Solid Crust with Soft Center: A Problem of Enforcement in the Philippine Capital Market

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Overview

The purpose of the study is to assess the effectiveness of the Philippine capital markets in mobilizing the savings of ordinary people to provide investment capital for developing the Philippine economy and in attracting sustainable flows of foreign capital for the same purpose.

The broad conclusion is that the markets have not been so successful in either aim even though evidence suggests that there have been very substantial improvements in recent years. The savings ratio remains low by standards of the region. In part that reflects the relatively low income per head in the Philippines compared with other economies in the region.

But that, in turn, is a comment on the capital markets—other countries have started from a low income base and mobilized sufficient domestic and foreign capital to permit more rapid income growth and hence a higher level of savings. It is also true that while average incomes in the Philippines remain low, the developments of recent years have brought comparatively higher wealth at least to a segment of the population. The growth of shopping facilities in Metro Manila is testament to this. These new high-net-worth individuals who are avid consumers would be expected to be making significant savings through financial investments, but this has not been the case.

The reasons for this are many. There are detailed issues in the operation of markets, but the main issues are (i) the absence of savings vehicles, especially for middle and higher income groups; (ii) limited attractive investment (as opposed to speculative) opportunities for foreign portfolio investors; and (iii) the perception that capital markets are not fair, open, and transparent.

The Philippines is not a rich country—indeed its growth has fallen behind that of comparable countries in Asia. However, it has seen significant growth and there is evidence—from the level of consumption—of an emerging middle class of relatively prosperous individuals. Typically, such a middle class becomes interested in saving for eventualities (such as education) and for their retirement. The result is a demand for financial assets either directly to be held by the individuals or to be held through collective savings vehicles. The financial assets, which represent claims on real assets, are sold by the asset owners to raise new capital to develop those real assets. This transfer is facilitated by intermediaries, by markets and market infrastructures (regulation, secure settlement, etc.), which offer comfort that users will not be defrauded.

This has happened to only a limited extent in the Philippines and the situation explains why the country’s savings ratio is relatively low—there is just nowhere to put the money. To summarize the current situation:

- There are retail savings deposits, which generally offer a low return.
- There is a banking network, banks are very numerous (and relatively well-capitalized as reserve requirements are high), but they are usually part of larger groups and their function is to raise finance for those groups.
- There is a stock market, but it is seen by many as not entirely clean and is highly speculative.
- There is a bond market, but the corporate bond market is small relative to the Government bond market and has an almost exclusively floating rate.
- There is an embryonic mutual fund business, but its growth is slow and its investment opportunities are limited.
- There is a national funded pension scheme, but its investments are constrained and there is no framework for private schemes.
- There are other financial intermediaries such as insurance companies, but again, their investment opportunities are limited.
- There is foreign investor interest, but it tends to be speculative because of the nature of the market and lack of security of transfer.
A generally unsatisfactory situation is caused by weak infrastructure:

- There is no proper market for the determination of interest rates. These are largely mandated by Government policy and have been set artificially high.
- There is frequently a suspicion that those in authority will abuse their position. To protect against that eventuality, regulation tends to be overly prescriptive, rigid, and slow to respond.
- Corporations tend to be dominated by tight, founder groups of shareholders—even where they are listed, which relatively few are. They are generally highly cautious about releasing information and are subject to little shareholder pressure.
- Accounting standards and disclosure are, in theory, comparable with good international practice, but enforcement is weak.
- The stock exchange lacks authority and willpower to act in the interest of the whole market rather than just its members or indeed a powerful subset of those members.
- The main regulator lacks resources, is overburdened with inappropriate administrative tasks, and is too much focused on prescription and hands-on regulation rather than standard setting and policy guidance.
- Banks dominate the retail savings market, and the easy availability of cheaper bank credit—usually from banking arms—has stultified the use of public markets as sources of capital.

An examination of the detailed problems, issues, and possible resolutions forms the rest of this report.

Policy Issues

Equity Market

MARKET INFRASTRUCTURE

Microstructure

The Philippine Stock Exchange (PSE) operates a fairly standard electronic order book. However, there are two important features. First, the ticker that displays trades to the market immediately as they are made shows the code of the firms involved in the trade.

All systems will show the firm IDs to the regulators, but most do not publish them. This has two effects:

- It makes it easy for firms to have a very precise measure of their market share and those of their competitors. Since brokering is a network business, market share is a critical competitive point. Firms with larger market shares, since they see more orders, can be assumed to be better informed about the current state of the market. Therefore, in most stock markets, firms are rather secretive about their market share and prone to exaggerate.
- It makes it easier for observers to judge where the business is at any time. As a rule, there is a limited number of orders—probably only one sizeable order—in the market at any one time. Knowing where that is assists other firms to capture part of the counterparty business to that order. They will be more able to negotiate deals away from the trading system by calling directly to the firm working the order.

It is difficult to predict the effect of this on firms. It probably benefits (i) larger firms by making explicit the firm with the most market share, but it also benefits (ii) smaller firms by allowing them to spot where the order flow is and to consummate trades that otherwise would probably have been crossed by the firm with the order. It could go either way, but my sense is that (ii) dominates—small firms may gain sight of order flow that they would otherwise not be aware of. As part of a strategy to consolidate and strengthen stock brokering firms, the PSE might consider altering this feature.

The second feature is the special block trades of the PSE. All markets have a way of handling large orders, which is different from the way normal size orders are handled. Without this, the market would
not be able to offer institutional liquidity at acceptable prices; the order would move the market by stimulating front-running behavior. In essence, what is offered is a private negotiation possibility where the trade can be constructed without alerting other traders. On the New York Stock Exchange (NYSE) this is called upstairs trading; in London it is called protected trading or worked principal agreements; on the PSE it is called special block trading or put-throughs.

When doing a put-through, a broker finds a counterparty among his own client base. One large foreign broker estimated that most of his business would be crossed within the firm (a “cross”) or with another firm by telephone negotiation (a special block). A price is agreed upon and the trade is reported to the PSE (this makes it an on-exchange trade and so is exempt from the capital gains tax [CGT]). The price of crosses is constrained to no more than two “fluctuations” (a fluctuation is between 1 and 2 percent) away from the previous trade provided the cross price is within the best bid and offer. The price of special blocks is not constrained. Each special block requires approval of the Floor Trading and Arbitration Committee; but given that there are, on average, 20–30 special blocks per day, detailed examination is probably not possible or necessary.

It is often argued that a facility of this type allows a two-tier market to develop, and many exchanges (e.g., NYSE) have rules forcing upstairs trades to interact with the public order book. However, others (e.g., London, Amsterdam, Paris) do not and this trend is growing. Arbitrage, it is argued, reduces the need for formal interaction. But exchanges that adopt this approach are concerned to ensure that a two-tier market does not develop and so monitor the situation. There is no evidence that the PSE monitors this in any formal and rigorous way and, given the general quality of the market, it is likely that there is a two-tier market.

A further feature is that trade-to-trade price changes are limited to one “fluctuation” except for special blocks (Table 1). A fluctuation is approximately 1-2 percent of the price. This seems small and may limit liquidity in the market. The notion may be based on the NYSE tick rule where the “price continuity rule” limits the trade-to-trade price changes to a single tick. But the important difference is that the NYSE has a specialist whose main function is to ensure that this happens and to manage the trading and price movement in single tick increments. The PSE does not have this and there may be occasions when order imbalances prevent the gradual price change and so jam the market. The fact that this does not seem to happen suggests that it is not a problem or that the market has worked around it, but it could be a barrier to liquidity.

Table 1: Daily Volume of Stocks in the Philippine Stock Market, February 1998

<table>
<thead>
<tr>
<th>Stock</th>
<th>Total Value (P million)</th>
<th>Special Blocks</th>
<th>Average Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Value (P million)</td>
<td>% of Total Value</td>
</tr>
<tr>
<td>Manila Electric Company</td>
<td>5,480</td>
<td>19</td>
<td>3,081</td>
</tr>
<tr>
<td>PLDT</td>
<td>4,707</td>
<td>21</td>
<td>560</td>
</tr>
<tr>
<td>Ayala Land</td>
<td>3,606</td>
<td>16</td>
<td>657</td>
</tr>
<tr>
<td>Metro Bank</td>
<td>2,151</td>
<td>26</td>
<td>531</td>
</tr>
<tr>
<td>San Miguel</td>
<td>2,018</td>
<td>5</td>
<td>67</td>
</tr>
<tr>
<td>Belle</td>
<td>1,737</td>
<td>2</td>
<td>38</td>
</tr>
<tr>
<td>Ayala Corp.</td>
<td>1,732</td>
<td>2</td>
<td>46</td>
</tr>
<tr>
<td>SM Prime</td>
<td>1,668</td>
<td>4</td>
<td>772</td>
</tr>
<tr>
<td>Digitel Telecom</td>
<td>1,330</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>Metro Pacific</td>
<td>1,299</td>
<td>na</td>
<td>na</td>
</tr>
</tbody>
</table>

na = not available.
PLDT = Philippine Long Distance Telephone.
Transaction Cost and Liquidity

Cost and liquidity are important attributes of markets seeking to attract large traders such as foreign institutions. Liquidity is the extent to which large trades can be made without moving the market. A number of practitioners suggested that in the top 10 stocks there was quite considerable liquidity; some claimed that trades of up to $100,000 (P4 million) could be accommodated (before the current crisis). Trades above that size would be done as special blocks. Major players will also cross business in-house—one major firm claimed to cross 40 percent of its volume in the top five stocks.

