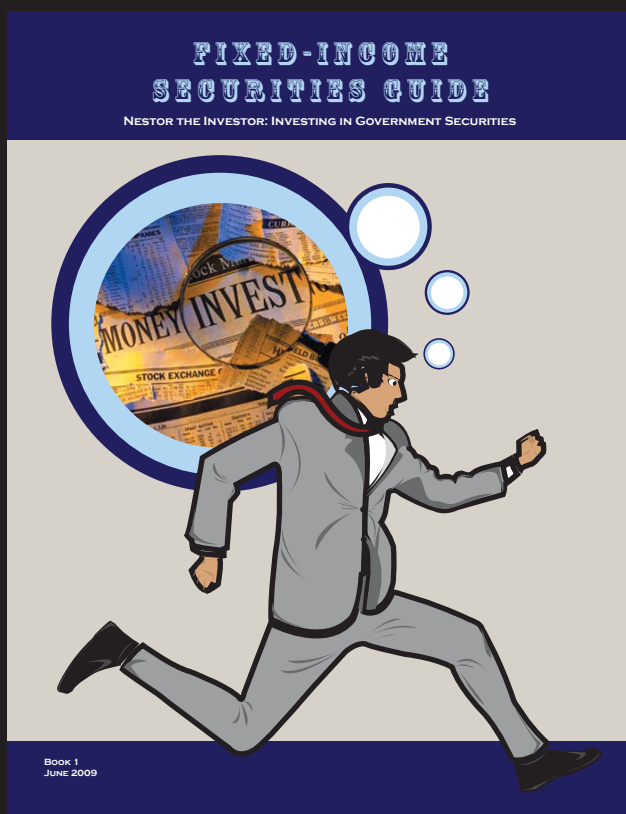


# FIXED-INCOME SECURITIES GUIDE

NESTOR THE INVESTOR: INVESTING IN GOVERNMENT SECURITIES





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[www.protectyourassets.com.au](http://www.protectyourassets.com.au)

This initial guide aims to provide appreciation of the Fixed-Income Securities Market and to give a quick and easy reference for beginners investing in Government Securities.

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I. Book 1:  
The Basics of  
Investing in  
Government Bonds

Nestor, an office employee, has extra savings and wanted to know where he can put his money. He then remembers that his college classmate, Maria, works in a brokerage firm so he calls her to ask for her assistance.

Hello Maria, it's me Nestor. I need your help. I have extra savings and I want to put it in a safe investment but I don't know how to go about it and I heard that you are with ABC Securities Brokerage.

Hi Nestor, yes I am connected with ABC Securities Brokerage as an SEC\* registered salesperson. I can drop by your office tomorrow morning.

Sure! I'll meet you tomorrow.

I'm glad you stopped by my office. It's nice to see you again.

It's nice to see you too, Nestor. What kind of investments would you be interested in?

A friend told me to invest in Government Securities, what are those?

Government Securities or GS for short refer to debt instruments that are issued by the National Government and sold to investors. When you buy GS you are actually lending money to the Government of the Philippines.





There are 2 types of GS wherein you can invest your money. Treasury Bills which are government borrowings that will mature in one year or less and Treasury Bonds which are longer term government debt instruments with maturities ranging from 2 years to 25 years.

For Treasury Bonds, the National Government pays interest to investors on a regular schedule, normally every 6 months or twice a year but for some bonds four times a year. The interest payments are called "coupon payments" and the payment dates are called "coupon payment dates".

How about if I buy Treasury Bills?



Good question, for Treasury Bills instead of paying a coupon, the government sells this debt at a discount from the face value at maturity. For example I can purchase for you a 1 year Treasury Bill with a Face Value at maturity of ₱ 100.00, at the discounted price of ₱ 95.00. At maturity, when the government pays you the full Face Value of ₱ 100.00, you would have earned ₱ 5.00 in interest.

By the way, because you only paid ₱ 95.00 at the start, the ₱ 5.00 earnings would represent an effective interest rate of 5.26% for the 1 year period.





That seems like a good investment. But is that safe?

Yes, it is safe because the principal and interest is guaranteed by the National Government.

