/or traded in a market organized according to SEC rules and regulations.[46] With BSP's amendment, it is expected that banks will issue more bonds in the coming years.

Development of Green Bonds in the Philippines

The increase in awareness for sustainability among Philippine conglomerates pushes them to issue green bonds. The sectors open to issuing green bonds are in the renewable energy, financial, and to some extent, the real estate. Other potential issuers may come from other big industries like transportation. Green bonds may have a tenor of 5 years at the minimum since it should be structured like a project finance.

As issuers are also increasing, there is a need to develop a local investor base in the country. The previous issuances of green bonds were taken up mostly by foreign investors and multilaterals. With this, the role of multilateral organizations has been deemed important in initiating green bonds in the local market setting.

From one market expert on green bonds, the Philippine green bond market already passed the infancy stage. In the near term, more conglomerates and established local companies may issue green bonds that would align with their respective sustainability mandates. To foster additional green bond issuances, there is a need for regulatory support.

[45] BSP. 2018. *Circular No. 1010. Series of 2018.* Additional Requirements for the Issuance of Bonds and Commercial Papers. http://www.bsp.gov.ph/downloads/regulations/attachments/2018/c1010.pdf

[46] According to BSP Circular 1010, "prudential criteria" includes a CAMELS composite rating of at least "3"and a "Management" rating of not lower than "3" for banks; and an RAS rating of at least "Acceptable" for quasi-banks. (Footnote 42, Section 1.a.)

Collective Investment Scheme

Another possible support to the bond market development of the Philippines is the potential passage of the Collective Investment Scheme (CIS) Law. The proposed law would potentially expand the domestic investor base, as middle-income individuals will be encouraged to invest in capital markets through the CIS. In addition, the proposed law aims to streamline tax treatment for CIS products in the Philippines. However, there is no update on the progress of the law at the time of writing of this report.

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Notes

Credit ratings are based on local credit rating agencies in respective ASEAN6 countries. As reference, the following links provide the definition for credit ratings per each country in this report.

- Indonesia, PEFINDO: http://www.pefindo.com/index.php/fileman/file?file=95
- Malaysia, RAM Ratings: https://www.ram.com.my/ratings/?morph=callpage&catid=90
- Singapore, Fitch's: https://www.fitchratings.com/products/rating-definitions
- Thailand, TRIS: https://www.trisrating.com/files/3515/3795/8152/Symbol-e_Apr18.pdf
- Philippines, PhilRatings: http://www.philratings.com/(S(yf1prav3ubqqip55fkkitl45))/issue.htm

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