Table 1 shows the daily volumes for February 1998 for the top 10 most active stocks. It shows that, while special blocks were important in some stocks, in most stocks their role was relatively modest. The block figure for Manila Electric was boosted by a single trade for P2.8 billion that represented over 90 percent of the special block value. The results suggest that in these stocks there is reasonable liquidity for institutional trading, and the special block facility offers the opportunity to transact in larger size without the “upstairs” market becoming too dominant.

Commission rates are negotiable, with a maximum of 1.5 percent plus 10 percent value-added tax (VAT). The imposition of VAT on commissions is unusual but not of major significance. The view among practitioners was that commissions remained rather high—perhaps P75 billion for foreign investors, though negotiations down to P20 billion were not unknown. In addition, transfer taxes are high: the combination of the documentary stamp tax on the buyer and stamp tax on the seller adds 1.25 percent to the transaction costs. Settlement and other central fees are low (0.00008 percent ad valorem and certificate issue of P25) and are paid from the brokers’ commissions.

Probably as a result of the high commissions and taxes, the Philippines is a relatively high-cost market by neighboring country standards. Table 2 shows the results of the Elkins/McSherry analysis of transaction costs for the fourth quarter of 1997. Elkins/McSherry is a New York-based performance measurement house. It has an institutional client base in the United States (US).

<table>
<thead>
<tr>
<th>Economy</th>
<th>Commission, Fees, and Taxes</th>
<th>Market Impact</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong, China</td>
<td>46.45</td>
<td>9.46</td>
<td>55.91</td>
</tr>
<tr>
<td>India</td>
<td>20.70</td>
<td>49.53</td>
<td>70.23</td>
</tr>
<tr>
<td>Indonesia</td>
<td>77.90</td>
<td>23.38</td>
<td>101.28</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>60.77</td>
<td>158.81</td>
<td>219.58</td>
</tr>
<tr>
<td>Malaysia</td>
<td>71.36</td>
<td>16.36</td>
<td>87.72</td>
</tr>
<tr>
<td>Philippines</td>
<td>104.03</td>
<td>6.76</td>
<td>110.79</td>
</tr>
<tr>
<td>Singapore</td>
<td>55.32</td>
<td>16.64</td>
<td>71.96</td>
</tr>
<tr>
<td>Taipei, China</td>
<td>52.55</td>
<td>21.15</td>
<td>73.70</td>
</tr>
<tr>
<td>Thailand</td>
<td>66.79</td>
<td>20.66</td>
<td>87.45</td>
</tr>
<tr>
<td>Average</td>
<td>61.76</td>
<td>35.86</td>
<td>97.62</td>
</tr>
<tr>
<td>New York Stock Exchange</td>
<td>12.36</td>
<td>22.11</td>
<td>34.47</td>
</tr>
<tr>
<td>World</td>
<td>44.28</td>
<td>27.17</td>
<td>71.45</td>
</tr>
</tbody>
</table>

Elkins/McSherry’s results show the Philippines as having the second highest transaction costs among comparable Asian equity markets. The main cause is the high commissions, fees, and taxes (price impact costs are actually rather low, probably because of the prevalence of crosses for all larger business). However, the figures also show that US investors are able, on average across their trading in Philippine stocks, to avoid the full impost of the taxes and commissions. It is not clear how they do this, but trading in offshore centers would be one way of doing that and is a rational response to high local charges.

Equity transaction costs are high largely because of high taxes on transfers; high commissions also contribute to the costs. The Government is, no doubt, loath to give up the revenue, but two points need to be considered.

Studies suggest that the elasticity of demand for transaction services is very high. This is supported
by intuitive reasoning on exploitation of arbitrage opportunities: the narrower the arbitrage channel, the more opportunities there are for profitable trades. Elastic demand suggests that reductions in transfer taxes may well increase revenue rather than reduce it as the gain in volume offsets the lower charge. This is an empirical question that should be researched.

In a global market, high-cost markets lose business to low-cost ones. This works in two ways. First, business in domestic stocks moves offshore. This is not technically difficult to achieve and, given the importance of offshore investors in the Philippine market, would be difficult to control. Foreign investors prefer to trade in the home market because they see it as the lowest cost market; but if it is not, then they will move. Secondly, the Philippines is not the only economy offering Southeast Asian exposure. It competes with others where trading is cheaper. Investors given a choice will go to the economies with low-cost trading.

**Settlement**

The current system retains two significant risks:

- Since it is not true delivery versus payment (DVP) and there is no electronic link between the clearing and stock movement processes, there is a serious risk that in a default situation investors will be left without cash or stock.

- Certificated holdings to date only represent 17 percent of listed shares.

The first is precisely the sort of situation that DVP is designed to avoid and it is the reason why G30 recommendations insist on it. There is a compensating scheme in these circumstances, but its total value is limited to P100 million (approximately $2.5 million at current rates) and P40,000 ($1,000) per claim in the event of a default. Beyond that, there is a guarantee by the PSE, which can call upon the members to make full compensation for any client losses. The value of such a guarantee is, of course, critically dependent on one’s view of the willingness and ability of PSE members to meet this. In a crisis, one’s view of this may become more bearish. It has to be said that in the new environment of a much larger market and larger players, reliance on a relatively small compensation fund and an unspecified and possibly unclaimable guarantee is not adequate regardless of how well it may have served in the past.

In part, the second risk reflects the fact that many shares are tightly held and the owners have no intention of selling, and so choose not to dematerialize. But it also reflects the preference of many foreign investors for certificates rather than dematerialized holdings. It is not clear what lies behind this preference, but it is likely to be related to the fact that the holdings are in the name of the PSE broker, not the beneficial owner. It may also be connected to the fear that some local custodian banks were lending stock without the knowledge or permission of beneficial holders. Whatever the reason, most foreign investors hold certificates. This means that they may at any time have bought stock but did not receive a certificate. If they wish to sell the stock, they have no title of ownership. In this event then the broker who did the original trade can issue a nontransferable certificate of holding against the holding in the Philippine Central Depository, Inc. (PCD) that is awaiting a certificate. If the client wishes to trade through another broker, then the first broker can transmit the investor’s stock through PCD to the second broker and the latter can issue the certificate of holding. This, in itself, is not the main risk, though there are risks here. The main risk is that the certificate will be issued and the certificate of ownership will not immediately be cancelled, so the same stock exists twice (and can be sold twice). This apparently does happen and occurrences of both certificates being in existence at the same time are considered as not at all uncommon.

Since short selling is not permitted on the PSE, there is, in theory, no need for stock borrowing facilities. However, the PSE imposes very severe penalties for failure to deliver stock on T+4. The penalty is a one-day suspension from trading plus a fine. In-
evitably, errors occur that can cause delays, and an informal stock borrowing system exists to cover these eventualities. The PSE is considering permitting short selling, subject to an uptick rule. This will require a more formal stock borrowing system, as there are risks in informal systems (and indeed in formal ones as Maxwell demonstrated), if potential stock lenders are to be reassured. If for no other reason, this will make it very desirable for institutions to become members of PCD.

Successful and timely introduction of the Securities Clearing Corporation of the Philippines (SCCP) would address these risks and, by enabling frequent monitoring of firms’ exposures, also lessen the possibility of default. The Securities and Exchange Commission (SEC) had set a deadline of 1 April 1998 for its introduction. There are no technical issues since the SCCP system will run on PCD hardware and PCD software already offers “shadow” clearing. The only issue is agreement on ownership and surveillance between SEC and the PSE.

Recent conversations with a senior PSE official suggest that an accommodation has been reached, but at the time of writing, details are incomplete.

**Equity Primary Market**

There are two main questions about the primary market:

- Why have relatively few companies obtained listings? The PSE lists only some 200 companies and less than 100 of the Philippines’ top 1,000 largest corporations have a listing.
- Is the primary market efficient?

Looking at the first question—why so few companies—the answer is in the nature of the Philippine industrial organization. In general, companies seek listings for a number of reasons, among the most important of which are the following:

- to raise new capital through equity issues,
- to allow owners to realize some of their shares,
- to enable companies to make acquisitions using equity issues rather than cash,
- to gain tax privileges either directly or for their shareholders,
- to get a regular valuation, and
- to attract investors who are prohibited from investing in unlisted assets.