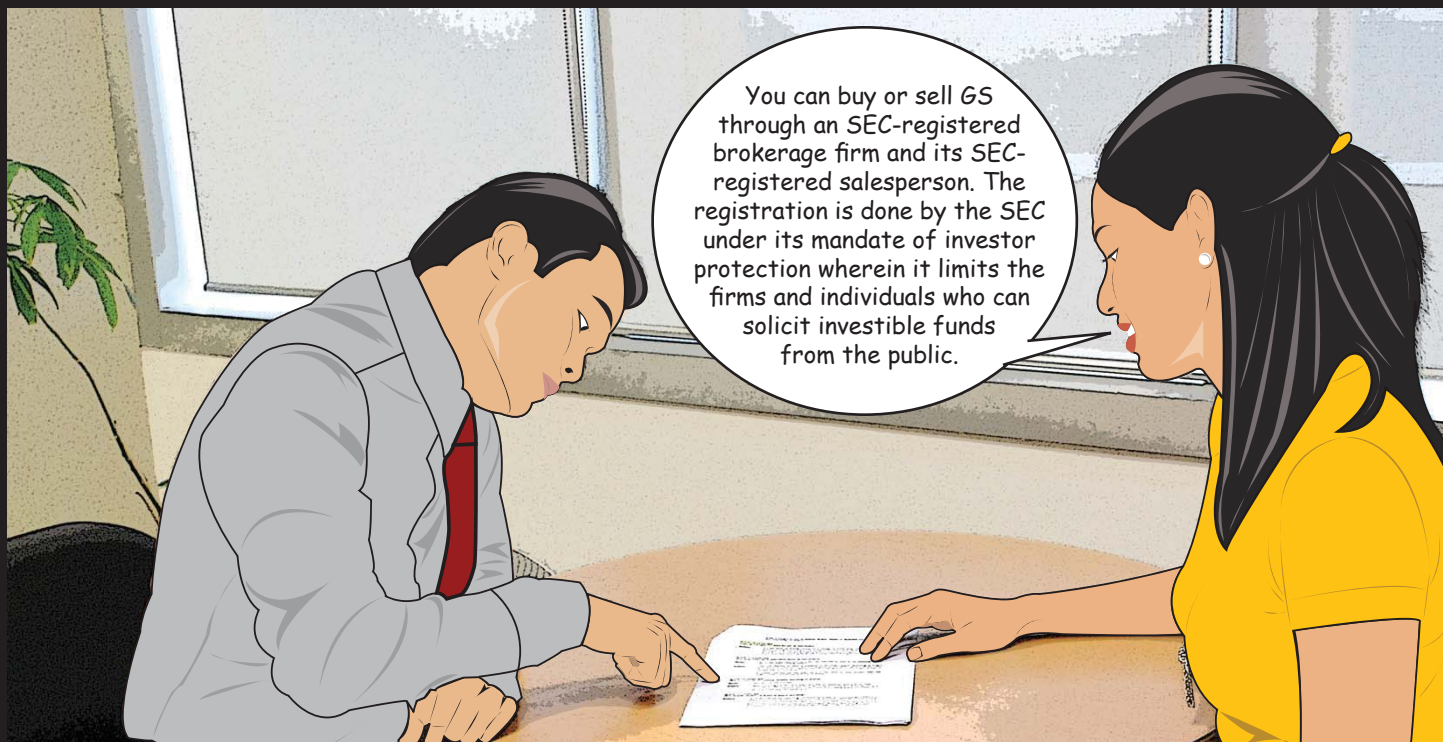
If suddenly I need money what can I do with the GS that I bought?



