

REVISED RULES AND REGULATIONS FOR THE ISSUANCE, PLACEMENT, SALE, SERVICE AND REDEMPTION OF TREASURY BILLS AND BONDS UNDER R.A. NO. 245, AS AMENDED

IC CIRCULAR LETTER NO. 34-95 CL, December 07, 1995

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Attached for your information and guidance is a copy of the Department Order No. 141-95 Series of 1995 of Honorable Roberto F. De Ocampo, Secretary of Finance regarding the revised rules and regulations for the issuance, placement, sale, service and redemption of Treasury Bills and Bonds under R.A. No. 245, as amended.

Adopted: 07 Dec. 1995

(SGD.) EDUARDO T. MALINIS
Insurance Commissioner

Attachment:

Department Order No. 141-95, s. 1995

Revised Rules and Regulations for the Issuance, Placement, Sale, Service and Redemption of Treasury Bills and Bonds Under R.A. No. 245, As Amended

Pursuant to R.A. No. 7653, otherwise known as the "New Central Bank Act", the Department of Finance, through the Bureau of Treasury, shall be assuming the fiscal function of issuing Treasury Bills and Bonds effective November 16, 1995, however, the placing, servicing, selling and redeeming shall remain with the Bangko Sentral ng Pilipinas until assumption of the same by the Bureau of Treasury.

In accordance with Section 4 of R.A. No. 245, as amended, the following rules and regulations governing the issuance, placement, sale, service and redemption of Treasury Bills and Bonds authorized under the said Act are hereby prescribed:

I.

General Provisions

SECTION 1. Authority to Borrow - Under Section 1 of R.A. No. 245, as amended, and R.A. No. 100, as amended, the Secretary of Finance, with the approval of the President of the Philippines, and after consultation with the Monetary Board, is authorized to borrow from time to time on the credit of the Republic of the Philippines such sum(s) as in his judgment may be necessary to meet public expenditures authorized by law or to provide for the purchase, redemption or refund of any obligation, either direct or guaranteed, of the Philippine Government, and to issue thereof Treasury Bills and Bonds which may be made payable in Philippine currency, or in any readily convertible foreign currency.

SECTION 2. Issuance of Treasuries - The exercise of authority to borrow by the Secretary of Finance of such sum(s) as may be necessary to meet public expenditures shall be through the issue of Treasury Bills and/or Treasury Bonds, and shall be undertaken by an Auction Committee hereinafter constituted whenever auction is

prescribed and by the Bureau of Treasury whenever any other method is authorized.

SECTION 3. Terms, Yields, Etc., - The Secretary of Finance, in consultation with the Monetary Board, shall prescribe the terms, yields, denominations, maturities, negotiability, convertibility, call, eligibility, redemption and other features of the Treasury Bills and Bonds, including documentary stamps tax on the original issue and final withholding tax on the income derived from Treasury Bills and Bonds.

II.

Features of Treasury Issues

SECTION 4. Treasury Bills - Treasury Bills shall be issued on a discount basis and payable on maturity of not more than one (1) year at face amount. They may be offered for sale through competitive or non-competitive auction or any other method as determined appropriate by the Bureau of Treasury. All Treasury Bills bearing the same date of issue and the same date of maturity shall constitute one Issue; and consecutive issuance of Treasury Bills of the same maturity shall constitute a Series.

SECTION 5. Treasury Bonds - Treasury Bonds shall be issued at a discount basis, at a premium, or at par and payable on maturity of not earlier than one (1) year but not later than twenty-five (25) years. They may be offered for sale through competitive or non-competitive auction or any other method as determined appropriate by the Bureau of Treasury.

SECTION 6. Denomination and Exchange - Treasury Bills and Bonds shall be issued in denominations of P10,000.00, P50,000.00, P100,000.00, P500,000.00, P1,000,000.00, P5,000,000.00, and P10,000,000.00. Exchange of these bills and bonds from higher to lower and/or lower to higher denominations of identical issue and series may be effected at the Bangko Sentral ng Pilipinas until such time as the Bureau of Treasury can assume the responsibility.

SECTION 7. Taxation - The income derived from Treasury Bills and Bonds, and instruments with recourse as authorized by Bangko Sentral ng Pilipinas (BSP), shall be subject to the 20% final income tax to be withheld on discounts valued at the time of issue on every original sale which shall be deducted by the buyer from the discounts of the T-bills/bonds and included in the remittance of the purchase price.