The disincentive, of course, is loss of control.

None of the advantages really apply to the typical Philippine company. Philippine companies, as noted elsewhere, are tightly held and obtain most of their capital needs from captive banks. They do not need the valuation, the trading market to realize shares, or the new investors. There is a tax privilege (CGT-free trading on the PSE), but this is only valuable to potential sellers—and most shareholders have no such intention. There is no real market for corporate control in the Philippines as there is no real pressure from outside investors for better performance. Even if there were, then the company would not be obliged to take much notice. Corporations certainly change hands, but usually in private deals rather than through public takeovers and for reasons that seem speculative or monopolistic rather than economic.

Looking at the second question—is the primary market efficient? Unquestionably it was not efficient in that the PSE’s rules enshrined a privilege that gave member firms a guaranteed allocation of shares from an initial public offering (IPO). When markets were doing well and the supply of IPOs was limited, then this privilege was rewarding for PSE members. Studies of other markets have shown that over the longer term, new issues underperform in the market although in most circumstances they tend to do well on the first few days of trading. This is because underwriters generally underprice the IPO to ensure success and to limit their risk. In fact, a small study in Europe has suggested that IPOs of family-dominated firms will tend to be relatively more underpriced since this allows the owners to ration the stock allocation in a way that maintains their dominance—i.e., by not allowing big blocks to be allocated.

It is likely that the original intention of the members’ privilege was to allow wider distribution among
their clients—as opposed to an auction or placing process that might distribute the issue as a few large blocks. However, its effect in recent years has been to give PSE members a near automatic profit and it was seen as an abuse. The allocation was equal across firms; hence, large firms got an allocation that was of no practical use and so had to go to the smaller firms to bring up their allocation to an economically useful holding.

The privilege was abolished in late 1997 at the instigation of SEC. The new rules essentially prohibit profitable proprietary trading by stock brokers ahead of investor orders. The greater reliance on book-building techniques should improve the pricing of IPOs, especially as this allows foreign investors to participate in the price-formation process. Investors and large securities firms see the new system as an improvement. However, the absence of any recent IPOs means that it remains untested. It is, for example, not clear how SEC or the PSE will police the new rules.

The overall impression is that the Philippine primary market is not hugely inefficient, even before the recent reforms. Many other primary markets have monopolistic elements but still thrive—the market of the United Kingdom (UK), for example, suffers from unnecessarily high underwriting fees (effectively fixed at 2 percent). The problem is lack of supply of new issues and lack of demand from investors.

REGULATORY FRAMEWORK

The Securities and Exchange Commission

SEC has got itself into a double bind: too much work, too little resources. Its range of responsibilities are enormous: in addition to the “normal” capital market functions of an SEC (rule monitoring, registration), it has responsibility for company registration, company disputes, and a sort of Chapter 11 role in insolvencies. It is believed to have realigned its policy approach from merit to disclosure, but this has not yet been tested.

To further increase the pressure on SEC, it takes a very prescriptive line on regulation. It does not lay down general principles and monitor the self-regulatory organizations’ (SROs) adherence to them. Rather the impression is that SEC is intimately involved in the rule-making process of the SROs. Its conflict with the PSE over governance is a case in point. While it is perfectly right for SEC to have views on the PSE’s rules, it might do better to set about making the PSE’s position more contestable rather than getting into public conflict and brinkmanship. The US SEC and the UK’s Financial Supervision Authority (FSA), as examples, are moving to the stance that market rules are a commercial decision for exchanges, but that there will be free entry so that exchanges that have repressive, unfair, or partial rules will tend to lose to newcomers. The possibility of competition is a more potent threat than the possibility of the long policy discussions with SEC that most SROs love to engage in.

On the resource side, SEC has a staff of 770 that seems adequate, but they tend to be underskilled and underpaid. SEC staff, like all Government employees, are bound by a pay scale (apparently this scale covers all, up to the president who has a maximum of P300,000). Typically skilled staff will earn more working for investment banks, and it is impossible for SEC to retain sufficient staff in the important professional areas of law and accounting.

The problem is not unique to the Philippines—even the US SEC only expects to keep good lawyers for two to three years. However, the US SEC has managed to make a virtue of this by positioning itself as the gateway to the industry: a stint at the US SEC is the way to a good job on Wall Street. So the US SEC has a constant supply of hungry, young professionals wanting to prove themselves. And they prove themselves to their prospective future employers not by lying down when they deal with them but by their aggression and assertiveness in enforcement. Both the US SEC and UK FSA
are outside the normal civil service pay and recruitment systems.

**Stock Exchange Governance**

The PSE has been engaged in a long dispute with SEC over external representation on the PSE board. The PSE now has 3 external representatives—including the president—in its board of 15. The problem has been that the PSE was seen as member dominated and unwilling or unable to accept the views of users. The changes to date are to be welcomed, but three external members are not many and SEC is pushing for more.

An issue of equal significance that has not featured is the question of voting rights. The current situation gives each member firm a single vote, irrespective of size. This may seem democratic and protective of the rights of smaller firms, but experience elsewhere has shown that this can be a drag on development of the market. Typically, smaller firms have less interest in change than do large firms. The former see change as a threat—which it often is—to their previously secure position. Exchanges that have had to undergo radical change have generally had to alter voting rights in order to achieve that—and every conversation about change with exchange officials almost anywhere in the world is hedged around by “what is politically feasible with the smaller firms.” London in 1986 (which led to voting changes) and London International Financial Futures and Options Exchange (LIFFE) in 1998 (which will result in voting changes) are examples of exactly that conflict.

Several exchanges have gone even further and, realizing that even the interests of their larger, more progressive, members may conflict with the long-term development of the capital market, have moved to become public companies rather than member cooperatives. Examples are Australia, Stockholm, and Amsterdam, with Paris soon to follow.

Everything about the PSE is symptomatic of such conflicts between different interest groups—from the struggle to allow the surveillance unit to inspect firms on demand to the restrictive IPO distribution rules (which existed in other markets also). In every case, there is an argument to be made by PSE members for retaining the status quo, but the users of the market are almost unanimous in wanting change (for the benefit of the market even if it does them no favors).

The feeling that the PSE is not operating in the interests of the market but in the sectional interests of its members (or some subset of them) is what lies behind the persistent conflicts with SEC. It also explains SEC’s insistence on detailed involvement in rule making and policy.

At the same time, the PSE seems to achieve the worst of both worlds by allowing its governors a term of only one year. While they can return for a second term, that is the maximum, there are admittedly problems of continuity.

**Surveillance and Enforcement**

The nature of corporate ownership—many tightly held corporations even among the top 30 companies—makes it difficult to catch insiders, and the lack of any convictions should not in itself be taken as a sign that enforcement is not being strenuously pursued. But there is a feeling that the resource and determination brought to bear are inadequate to the task. To illustrate, Figure 1 shows the price movements in C&P Homes on 17 March 1998. There is clear evidence of something going on when the price rose on the 17th, but no announcement was forthcoming until 2 pm on the 19th. This is not an isolated instance.

![Figure 1: Price Movements of C & P Homes, 17–19 March 1999](image-url)
The PSE also examines the data for signs of unusual volume. Aside from the usually dismissive responses from companies asked to explain, the techniques themselves are not particularly powerful tools of detection as they are applied here. Insiders and manipulators are skillful and do not leave obvious tracks. Detecting them requires a substantial investment in hardware, software, information, and plain expertise. It seems likely that much information that would be helpful is not being used fully or not at all. The PSE has the trading data, SEC has the data on directors/shareholders, the Credit Information Bureau, Inc. (CIBI) has data on cross-holdings—not to mention the Bangko Sentral ng Pilipinas (BSP) information on bank business. If that information were marshalled properly—i.e., on linked databases—and proper emphasis given to exploring it, then the work of insider traders could be made very much harder.

But as things are, the PSE has a very small and underresourced Surveillance Unit, SEC has practically no information technology expertise or capability, CIBI is rarely brought into the picture, and BSP is not involved.

The PSE does investigate unusual price jumps—companies are asked if there is an explanation. Almost invariably, companies get their lawyers to write back saying there is nothing unusual—and soon afterwards the announcement comes out or the reason comes out in some other way.

SEC might consider that its interest would be better served by working with the PSE to improve the quality and the perception of quality of the market rather than spending its limited resources on ultimately futile, high-profile head-on encounters with the PSE. At the same time, if the PSE were really interested in raising the reputation of its market and attracting a less speculative type of investor, then it would do well to focus on some aggressive investigation instead of seeming to drag its feet whenever a new initiative that would enhance the information available is suggested. A current example is the dispute between SEC and the PSE over inspections of firms. Originally the PSE rules required the PSE inspectors to give the firm to be inspected advance notice of the inspection. On SEC insistence this was changed, but now the inspectors are required to notify the PSE president (who is independent and also the chief executive officer). This, in itself, may be harmless, but it appears that this comes down to gaining approval from the president and inserts an automatic delay in an investigation. Naturally, SEC is unhappy with this, and an acrimonious public debate has ensued with the PSE appearing to defend restrictions on the independence and freedom of action of its inspectors.