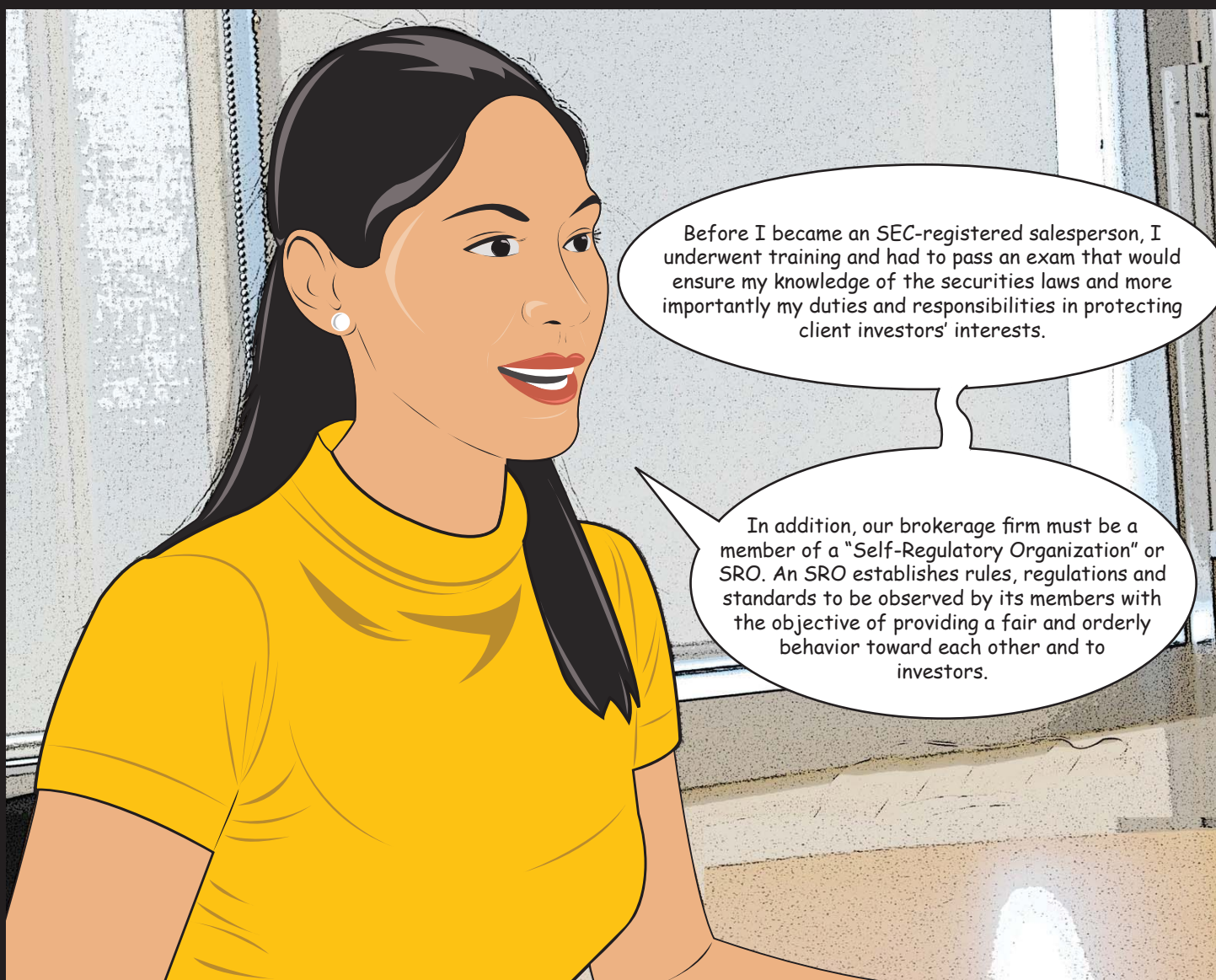
I'm happy to say that GS is negotiable and that there is a market for GS. So if you need cash you can sell your GS in the market.

That's great! So where can I buy or sell GS?





You can buy or sell GS through an SEC-registered brokerage firm and its SEC-registered salesperson. The registration is done by the SEC under its mandate of investor protection wherein it limits the firms and individuals who can solicit investible funds from the public.



Before I became an SEC-registered salesperson, I underwent training and had to pass an exam that would ensure my knowledge of the securities laws and more importantly my duties and responsibilities in protecting client investors' interests.

In addition, our brokerage firm must be a member of a "Self-Regulatory Organization" or SRO. An SRO establishes rules, regulations and standards to be observed by its members with the objective of providing a fair and orderly behavior toward each other and to investors.