In the case of Treasury Bonds, the 20% final income tax shall be withheld on discounts valued at present value on every original sale. Periodic coupon payments on Treasury Bonds shall be subject to the 20% final income tax to be withheld at the time the coupon payments are made.

The Documentary stamp tax on the original issue shall be for the account of the issuer.

No other taxes shall be collected on subsequent trading of the securities which have been subjected to tax under the first two paragraphs herein.

III.

Method of Origination

A. Auction Method

SECTION 8. Definition - Auction is a method of sale of government securities whereby prospective buyers compete against each other by trying to better each bid.

SECTION 9. Public Notice of Offering - The Secretary of Finance may, from time to time, by public notice offer Treasury Bills and Bonds for sale and invite tenders, therefore, through the Bureau of Treasury. The Treasury Bills and Bonds as offered, and tenders received shall be subject to the terms and conditions imposed under these

rules and regulations, except as they may be modified by the Secretary of Finance, in consultation with the Monetary Board, which shall be made part of the public notice of offering: provided, however, the tax-exempt institutions shall not be allowed to participate directly or indirectly in the auction because a special window is available for them; except when these institutions are accredited as government securities dealers, in which case they may participate directly in the auction for their trading account which is not tax-exempt. Such announcement shall be transmitted through the Bureau of Treasury's Automated Debt Auction Processing System (ADAPS) and shall indicate the amount of the bills or bonds offered for sale, the date of issue, the maturity date, the date and hour of closing for the receipt of tenders at the Bureau of Treasury, and the date and hour on which payment for accepted tenders must be made or completed.

SECTION 10. Submission of Tenders - Tenders in response to a public notice shall be transmitted to the Bureau of Treasury through its ADAPS which is capable of electronically managing the tender of Treasury Bills and Bonds. In case of system failure and/or power outages, tenders shall be submitted on official tender forms required by the Bureau of Treasury before the prescribed cut-off time for receiving tenders for manual entry to the Bureau of Treasury's ADAPS.

Each tender shall be unconditional and shall be for an amount of not less than P10.0 Million (maturity value) for dealers. In case of competitive tenders for Treasury Bills, bids shall be stated in three (3) decimal places e.g. 13.000%. Bids for Treasury Bonds shall be in multiples of 1/8 of 1% e.g. 13.125%. Non-competitive tenders shall be accepted at the weighted average yield of the accepted competitive tenders.

SECTION 11. Deposit Requirement - Tenders made by interested buyers who are not members of the Book-Entry System (BES) must be accompanied by an express guaranty of payment by a domestically incorporated bank having a deposit account equivalent to five percent (5%) of the face amount of Treasury Bills and Bonds, as the case may be.

SECTION 12. Receipt and Processing of Tenders by the Bureau of Treasury - Tenders submitted through the Bureau of Treasury, prior to the cut-off time fixed under Section 10 hereof, for the receipt of tenders shall be automatically be acknowledged by the ADAPS. Neither the Department of Finance nor the Bureau of Treasury shall bear any liability whatsoever for any errors in tenders received or for delays in the transmission of tenders.

All tenders received on time shall be deliberated upon immediately after the cut-off time set by the Auction Committee composed of the Secretary of Finance or any Undersecretary designated by him, as Chairperson; the Treasurer of the Philippines, as Vice-Chairperson; the Chairperson of the Securities and Exchange Commission or his authorized representative, as Member; the Deputy Treasurer for National government Affairs, as Member; the Managing Director or Director for Research of the Bangko Sentral ng Pilipinas as designated by the Governor, as Member; the Director for Treasury of Bangko Sentral ng Pilipinas, as Member; the Director for Fiscal Planning and Policy of the Department of Finance, as Member; the Director, Operations Planning Service, Bureau of Treasury, as Member. The Director, Public Debt Management Service, Bureau of Treasury shall act as the Executive Officer and "ex-officio member". The Auction committee staff support shall be provided by the appropriate division of the Bureau of Treasury. The Secretary of Finance may designate an additional member(s) in the Auction Committee as he may deem appropriate.