**Securities Firms**

PSE membership requirements are not particularly onerous. In particular the educational/professional qualifications of applicants or staff of corporate members are not stipulated (though a curriculum vitae is required from individual applicants). There is no formal minimum capital requirement. One significant restriction – especially in the context of the Philippines – is that individual members and nominees may not be connected with any other stock-broking firm. The charge for entry is P200,000.

The market is dominated by the large firms, including 43 foreign members. Many of the domestic brokers remain small - “mom and pop brokers.” Comments suggest that many have no customer business and are essentially “locals” trading on their own account. Until 1997 they also were able to profit from the special IPO allocation to PSE members.

The capital adequacy requirements are low and, while hard information has not been available, the smaller firms are widely regarded as seriously undercapitalized. Because the PSE has no ability to monitor exposures of firms, there is significant risk of default. The guarantee fund is very small and the risks are compounded. The potential for risk is compounded by the rules allowing margin trading, and this will be further added to if the PSE allows short selling. Larger firms monitor their exposures to smaller firms and limit them accordingly.
A shakeout is widely anticipated, with many of the smallest firms expected to withdraw from the market. The risk is that this will be a hard landing rather than a gradual withdrawal, so complacency is unacceptable.

**Accounting Standards**

Accounting standards are not much different from international standards, but the problem is nonenforcement. Enforcement of standards is the responsibility of SEC. SEC’s policy thrust is toward full disclosure, but that has not been attained yet.

Many companies, even large ones, are not enthusiastic about disclosure—for example, disclosure of directors’ salaries or details of contracts—fearing either union unrest or competitors. Reports and accounts do not give the full details of cross-holdings or connected parties. Also the complex conglomerate structure of Philippine companies makes it easy to move assets and liabilities between subsidiaries. Most of this information is held by SEC, but is difficult/impossible to get hold of largely because the data are stored in paper form with no easy retrieval. The general feeling is that accounts are prepared to suit a particular purpose—tax, share issue, etc.—and rarely give a true and fair picture.

Accountancy firms, with reputations to protect, will push for better enforcement but only if they feel they will be backed up by regulators. However, neither local investors nor regulators (SEC) seem too concerned. Accountancy firms expect the SEC Accounting Bureau to enforce standards of disclosure, but claim that it does not. The feeling is that accountants who ask too many questions will lose business and there seems to be little opprobrium attaching to firms who switch accountants to get an easier ride.

There is pressure for change, but it comes from foreign investors either as portfolio investors into the Philippines or when stocks seek listings in North America (as a few have indicated). Foreign investors have been the main forces for improvements.

These have undoubtedly been achieved but need to be maintained if the Philippines is to continue to grow as a market for foreign investors.

Nonenforcement of disclosure standards creates a vicious circle: if accounts do not give the true picture, then investment decisions come to be based on rumor rather than fundamentals. An example of this was a large company that entered the market through an IPO. Of the 5,000 prospectuses ordered for clients, only 800 were taken up—though the issue was very well subscribed—presumably because most investors relied on tips.

The SEC Accounting Standards Bureau is seen as lacking teeth and being underresourced. Its staff members are poorly paid and underskilled.

**Corporate Governance**

The quest for good corporate governance has relatively little following in the Philippines. Almost all companies, even in the small listed market, are tightly held: more than 70 percent by the founding family is the norm. This is normal in smaller companies, in most markets, but ownership usually disperses as the companies grow. There is some form of vicious circle in the Philippines: there is no substantial body of investors to buy the stock away from the founding families while at the same time there are apparently advantages in maintaining and expanding control without the stimulus to seek external funding.

Companies also tend to be grouped into highly complex conglomerates largely for reasons of financial economies—access to cheap bank finance—and monopolistic power. This structure leads to a form of corporate governance in which the insiders treat the company as a private estate and minorities are ignored.

There are no rules to protect minorities and they are routinely disadvantaged. Rules to protect minorities in the event of a takeover would at least force companies to offer to buy out minorities and limit the scope for pyramiding control based on less than total ownership.
Bond Market

INTEREST RATES
Interest rates appear to be the result of collusion, management, and deals rather than market forces. This is, at first, surprising given the large number of banks in the Philippines (12 universal, 50 commercial), but the evidence is all too clear:

• BSP rates have been held high for years to support the currency—as was common across Asia. This encouraged short-term borrowing and reliance on foreign lenders. Furthermore, this set the tenor for wholesale rates and for discount rates for investment.

• It is clear that lending rates are set by the banks in a cartel-like manner. The public discussions during March 1998 under which BSP agreed with the Bankers Association of the Philippines (BAP) to reduce reserve requirements if the banks reduced their lending margins smack of rates that are administered rather than competed for.

• Retail savings deposits pay very low rates—negative real rates. All the banks offer similarly low rates. There are no other competitive institutions for small retail deposits. Mutual funds offer a different service in theory, though at least one is offering a better rate for what are, in effect, higher retail deposit rates.

The large number of banks was a consequence of the interest rates being administered and cartelized. The interest rate situation encouraged conglomerates to develop banking arms as a source of cheap finance.

Further, as BSP does not issue any long-term bonds, there is no long-term, risk-free interest rate as a price guide.

The overall effect of this has been low savings and a stifled capital market.

MARKET INFRASTRUCTURE

Primary and Secondary Markets
The Philippines has a relatively more developed bond market than some of its neighbors in the Association of Southeast Asian Nations (ASEAN). It has shown a diversity of instruments and occasional availability of long-term debt instruments. However, it remains largely a market for floating rate instruments and hence does not truly offer the advantages of a true fixed-rate bond market. Its development will be stifled by the immediate crisis, but there is scope for the development of long-term debt instruments if a number of infrastructure failings are addressed.

Table 3 shows the main classes of assets. In addition, there are municipal bonds and an embryonic mortgage-backed securities (MBS) market.

The Philippines has a significant public bond market stimulated by the need to fund chronic fiscal deficits. Since mid-1998, the Government bond market has been regulated by the Bureau of the Treasury (BTr) rather than by the central bank, BSP.

The bulk of the issuance is at the short end though there have been longer dated issues including some fixed-rate issues. Currently the market is almost all three-month T-bills. The sizeable issuance generates a liquid secondary market supported by a scripless settlement system.

Government issues, through repos, form a basis for interbank lending as well as the central bank’s activities in the money market. The attraction of a secure asset even if only short term, makes Government securities a popular investment vehicle for pension funds and other institutions as well as for wealthy individuals.

The municipal bond market remains small and limited to local investors.

The Philippine corporate bond market is relatively small (very much smaller than the public bond market) and is suffering in the current crisis. The corporate bond market is regulated by SEC, which registers bonds (BSP also approves bank issues on a case-by-case basis). Prior to the crisis there had been some growth, but the bond market was only open to the largest companies and the main issuance was in floating rate assets.
SOLID CRUST WITH SOFT CENTER: A PROBLEM OF ENFORCEMENT IN THE PHILIPPINE CAPITAL MARKET

The ratings agency CIBI covers only some 30 corporations and, while ratings are not mandatory, the scope of rated companies matches the scope of the market. All except four of the rated companies have ratings of A or above and none is below B.

Issuance is almost exclusively in commercial paper (CP) which, when market conditions will support it, can be long term: anything up to 10 years although 5 is the norm. As mentioned, CPs have floating rates and are renegotiated every quarter. Therefore, while they essentially involve long-term commitment of capital, they, like overdrafts, do not offer the certainty of a conventional bond issue.

Large borrowers were often able to offer CPs at rates below T-bill rates, reflecting the perceived high credit quality of the issuers. In recent years, large corporations have also tapped the international bond markets.

The market has also seen the beginnings of an asset-backed market for mortgage bonds. This originated in a project funded by social funds to support low-cost housing. There are now a number of private sector initiatives repackaging mortgages for low-cost and middle-class housing. In practice, the mortgages being securitized are guaranteed by the Home Insurance Guaranty Corp. (HIGC), and the MBSs are issued through a special purpose vehicle with the same rating as Government debt. Because of this, they are outside the jurisdiction of SEC and do not require registration. For the same reason, they are exempt from the 20 percent withholding tax. Recently BSP has become concerned about the commitment of banks in MBSs and SEC has become aware of its lack of involvement in the market. New regulations are in the process of being prepared though it is not clear, at this stage, which will be the main regulator.