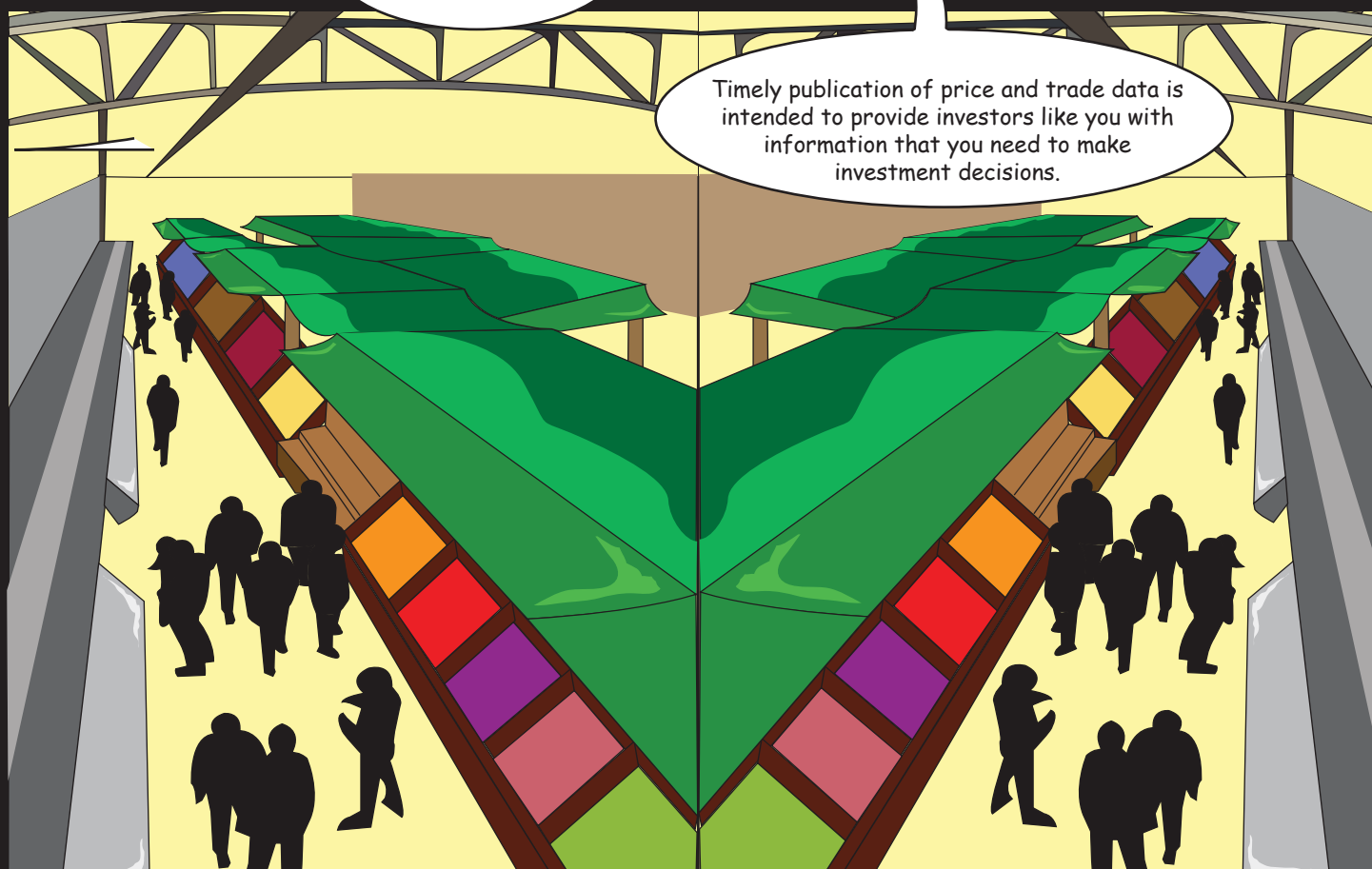


Wow! I'm happy to hear that the interests of the investors are a top priority.

How will that benefit me as an investor?

That's right, with an SRO an organized market is created. The organization of the market is also intended to facilitate publication of price and trade data to the general public.