SECTION 13. Award by the Auction Committee - The Auction Committee shall make a decision as to the amount and rate of awards. Such decision shall be transmitted to the individual bidders through the Bureau of Treasury's ADAPS on the day of auction and those who transmitted tenders may thereby confirm acceptance or rejection, in whole or in part, of bids/tenders. Immediately thereafter, the Auction Committee shall release a signed print out of ADAPS containing the auction results.

SECTION 14. Appointment of Awards and Reservation of Right - The lowest rate offered by competitive bidders will be accepted in full down to the amount required after deducting the total amount of non-competitive bids from the total amount of issue(s). At cut-off level, if the same rate appears in two (2) or more tenders, and it is necessary to accept only part of the amount offered at such rate, the amount accepted at such rate shall be prorated in accordance with the respective amounts applied for. If the amount is the same, the proration of odd amount is applied randomly. The rate of non-competitive bids shall be reckoned from the average of the rates tendered by accepted competitive bids. The Auction Committee reserves the right to accept or reject any or all tenders or parts of the tenders and to award less than the amount applied for and any action it may take shall be final.

SECTION 15. Payment of Awards - Payment on awarded issues must be made or completed on Wednesday for Treasury Bills and Thursday for Treasury Bonds. In the event of a holiday or fortuitous event, the settlement shall be adjusted and dealers notified accordingly.

On settlement date, the concerned (AGSD) shall instruct Bangko Sentral ng Pilipinas (BSP) to debit their Demand Deposit Account and credit the Demand Deposit account of the Treasurer of the Philippines, which in turn shall send a credit advice to the Bureau of Treasury.

B. Over-The-Counter

SECTION 16. Definition - A manner of sale or offering of Special Series/Issues of Government Securities for Government-Owned and Controlled Corporations (GOCCs) and Tax-Exempt Institutions (TEIs), through negotiation, not through auction.

SECTION 17. Authority to Sell Over-the-Counter - With the approval of the President of the Philippines, the Secretary of Finance, may after consultation with the Monetary Board, authorize the over-the-counter sale of Government Securities subject to the terms and conditions as may be prescribed by the Secretary of Finance.

C. Tap Method

SECTION 18. Definition - A manner of sale or offering of Government Securities open exclusively to Accredited Government Securities Dealers (AGSDs) in the event of an acute and protracted shortage of Government Securities.

SECTION 19. Authority to Sell Other than through Auction and through Negotiation - As an additional window for Treasury Bills and Bonds, the sale through tap method is hereby adopted under the following terms and conditions:

- a. The tap window may be accessed from Monday through Wednesday (with settlement and issue date on Wednesday) on a first-come-first-served basis; and
- b. The issue ceiling, yield and amount for Treasury Bills and Bonds available on tap shall be as announced by the Bureau of Treasury.

IV.

Uncertificated Treasury Issues and Transfers

SECTION 20. Issuance - The Secretary of Finance, through the Bureau of Treasury, may issue Treasury Bills and Bonds which are not represented by a physical certificate.

SECTION 21. Clearing Agency - The Secretary, through the Bureau of Treasury, may issue Treasury Bills and Bonds to, or record their transfer in the name of, an accredited clearing agency. However, Bangko Sentral ng Pilipinas Government Securities Department shall continue the back-office functions until such time as an

accredited clearing agency can assume the responsibility.

SECTION 22. Award - Subject to the provisions of Chapter III hereof, the Bureau of Treasury, having accepted tender(s) for Treasury Bills and Bonds which are not represented by a physical certificate, shall make the award through Bangko Sentral ng Pilipinas until such time as an accredited clearing agency can assume the responsibility, which shall transfer the Treasuries to the bidder(s) in accordance with Section 24 below.

SECTION 23. Transfers - Treasury Bills and Bonds may be validly transferred by making appropriate book-entries in the records maintained by BSP until such time as an accredited clearing agency can assume the responsibility. A transfer by book-entry has the effect of the delivery of such Treasuries in bearer form or duly indorsed in blank.

SECTION 24. Proof of Transfer through Securities Clearing Agency - When Treasury Bills and Bonds are transferred through book-entries in the records of Bangko Sentral ng Pilipinas (BSP) until such time as an accredited clearing agency can assume the responsibility, that record shall be binding on the parties to the transfer, and shall be final and conclusive unless BSP or the clearing agency had acknowledged receipt of a notice before the entry was made. The procedure by which, and the exact time at which, such-entries are created shall be governed by the rules of the BSP or clearing agency.