Overall the Philippines before the crisis did see growth and development of its bond market, including long-term debt. It was not a true bond market in the sense that it was almost all floating rate debt. Bond markets are attractive to issuers and investors because of the certainty they bring. Companies gain a secure source of finance with fixed redemption and fixed cash outflows. Investors gain a long-term asset with a certain cash flow that they can match to the duration of their liabilities. Bonds are especially

Table 3: Philippine Bond Market Assets

<table>
<thead>
<tr>
<th>Item</th>
<th>Public</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Short-Term T-Bills</td>
<td>Long-Term T-Bonds</td>
</tr>
<tr>
<td>Term Interest</td>
<td>91–364 days</td>
<td>1–20 years</td>
</tr>
<tr>
<td>Issue Method</td>
<td>Fixed</td>
<td>Floating—reset quarterly</td>
</tr>
<tr>
<td>Trading</td>
<td>Weekly auction by BTr</td>
<td>Fortnightly auction by BTr</td>
</tr>
<tr>
<td>Settlement</td>
<td>OTC—liquid</td>
<td>OTC—illiquid</td>
</tr>
<tr>
<td>Regulator</td>
<td>BTr</td>
<td>SEC—registration required</td>
</tr>
<tr>
<td>Investors</td>
<td>Insurance companies, banks, mutual funds, wealthy individuals, state pension systems (SSS and GSIS), which are required to invest heavily in government securities</td>
<td>Prime corporations from manufacturing, finance and especially property/real estate sectors</td>
</tr>
<tr>
<td>Other Features</td>
<td>CP requires no shareholder approval, in contrast to bonds</td>
<td></td>
</tr>
</tbody>
</table>


Source: Compilation by author.
Attractive to insurance companies and similar institutions with distant but predictable liabilities. They are attractive to companies that have long-term projects since they offer longer term finance than is available from banks but without the uncertainty or ownership dilution of equities.

However, for this to work, there must be a high level of certainty among issuers that (i) the bond will be repaid, i.e., the issuer will not go bust, misuse the money, or otherwise defraud the investor; and (ii) the real rate of return will be what they expected. (Companies are also concerned with the real rate, as they do not want to be locked into a bond when rates are falling.)

Where these requirements are not met, it is very difficult for a bond market to evolve in the sense of a market offering the certainty that issuers and investors want. The two requirements depend on different conditions:

- The avoidance of default risk is a function of information. Investors need to feel certain that they have adequate information to judge the issuer’s state and probity on a continuous basis. For the largest companies, investors rely on published information and ratings from public agencies. For smaller companies, investors will do their own due diligence and establish a close relationship with the issuer (often including a board seat so the ownership dilution benefit of bonds over equity is less strong). Investors, in addition, will usually demand covenants limiting the issuer’s freedom of action and ensuring regular reporting.

- The predictability of real returns is a result of macroeconomic stability. Many countries have experienced volatile interest rates either as a result of volatile inflation or because of a commitment to a stable exchange rate without the necessary fiscal discipline. Both bond investors and issuers will have experienced unpleasant shocks in those situations—investors receiving less than they could have received from alternative investments and issuers paying more than they would have paid on alternative sources of finance.

As a result, fixed-rate finance becomes hard to obtain at acceptable rates and the lending market relies increasingly on floating rate assets. These can be either floating rate notes (FRNs) or bank overdrafts, depending on the willingness of the banks to make what amount to long-term loans and the attitude of borrowers toward those banks. In practice, the only issuer who can obtain fixed-rate finance is the Government. Governments will borrow at what seem to others to be penal rates because of their powers to tax and to control the future real rate at which they repay. This compounds the problem by crowding out any other borrowers who do not have those advantages.

The Philippines has or expects to have problems on both the requirements. As anticipated, the bond market is in retreat and the long-term finance available is at floating rates.

In practice, it is only in the US where investors have the required skills in corporate risk analysis to assess bonds for smaller companies. US insurance companies, in particular, have developed the necessary skills. The cost of the due diligence they carry out is substantial, and they are deeply suspicious of accounting standards and practices outside of the US. Therefore the possibility of extending the bond market beyond the prime companies in the Philippines seems remote.

For larger companies there remain problems with accounting standards, auditing practices, and the quality of company information. However, the fact that, prior to the crisis, there had been growing willingness to lend long-term to prime corporations indicates that investors were more comfortable with the data they were given. To some extent, the efforts of the rating agency have helped. CIBI is not seen as entirely independent or immune from improper pressure, but its attempts to insulate itself through the independent ratings board have helped its reputation.
The planned tie-up with an international agency will further strengthen its position.

Historically, the Philippines has experienced artificially high rates as the Government has sought to manage the exchange rate at a level not justified by the national economy. While this has not prevented the emergence of a nascent fixed-interest market, it has certainly stunted its growth. While prime private sector borrowers were often able to borrow using CP at rates below the managed central bank rates, it must be true that the competition for funds kept CP rates artificially high. The enthusiasm of Philippine companies for international bond issues in recent years supports this view.

The crisis saw sharp rises in local interest rates. These remain high with little immediate prospects of relief. Furthermore, the crisis is putting pressure on the already frail fiscal stance of the Philippines, and it would be rash not to expect significant volatility in inflation and interest rates over the near term.

**Settlement**

The Government securities market is supported by an electronic scripless settlement system operated by the BTr system Registry of Scripless Securities (ROSS).

Corporate bonds including CP are currently settled interoffice in paper form. This is slow, costly, and risky. The delays and costs arise because of lack of electronic entry systems for trade details and lack of an automatic trade matching system. The risks arise from absence of DVP.

**REGULATORY FRAMEWORK**

BTr has regulated the Government bond market since mid-1998. Prior to that time, BSP was the regulator. BTr arranges the regular auctions and intervenes in the market.

BSP no longer has a role in overseeing the market but, in its role as bank supervisor, it regulates bond issuance by banks. In particular, it may have a significant role in the development of the asset-backed-securities (ABS) market, in which the banks are heavily involved.

SEC is the regulator of the corporate bond, including CP, market. It authorizes issues, requiring not only registration but also compliance with certain financial minimum ratios. It is also concerned with the developing ABS market. SEC also regulates the authorized securities firms that operate in the market.

**Investors**

**PENSION FUNDS**

Emerging economies will experience longer life expectancies and a growing interest in provision for old age. The Philippines has a young population, but experience elsewhere shows that increasing prosperity is associated with a declining birth rate and consequently an ageing of the population. In developed economies, the most important conduits for mobilizing savings are those associated with pension provision. These observations lead to the conclusion that developing its pension infrastructure should be an important element of Philippine financial development.

Both State schemes (Government Service Insurance System [GSIS] and Social Security System [SSS]) are funded, so the Philippines will not be faced with the problems of an ageing population depending upon pay-as-you-go contributions from the working population. However, funding is only of value if the contribution rates are adequate to meet the actuarial needs of the accrued liabilities of the schemes. The schemes are currently in surplus—which is not surprising, given the growth of the population, but contribution rates are not high and benefits are quite generous. As the schemes mature, contribution rates will need to increase to cover a higher benefit-to-contribution ratio. Contributions to GSIS were increased in 1997. It is apparent that employees viewed their contributions to the schemes not as investments but rather as a tax. There may therefore be resistance to future increases in contributions.
In many countries, pension savings attract fiscal privileges and these are significant in encouraging individuals to make provisions for the future. This brings five important benefits:

- It encourages a higher level of saving by altering the relative cost of consumption.
- Because the administration of the tax relief requires the savings to be pooled in some way, it stimulates the development of collective investment schemes, which are important elements in the development of capital markets.
- It takes pressure off State schemes which, however well constructed and funded, tend to be seen as taxes and, as such, are resented. In contrast, contributions to individual, tax-advantaged schemes are seen as attractive ways of provisioning for the future.
- Private pension schemes, as contractual arrangements, give greater certainty than public schemes. Public schemes, however well intentioned, are always subject to political pressures and future benefits may not live up to present promises. Such uncertainties will make contributors less inclined to pay into State schemes.
- Private pension schemes can more easily accommodate the self-employed. Developing economies will, as their service sector expands and as the certainties of employment become less, experience an expansion of the self-employed sector.

The downside of granting fiscal privileges is the impact on Government revenue. The tax exemption on SSS/GSIS contributions was granted relatively recently under the Comprehensive Tax Reform Program and made a significant hole in revenues. A careful calculation will have to be made comparing the benefits for Government revenues from better mobilization of savings and a larger, deeper domestic financial sector as against the revenue forgone by granting fiscal privileges for retirement savings.

The limits on portfolio allocation laid down in the 1997 Social Security Act may not be particularly onerous at the moment since the funds were invested almost entirely in bank deposits, housing loans, and Government bonds. With interest rates as high as they are currently, holding a substantial investment in Government debt seems a sound investment strategy. However, from a funding point of view it is, of course, questionable whether a State fund that is heavily invested in Government debt is really funded at all: it represents future claims on Government revenues just as a pay-as-you-go scheme would. In a growing economy, the sound strategy for a pension fund would involve substantial equity investment and the limits would constrain this. The purpose of the restrictions is not clear, and the managers may find that the limitations conflict with the obligation imposed by the Act to “manage and invest with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would exercise.”