Timely publication of price and trade data is intended to provide investors like you with information that you need to make investment decisions.







After buying GS in the organized market, the transaction will be completed when the seller of the GS transfers the bond to the buyer and the buyer transfers the payment or the money to the seller. This process is called settlement. The SEC requires the settlement process to be done via "Delivery vs. Payment" or DvP or in local terms "Kaliwaan" to ensure that there is a simultaneous exchange of cash and GS between the buyer and the seller.



I hope I ignited your interest. If you have any other questions just give me a call.

I sure will! The process is not really as complicated as I thought! By the way, I have a few colleagues who are looking for new investment opportunities. I'll make sure to tell them about investing in Government Securities.

## II. Frequently Asked Questions

### ***What are Government Securities?***

Government Securities are the unconditional obligations of the sovereign state.

The Philippine Government issues two kinds of government securities (GS): Treasury Bills and Treasury Bonds.

Treasury Bills are obligations with maturity of one year or less, typically issued at a discount to the maturity value.

Treasury Bonds are obligations with maturities ranging from 2 years to 25 years typically issued at par with periodic coupon payments to be made up to final maturity. Some bonds may be issued without coupons and these are known as zero coupon bonds.

### ***What is the smallest investment amount for GS?***

The smallest investment amount in GS is 5,000 pesos which is specific for Retail Treasury Bonds (RTBs). For other GS, the smallest investment amount would be dependent on your broker.

### ***How do I invest in GS?***

You can invest in GS through a Securities & Exchange Commission (SEC) Registered Broker firm that can execute a purchase order for GS on your behalf. Your Broker firm will assign you a salesman, i.e. an SEC-registered person within the Broker firm authorized to buy the GS.

### ***What if I need to sell the GS before it matures?***

You can also sell your GS through an SEC-registered broker firm that can execute a sell order for GS on your behalf.

### ***What are the responsibilities of my broker?***

A broker must deal with you, as its customer, in a fair manner that is characterized by high standards of honesty, integrity and ethics.

Aside from being governed by the rules of the SEC, brokers that are members of a Self-Regulatory Organization (SRO), are subject to that SRO's rules.



## III. Glossary of Financial Market Terms

### **Bond**

Any interest-bearing or discounted government or corporate security that obligates the issuer to pay the bondholder a specified sum of money, usually at specific intervals, and to repay the principal amount of the loan at maturity.

### **Broker**

Is a person engaged in the business of buying and selling securities for the account of others.

### **Coupon Rate**

Interest rate on a debt security the issuer promises to pay to the holder until maturity, expressed as an annual percentage of face value.

### **Delivery vs. Payment or DvP**

A settlement method wherein there is a simultaneous delivery of securities against cash payment. This settlement method mitigates the risk of a buyer paying cash without the receipt of securities and a seller delivering securities without receipt of cash payment.

### **Face Value or Principal Amount**

The amount of a bond that will be paid back to the bondholder at maturity.

### **Interest Rate**

The cost of borrowing money or the amount paid for lending money expressed as a percentage of the principal.

### **Issuer**

The originator, maker, obligor, or creator of a security.

### **Maturity Date**

Date on which the principal amount of a bond or other debt instrument becomes due and payable.

### **Tenor**

The length of time until a bond has to be repaid.

### **Salesman**

A natural person, employed as such or as an agent, by a dealer, issuer or broker to buy and sell securities.

### **Securities**

Shares, participation or interest s in a corporation or in a commercial enterprise or profit-making venture and evidenced by a certificate, contract, instrument, whether written or electronic in character.

### **Self-Regulatory Organization or SRO**

Refers to an organized Exchange, registered clearing agency or any organization or associated registered as an SRO (under section 39 of the Securities Regulation Code and Implementing Rules and Regulations) to enforce compliance with relevant provisions of the SRC and IRR issued thereunder, and mandated to make and enforce its own rules, which have been approved by the Commission, by their members and/or participants. It is an organization that enforces fair, ethical and efficient practices in the securities and commodity futures industries, including securities and commodities Exchanges. (retrieved:www.sec.gov.ph)



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