SECTION 25. Pledge - A pledge of Treasury Bills and Bonds which have been transferred through book-entries in the records of Bangko Sentral ng Pilipinas (BSP) until such time as an accredited clearing agency can assume the responsibility, shall be constituted, and the Treasury Bills and Bonds shall accordingly be considered delivered, in accordance with Articles 2093 and 2095 of the Civil Code (R.A. 386) when the BSP or clearing agency indicates by book-entry that the Treasury Bills and Bonds have been segregated or earmarked in favor of the pledgee.

SECTION 26. Involuntary Liens on Government Treasuries held by Securities Clearing Agency - Treasury Bills and Bonds which have been transferred through book-entries in the record of Bangko Sentral ng Pilipinas until such time as an accredited clearing agency can assume the responsibility may be attached only by legal process upon the person in whose name the BSP or clearing agency holds the account.

SECTION 27. Servicing and Redemption - Treasury Bills and Bonds which have been transferred through book-entries in the record of BSP until such time as an accredited clearing agency can assume the responsibility, may be exchanged at anytime before maturity, or redeemed at or after maturity, and payment shall be made by the Department of Finance, through the Bureau of Treasury, as determined by its records, which in turn shall pay the person whose name appears in its record as owner of the Treasury Bills or Bonds.

V.

Dealers Eligible to Bid at Primary or Origination Sale of Government Securities

SECTION 28. Any Financial Institution licensed by Bangko Sentral ng Pilipinas, Insurance Commission or Securities and Exchange Commission to deal in securities shall be eligible to participate in the primary sale of government securities as long as they meet the following criteria:

- a. Unimpaired capital and surplus account as defined in Sec. 29 of at least P100 Million at any one time. This must be proven by certification from Bangko Sentral ng Pilipinas or the Securities and Exchange Commission or the Insurance Commission; and
- b. Certification by Bangko Sentral ng Pilipinas, Securities and Exchange Commission or Insurance Commission that the institution is in good standing.

c. For purposes of participating in the auction, such Financial Institution defined in Sec. 29 shall have an account with Bangko Sentral ng Pilipinas where the settlement of the award may be debited in order to avoid making the deposit prior to bidding.

SECTION 29. Definition of Terms:

a. Financial Institutions - are corporations organized as such primarily to deal in financial assets through borrowing funds from savers or investors and lending funds to users, producers and other financial institutions. These may either be banks, non-bank financial intermediaries, insurance companies, dealers or brokers, investment houses, finance companies and mutual funds.

b. Unimpaired Capital and Surplus - means the combined capital accounts of a financial institution and refer to its unimpaired paid-in capital and earned surplus. The term 'surplus' shall refer to the excess of the assets over the liabilities and paid-in capital of the financial institution, but excluding the reserves set aside for valuation purposes, and reserves for liabilities and deferred income tax, and other capital adjustments.

VI.

Miscellaneous

SECTION 30. Demand Deposit Account - The Treasurer of the Philippines maintains a Demand Deposit Account with the Bangko Sentral ng Pilipinas to which all proceeds from the sale of Treasury Bills and Bonds under A.A. No. 245, as amended, shall be credited and all payments for redemption of Treasury Bills and Bonds shall be charged.

SECTION 31. Reservation as to Terms of These Rules and Regulations - The Secretary of Finance reserves the right to amend, supplement, revise, prescribe or withdraw all or any of the provisions of these rules and regulations at any time, or from time to time.

SECTION 32. Inconsistent Circulars, Memoranda and Orders - All circulars, memoranda or orders inconsistent herewith are hereby revoked or modified accordingly.

SECTION 33. Transitory Provision - The CBP/BSP accreditation of government securities dealers shall be valid up to 30 June 1996, thereafter, the rules and regulations embodied in this Circular, specifically Sections 28 and 29, shall govern the eligibility of securities dealers to participate in the auction. Therefore, all interested securities dealers shall submit to Bureau of Treasury the documentation requirements of Sec. 28 hereof not later than 30 April 1996. Acknowledgment by BTR means eligibility to bid.

SECTION 34. Effectivity of this Regulation - These revised rules and regulations shall take effect immediately.

Adopted:

(SGD.) ROBERTO F. DE OCAMPO

Secretary of Finance

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