It is likely that in changed circumstances in the future, the managers might find the investment limitations to be restrictive and feel they could better serve their members if they were allowed to exceed the limitations in the Act. In the future, they might invest more than 45 percent in private securities and reduce their investment in, for example, private loans or Government debt.

There is no framework for private pension schemes in the Philippines. A number of companies are said to operate schemes using the common trust funds (CTFs) of banks, but these are no different in their tax treatment from other investments in CTFs. For many reasons related to mobilization of savings, deepening capital markets, and easing the future benefit burden on Government, the emergence of private pension funds will be beneficial. Where private pension funds have evolved, they have been helped by having a clear legal framework, strong regulation, and fiscal advantages.

There should be a legal and regulatory framework for private pension schemes, probably including fis-
cal benefits to encourage savings through this medium (with safeguards and limits to prevent abuse). The Philippines is restricted by its fiscal position, but most governments see tax breaks for pension savings as a worthwhile investment since it cuts back the obligations of State schemes. The Philippines has the lowest percentage of population over 65 among the Asian countries—and will continue to have the lowest percentage in 2025. However, the proportion over 65 will double by that year and proper provision is required. This is a good time to move as the dependency ratio is still low.

Private pension schemes are always funded and it is important that there are assets to support that funding. Transferring from a State scheme to a private scheme invested in Government bonds does not alter the Government’s long-term commitments. Equally it is essential that funded schemes have the freedom to invest so as to maximize benefits (or minimize contributions). This suggests that the restrictions on the State schemes’ investments will not be acceptable for private schemes (it is a fact that countries that have restricted the investment policies of private schemes do not have successful private schemes since savers avoid them). Of course, it is likely that the State schemes will wither unless they are able to invest on equal terms with private schemes.

In the near term, it would be appropriate for current Philippine pension schemes (the two State schemes SSS and GSIS) to move some of their assets into equity if they were to be allowed to do so. But bonds should continue to play an important part in their portfolio, the more so as funds mature and start to have a significant number of members approaching retirement. Therefore pension funds—both current public and future private—would benefit from a liquid and sizeable bond market. From a fund’s point of view, it makes little difference whether these are public or private bonds (after appropriate allowance for differing risks). But, as noted above, funding pension schemes through Government bonds is economically the same as running a State pension scheme. The fiscal burden is the same. It would be best, therefore, if there were in the future a deep pool of private bonds for pension funds to invest in. There is currently no such pool, and infrastructure changes to support a private bond market are required if one is to develop.

**MUTUAL FUNDS**

The obvious market for mutual funds would be the high-net-worth individuals who also use the bank CTFs. However, the relatively high rates on deposits compared with stock market returns (and the recent stock market setback) make it difficult to attract those customers. The mutual funds have therefore targeted the less sophisticated investors. These investors are less return-conscious and their savings options are otherwise limited to retail banking accounts offering low nominal rates and negative real rates. Such investors are judged to be seeking safe homes for their savings—which are usually for emergency provisions or for schooling—rather than for returns. In pursuit of these savers, one group—Kabuhayan—is offering to accumulate a minimum holding of P5,000 at the rate of P200 per month. The contributions are held in an interest-bearing account (paying 4.8 percent as of March 1998, which is attractive in its own right) until the minimum has been built up.

It remains to be seen whether this strategy will be successful or it is better for these funds to be invested in equities. Regulators may be expected to raise questions about the suitability of risky investment for this sort of savings.

**INSURANCE COMPANIES**

Insurance companies provide life cover and pre-need policies (especially education). Their investment strategies are fairly adventurous and they are significant players in the equity and Government bond market. They are also investors in private equity, taking significant stakes in unlisted companies where they usually demand a management role through a board seat. Their stake is usually 10-25 percent with $5 million-$10 million value. They can thus invest in relatively
small companies as well as infrastructure projects that cannot be listed.

For unlisted companies, the investors are obliged to do very extensive due-diligence analysis since information about them and their quality are even skimpier than for listed companies. (However, this is not unusual. Insurance companies based in London and investing in smaller UK and European corporations do similar levels of due-diligence work.)

The exit route from these private equity deals is almost always through a listing. Tax rules impose 20 percent CGT on trades in unlisted companies, but those listed are exempt.

**COMMON TRUST FUNDS**

CTFs are a major savings vehicle for the better-off. Being run by banks, they tend to favor deposit investments, which, given the high rates available, are sound investment anyway. A more worrying feature is their apparent lack of transparency and lack of regulatory control. CTFs are regulated by BSP, the regulatory authority for banks, but, of course, CTFs are investment vehicles and should be regulated as such. In fact, BSP’s regulation quite naturally goes no further than assessing the effect of CTFs on bank solvency, with little interest in their investment features. Given the retail nature of this product, it is risky to regulate them in this way.

**FOREIGN INVESTORS**

Many recipients of foreign investment flows are pleased to receive them as long as the foreign investors do not expect anything in return. Of course, a negative perception of foreign investors is more likely when foreign investors are inclined to dump a country when the going gets tough. It is therefore not surprising when Filipinos say that they do not want hot money.

But foreign portfolio investment is no more hot than any other money. When foreign portfolio managers think the market will go down, they sell just like domestic investors. They may sell and buy in larger blocks than domestic investors, but their motivations are exactly the same. Foreign investors sold in 1997, and so did domestic investors.

Foreign investors reduce their commitment to a country when they perceive that they are discriminated against, not being told the whole story, or being expected to face unreasonable risk of systemic failure. All three occur in the Philippines.

Foreign investors are excluded wholly or partially from certain industries. It is difficult to see why foreign portfolio investors are prohibited from having (aggregate) stakes exceeding 30 percent in advertising or why they are totally banned from retailing. If the issue is external control, then the regulations are missing the target—foreign fund managers do not want to have dominant control of companies (though the idea of dominant control is by no means alien to Philippine corporations). If the ban on foreign ownership of retail was motivated, as it has been suggested, by other than commercial motives, then again they are missing the target. It is not as if these sectors were so well developed in the Philippines that further investment would not be beneficial. If, as is probably the case, the rules are largely avoidable anyway, then it is another example—of which there are many in the Philippines—where rules whose point has been forgotten still clutter the books, encouraging evasion and a culture that accepts such regulatory evasion as necessary and acceptable. It is difficult to imagine Jardine Fleming or Liberty Life, to pick two names at random, being interested in owning biological warfare plants, so why does the Philippines feel the need to have a rule that prohibits it?

Foreign investors, in the main, see the Philippine markets as dominated by insiders. The perception is widespread and is encouraged by the lack of transparency over ownership and accounting details; even when figures are collected by regulators, such as those relating to dominant shareholdings, they are not available to inquirers. This makes investors wonder if there is something to hide.
Foreign investors are yet to be convinced of the integrity of the central depository and settlement systems. However secure the system looks in principle, the system is not yet DVP. Therefore investors will have delivered stock and not yet been paid or they will have paid and not yet received their stock. A default at such a time would expose investors to a loss. Investors, especially foreign investors, are very fearful of such risks.

Policy Recommendations

Equity Market

MARKET INFRASTRUCTURE

Microstructure
The PSE should set up a monitoring unit with the objective of analyzing the effect of its rules on market quality. Specifically, it should first turn its attention to

• the effect of special blocks in possibly creating a two-tier market;
• the impact of publishing firm details on the ticker in maintaining fragmentation of stock-brokering;
• a longer trading day. The trading day of the PSE is abnormally short. Typically as exchanges move toward electronic trading, they are able to extend their trading day. Such extension stimulates more local business as well as creates an overlap with other time zones and thus increases arbitrage trading. Longer hours and arbitrage have been shown to raise overall liquidity wherever studies have been carried out. The opposing arguments are linked to the need for a long period to settle business. This is not entirely plausible and should vanish when fully electronic settlement is introduced.

Transaction Cost and Liquidity
Taxes on transactions are high and are almost certainly restricting volume and liquidity. Low liquidity reduces the attraction of a stock market for investors and issuers. However, accepting that the Philippines is in a tight fiscal situation, the tax authorities should study the likely impact of reducing transaction taxes on overall volume and on tax revenue. Experience elsewhere suggests that cutting very high transaction taxes leads to substantial increases in trading and tax revenue.

Commissions are negotiable but remain, in the view of practitioners, rather high. It is difficult to address this and anyway the evidence to support the allegation is lacking and so the claim may not be true (though the Elkins/McSherry results are supportive). The PSE could usefully add to its range of publications some information on the “going rate” for commissions. This would help either to disprove the allegation or highlight the excessive levels and lead to more intense negotiation. (Reducing commission revenue might seriously damage some firms, but the unsustainability of many firms will need to be addressed anyway on grounds of settlement risk and capital adequacy.)

