

16 November 2009

Mr. Paul Raymond A. Favila
President
Money Market Association of the Phils.
Penthouse, PDCP Bank Centre
V.A. Rufino Corner L. P. Leviste Sts
Salcedo Village, Makati City

Dear Mr. Favila,

As instructed by the Open Market Committee of the Bankers Association of the Philippines we would like to request the Money Market Association (MART) to assist in the implementation of the Primary Dealer/Market Maker project being undertaken by the Bureau of Treasury (BTR) with the BAP.

The assistance of MART would be invaluable in the following areas:

Pre-implementation Stage:

1. Information campaign to all GSEDs under MART regarding the changes that will be implemented by the Bureau of Treasury
2. Review and amendment of current trading guidelines taking into account the new requirements for Market Makers
3. Assist in the drafting of procedures/policies for securities lending and bond exchange program
4. Assist in the official launching of the project

Post-implementation:

1. Represent GSEDs on their concerns and coordinate with regulators and associations as necessary.
2. Monitoring of market practices and updating of trading mechanics and guidelines


Please feel free to give us your comments if the above areas are acceptable to MART or if there are other matters that need to be considered.

We have attached for your perusal the draft guidelines for the project which we have previously provided MART and IHAP. This has been accepted by the BTR and we expect this to form part of the new guidelines that we expect them to issue.

Please take note that the minimum accumulated awards that the Primary Dealers have to maintain per semester has been set at 2% of total amount of bonds issued. This was recently approved by the OMC based on statistics provided by the BTR. This is also the original figure indicated in TMC 2-2004 of the BTR. We can discuss the details of the 2% separately.

We look forward to working with MART in implementing this important project.

Very truly yours,



Jose Emmanuel U. Hilado
BTR Initiatives Committee
OMC - BAP

Cc: Joan Policarpio – VP MART
BAP Secretariat

PRIMARY DEALERS/MARKET MAKERS

1. GSEDs (Government Securities Eligible Dealers) will be classified into two groups, ORDINARY DEALERS, and PRIMARY DEALERS, as initially recommended in the TMC 2-2004. In addition, Primary Dealers will also be tasked to be Market Makers in the secondary market.
2. ORDINARY DEALERS are still expected to participate regularly in the primary GS auctions, but can only submit non-competitive bids, unless otherwise announced.
3. PRIMARY DEALERS shall have the following privileges: (per TMC 2-2004):
 - Eligibility to participate in the competitive bidding of regular issues;
 - Eligibility to participate in the issuance of special issues such as RTBs, PNs, DLPNs, Zeroes, and the like;
 - Eligibility to act as underwriter, arranger, and financial advisor with regard to securities issued by the National Government;
 - Eligibility to access the tap facility window;
 - Eligibility to purchase from and sell to the Bond Sinking Fund whenever the window is open;
4. In addition, PRIMARY DEALERS, as Market-Makers, have **exclusive access** to the following:
 - Securities lending facility for benchmark T-Bills and FXTNs, to be offered by the BTR, via a repo agreement for overnight to a maximum of 30 days. This will offer market-makers access to government debt issues which are not currently in their (banks) inventory, so that they will always be ready to “show” offer prices for FXTNs;
 - Regular Bond Exchange Program (e.g. weekly) or Buy-Back/Switch Operations by the BTR. This will offer market-makers the option of regularly exchanging their “illiquid” off-the-run issues for the more liquid benchmark or on-the-run issues.
5. PRIMARY DEALERS are **required** to do the following:
 - Participate in the competitive bidding in ALL primary auctions, for at least PHP100 million at nominal value;
 - Must have total accumulated awards of at least 2 % of the total amount of bills and bonds awarded in the primary market within a particular semester. (in TMC 2-2004, the recommended participation level is 2%)
6. PRIMARY DEALERS, as MARKET-MAKERS, are also **expected** to do the following:
 - As market-makers in the secondary market, they are obliged to always quote bid-offer prices for **benchmark** issues, when requested for directly by counterparties. They are also obliged to submit their bid-offer prices for all **benchmark** issues in the PDEX trading system, 5 minutes before market opens in the morning, and also in the afternoon. Furthermore, market-makers are expected to renew their bid-offer prices within 10 minutes of their prices being executed in the PDEX.
 - The maximum spread between the market-makers bid and offer prices is determined by the time to maturity, as follows: (trading lot: minimum of PHP50MM and maximum of PHP100MM)

Time to maturity

Maximum spread

5 years and below	0.10%
more than 5 years but less than 10 years	0.20%
10 years and longer	0.30%

- If the market-maker's total transactions in one series during a single day equal PHP 500MM, the market-maker is entitled to depart from the above-specified maximum spread between bid and ask quotes for that particular series for the remainder of that day. Also, if the market-maker is asked for a price for a size greater than the maximum lot size of 100MM, the market-maker is not obliged to follow the maximum bid-offer spread.

7. Primary Dealer compliance to the measures outlined above will be reviewed per semester by the BTR

For non-compliance, the Primary Dealer will be dropped from the official roster immediately, and shall be classified as an ordinary dealer for a minimum of 12 months (per TMC 2-2004). However, DTOP is of the idea that once you are disqualified, you may not become Primary Dealer again, unless all other Primary Dealers agree to let you back in the exclusive roster.

The following items were stricken off the initial set of recommendations, but these may be taken up separately with the BSP for endorsement.

- Borrowing privileges with the Bangko Sentral ng Pilipinas via repo (at rates closer to overnight rates)
- Privileged counter-party *status* for Bangko Sentral ng Pilipinas open market operations