The assessment work on special blocks and other microstructure issues proposed above should focus attention on the impact of PSE rules on market quality. It may, for example, be appropriate to liberalize the special block and crossing rules by removing the price constraint on crosses and the need for special blocks to gain specific approval. Lighter regulation here could and should be accompanied by stricter monitoring of the market.

Settlement
Security of transfer is too important to get held up in a regulatory war. If they have not already done so, the issue of ownership should be resolved. The idea of the settlement function being jointly owned by market participants is not unusual.

The use of the depository is very low at 17 percent. In part, this reflects the tight ownership structure, but it also suggests that many institutions (including foreign) are opting to hold certificates. The charging structure allows the option of certificates at a very low, possibly uneconomic price. For example, the cost of
uplifting a certificate for a holding is P25 (plus the normal ad valorem PCD fee of 0.0000834 percent). But the low usage also suggests that significant investors are not convinced of the security of the system. Their fears should be addressed as a matter of urgency.

The settlement guarantee fund with a maximum payout of P40,000 is far too small and should be reviewed. Its funding (i.e., relying on members as the ultimate source) is also unsatisfactory, especially given the lack of monitoring of member firms’ exposures.

Equity Primary Market

Companies would be more inclined to use public markets if there were a cheaper and easy access to bank finance. A legislative separation of banks from conglomerates would be difficult to effect and even more difficult to enforce, especially given the prevalence of influence through interlocking directorships. As usual, the competitive solution is better. More competition for the saver’s dollar together with liberalized interest rate would mean that savers would receive something closer to the market cost of capital. Captive banks would be unable to compete (their cost base is seen as excessively high) and so corporations would be forced to look elsewhere for funding. Competition for funding would put pressure on conglomerates to offer genuine shareholder value rather than insider-only benefits.

The emergence of domestic investment institutions also creates a demand for assets, especially equity assets. More demand means a premium and companies would be more attracted to stock issues if there were a solid and predictable institutional demand. The overall need is for a more substantial body of institutional investors—mutual funds, pension funds, and insurance companies—than what exists today.

Finally privatization offers an opportunity to build up the primary market and improve its quality. Privatization also offers a boost to Government revenues that would be welcome, and the new president is making positive noises about selling state assets. Inevitably, the privatized companies would appeal to foreign investors and so should be able to start life without the usual tight shareholder structure. The Government should set new standards of corporate governance. The privatized companies should be constituted in such a way as to follow best practice in governance and treatment of shareholders. Their example, combined with their competition for funds, will provide an incentive for others to follow.

REGULATORY FRAMEWORK

The Securities and Exchange Commission

SEC should release its responsibilities in noncapital market regulatory areas, particularly, its role in company registration. This would allow it to focus on its proper role as a policy guide, standard setter, and licenser of SROs.

SEC should adopt a less prescriptive approach, but look at ways of weakening rather than strengthening the PSE’s monopoly. Current tax laws give the PSE an advantage in that on-exchange trades are exempt from CGT. Making this concession more widely available (there is also a case for extending relief to unlisted companies to encourage venture capitalists) would enable competitors to threaten the PSE’s secure position (even if they never actually go off the ground, the threat will stimulate the PSE).

SEC should become an independent agency with its own staffing policies and salary scale. This would enable it to compete more effectively for staff. But in the short term, there could be gains from secondments to SEC from securities firms and others in the industry. This would give the SEC access to staff who were not career civil servants and who might adopt a more diligent and aggressive approach to enforcement.

Stock Exchange Governance

The PSE should examine its governance with a radical eye. At the very least, it should change voting structures to give larger representation to its largest members. It could achieve this by a fudge: es-
sentially allocating different voting rights to the two types of member—corporate and individual—with votes for corporate members being allocated on some measure of size. But the better move would be toward corporate membership entirely and allocating votes according to business levels.

To gain more stability, the PSE should extend the terms of board members (they are already considering a rolling three-year system).

Management independence should be enshrined in the terms of employment. At present, the staff report to the members’ representatives on a day-to-day basis including notifying (or seeking approval) before acting. This is not the way to develop an effective surveillance and enforcement program. The staff should answer to the chief executive officer who is answerable in retrospect to the board on a regular, but not continuous basis.

But for a real chance of successful development as a market operator and regulator, the PSE should look toward becoming a public company with shareholding open to all. Its motivation would then be to provide a market that attracts the maximum amount of business rather than being driven by the need to protect the membership. There is a local model in Australia.

**Surveillance and Enforcement**

There is little confidence in the current enforcement procedures. They are seen as not impartial nor rigorously pursued as well as being poorly resourced. Additionally it is really not clear where responsibility lies—in SEC or the PSE. Indeed the two organizations seem to conflict rather than cooperate in catching wrongdoers.

Credibility would be aided by firm steps to strengthen enforcement procedures.

There is need for a clear statement of the division of responsibilities for enforcement. Ideally the PSE should have the responsibility for frontline detection and enquiry since it has authority over its members, with SEC in reserve if more data are required.

The PSE’s Surveillance Unit should be able to operate independently without a requirement to seek authority or give advance notice. However sensible the reasons for the current requirement to give notice to the chairman of the PSE (who is an independent), it gives a bad smell and causes users to question the robustness and independence of investigations.

Surveillance should be adequately supported and given access to the latest data management and processing techniques. It is pointless chasing insiders with paper-based records systems and simple algorithms; they don’t work. Even the most sophisticated systems have a hard job spotting insider trading, but at least they have a chance. The resource allocation of the PSE should reflect the fact that poor enforcement (or a perception of poor enforcement) is much more damaging to a market than other things they might choose to spend money on, such as new trading systems. The techniques are sophisticated—they are rocket science—but they have already been developed by other markets and it is a certainty that they could be shared to the benefit of all. The PSE should seek assistance and training in sophisticated trading analyses from other stock exchanges. The Federation Internationale des Bourses de Valeurs might be a forum to turn to for assistance.

The PSE should be more aggressive with companies that fail to adhere to the spirit of the listing rules and so bring the market into disrepute. Like other stock exchanges, its sanctions are limited to suspension/delisting or censure. Suspension harms the shareholders as much as the company, and exchanges, rightly, avoid using it whenever possible. However, more disclosure and censure would have an effect. Companies do not enjoy public censure and investors, particularly foreign investors, are deterred from investing. A fund manager who holds stock in a company facing stock exchange censure is in a risky position if something goes wrong as his trustees could argue that the censure should have served as a warning. The example of C&P Homes
cited earlier should have brought a censure from the exchange—at the very least criticizing the company and its advisors for allowing information to leak. In fact, the price movement should have been spotted immediately and the PSE should have demanded a statement from the company. This is the strength of self-regulation—regulators can comment and act on the balance of probability rather than requiring the absolute certainty—beyond reasonable doubt—of the criminal justice system. The PSE should flex its self-regulatory muscles and throw its weight about more.

Securities Firms
There are too many weak and undercapitalized firms. They weaken the image of the market and, collectively, constitute a barrier to reform. The PSE needs to show that it is monitoring the solvency of its members. The proposed settlement system will provide a method of monitoring exposures. The PSE should seize this opportunity to enforce an adequate level of capital adequacy, which should reflect the risk being carried rather than merely following arbitrary requirements. The likely result will be a reduction in the number of firms.

Accounting Standards
The main issue is failure to enforce. To improve enforcement, the following measures are recommended:

• SEC’s Accounting Standards Bureau should be given proper resources and authority. It should be able to set standards, including standards of disclosure of cross-holdings, and insist that companies disclose their adherence to these standards.

• SEC should also strengthen its data management capabilities so that the information it collects on shareholdings—which is of public value and should be in the public domain—is available. Alternatively, it could open its files to an outside organization that could manage the data.

In practice, it is difficult to mandate change, especially if investors are not particularly interested. However, the likelihood is that foreign investors, having been burned by nondisclosure will be more cautious in the future. They are likely to insist on audits by reputable firms underwritten by commitments from those firms to stand by their work. They will discount heavily the stock of companies where opaque structures seem to be obscuring the view or where international standards are not followed.

Corporate Governance
Promotion of competition for investment and encouragement for the emergence of larger, more powerful institutions will push companies into better governance practices over time. However, specific measures to accompany that process should include rules enforced by the PSE to protect minorities and force bidders to offer them the same terms in takeover situations.

The PSE should introduce a code of governance. There are several such codes around the world and they usually cover things like separation of functions, remuneration decisions, and appointment of independent, nonexecutive directors. The latter would be difficult in the Philippines since there are relatively few suitable appointees, but the demand for their services would bring forth a supply. Such a model code does not have to be mandatory—as it could be unreasonably burdensome on smaller companies—but companies should be required to state the extent of their compliance. Investors, especially foreign investors, would favor companies that aim for better governance practices.

The privatization program should aim for best governance practice in the privatized entities and this should be enshrined in their internal procedures and articles.

Bond Market
INTEREST RATES
The interest rate policy should be market determined rather than administered. BSP does hold auctions,
but the sense is that these are managed by BSP and do not reflect the supply of and demand for funds.

146. The Government should encourage a more competitive market for retail deposits. There are currently very few sensible ways for average Filipinos to save, so it is small wonder that savings are low. Other countries have successful national savings schemes for small savers and, given the margin between base rates and current retail rates, there should be enthusiastic takers.

BSP should set reserve requirements (which are currently very high) to meet the perceived risks facing the banking system, rather than as part of a deal to manage interest rates down.

As an approach to weakening the banks’ dominance over capital markets and money raising, the reserve requirements should also focus more on large exposures. As Philippine banks are captives of conglomerates, it is likely that their lending is highly concentrated, which is risky. Forcing them to lend more widely would increase banking competition, reduce intermediation costs, and bring about a better deal for retail depositors. Development of the equity market and bond market as alternative sources of funds will force banks to reduce commercial lending rates. Since the markets will tend to punish conglomerates with banking subsidiaries, a more developed market will reduce the number of bank subsidiaries.

MARKET INFRASTRUCTURE

Primary and Secondary Markets

With the uncertainty over interest rates and the question remaining as to whether or not the experience of the recent crisis showing the weakness of corporate information will have a long-term deterrent effect on investors, the near-term prospects for the development of a fixed-rate bond market are not encouraging. The situation has been further biased by the differing shareholder approval requirements for bonds and CP: bonds require approval of two thirds of shareholders, while CP does not. Nevertheless, given the structure of most Philippine companies, this may not be too much of a barrier in practice. However, the reemergence of the floating rate CP market is to be expected and this could form the basis for a movement toward more fixed-rate offerings as macroeconomic stability improves. But for the longer term development, there are some infrastructure issues that need to be addressed. The risk is that if the infrastructure questions are not addressed then, when conditions are better, the market will reemerge and develop but in an offshore location. Market users do not have to tolerate poor infrastructure or high costs in the domestic market; they can issue overseas.

The issuing costs in the market are high. Underwriting fees of P100 billion to P150 billion are more the level one would expect in the equity market. To some extent, the levels reflect the higher risks on bonds in the Philippines, but it is hard to accept that such high rates are the outcome of a free and competitive market. However, there seem to be no obvious barriers to entry to underwriting. It is rare for companies, except the most sophisticated, to challenge issuance fees (the fear of a failed issue tends to outweigh the pain of high costs). The alternative of making a private placement is generally more expensive because of the negotiating and information provision costs when dealing with individual institutional investors.

SEC should initiate a thorough investigation to find out why costs are so high and address any monopoly issues that are unearthed.

The high taxation of corporate bond trading and traders impairs the secondary market. The secondary market for private bonds is very illiquid, partly also because of settlement uncertainties/complexities. For example, bond intermediaries are subject to the documentary stamp tax on transactions. Liquid secondary markets assist primary markets by reducing risk and so reducing yields. Fixed-income instruments tend to trade on very fine margins and so are especially vulnerable to the dampening effect of transaction taxes on the secondary market.
The Tax Reform Act of 1997 left the financial sector largely untouched, so market players continue to face high taxation and a high level of uncertainty. There are plans, yet to be developed, to rationalize capital taxes under the Comprehensive Tax Reform Program. These plans should progress more rapidly, with particular attention given to the effect of reduced transaction taxes on liquidity and tax revenues.

The importance of high-quality, reliable corporate information for the bond market has been noted. There are a number of issues connected to accounting quality and the willingness of companies to divulge information that can restrict bond markets and force continued reliance on bank finance (banks are better placed than other debt investors since they see and control corporate cash flows). These points have been made under the equity market section of this paper.

Greater credibility of the ratings agency through the proposed joint venture will help. An international agency is less likely to be fobbed off by companies concealing information (it has a reputation and is not short of customers anyway). This is not to imply that CIBI was lax, but it is a matter of perception as much as fact.

There is no formal system for allowing intermediaries to borrow stock/money to cover short/long positions. Such a facility would assist dealers in providing liquidity. Repos and reverse repos are possible, but taxation of interest earned and imposition of reserve requirements on repo transactions have stifled their use in liquidity support. A possible way forward would involve offering exemptions for liquidity-supporting transactions by specified dealers. This in practice would mean all their transactions, but this would require ring-fencing of the securities business of banks.

There is no benchmark yield curve because of the absence of long-term fixed-rate issues. It is difficult to suggest a policy response since the answer is to issue long-term fixed-rate bonds, which would be very difficult in the current circumstances. Naturally, when conditions permit, the Government should be encouraged to lengthen the maturity of its debt, as it was doing before the crisis.

In the short term, there are possibilities for using the nascent MBS as the basis for a benchmark. This is being developed elsewhere with assistance from the Asian Development Bank (ADB), and it can be explored in the Philippines. However, for the Government guarantee (which would be required for the MBS to form the basis of a risk-free yield curve), a fixed-rate debt against floating rate assets (mortgages) would entail very significant risks.

For the benchmark yield curve to benefit the bond market, practitioners would need to have confidence that the long-term yield curve is a more useful benchmark than the T-bill rate that is currently used in pricing all maturities, even those beyond the T-bill durations. This requires it to be a true risk-free rate (or at least equivalent to sovereign risk).

Investors in MBSs would need to be confident of the guarantee and the risk-management systems put in place by the Government to hedge this risk. This, in itself, would be difficult to achieve given the risk, and might involve a substantial risk premium in the MBS rates. Further study of the mechanics of MBS issuance under current conditions is required.

Settlement

There are two possibilities for the future corporate bond settlement system: the ROSS system run by BTr for Government securities and PCD that settles for the equity market. The decision is yet to be taken. ADB’s technical assessment suggests PCD is superior. This view is taken on the basis of greater security and easier (electronic) access to the system.

Naturally the greatest economies (and risk reduction) would arise from combining ROSS and PCD, and the ADB assessment proposes a migration path to achieve this. A speedy decision is required, based on a rational assessment of relative costs and benefits of the two systems. So far, the PCD seems the likely winner.
REGULATORY FRAMEWORK

There is regulatory uncertainty and confusion. The bond market has multiple regulators. Government bonds are currently the responsibility of BTr, and other bonds (but excluding ABS) are governed by SEC. It is natural that the Government should have a dominant role in the Government market, but an appearance of rivalry, which comes to a head in the settlement system debate, is damaging. The long-term responsibilities should be made very clear so that progress can be made on the settlement system.

Similar issues involve BSP, which is trying to take a role in the ABS market apparently in competition with SEC. Again, it is natural that BSP should be concerned about bond issues involving banks, but the regulatory responsibility for the investment products (as opposed to the banks’ solvency) should clearly rest with SEC. The current uncertainty over regulation is not helping the ABS market and is almost certainly adding to issue costs as issuers have to create special vehicles to avoid possible regulatory changes.

SEC’s role in approving bonds seems to go beyond that of a listing or issuing authority. Specifically, it requires issuers to satisfy certain ratios before authorizing a CP issue. The requirements are well meant in that they aim to ensure the solvency of the issuer. But that should not be the job of SEC (any more than it should judge the merit of equity IPOs); it should be the task of investors, perhaps assisted by ratings agencies, basing their judgment on the information provided by the issuer. SEC’s task is to set standards for information disclosure and ensure they are enforced. SEC claims to have abandoned the merit-based approach to regulating equity IPOs. It should follow this in its regulation of bond and CP issues by removing its ratio requirements but strengthening the enforcement of information provision.

There is no regulation of secondary market trading. Bond secondary markets tend to be professional markets and therefore need less regulation than equity markets. However, even professional bond markets can be improved by greater transparency and a minimal level of regulation. SEC should consider mandating the basic regulatory framework, in particular, the reporting of transactions and prices.

Investors

PENSION FUNDS

A legal and fiscal framework for private pension schemes should be developed to facilitate their emergence and growth. The framework should offer incentives to savings through such schemes and not limit their investment policies nor discriminate in favor of or against bond or equity investment. Ideally it should also permit sensible diversification into overseas assets as well.

Restrictions on the investment policies of State schemes should be removed if they are to compete effectively with private schemes and not be seen as a second choice for the less rich.

For pension schemes to develop sound investment portfolios, there is need for changes to enhance the capital markets and increase the supply of financial assets.

MUTUAL FUNDS

As other investment institutions, mutual funds find it hard to compete with banks for deposits from better-off investors. Their strategy of targeting the less well-off seems misconceived and likely to lead to problems—it is not clear that investors’ portfolios of $100 should be invested in equities. The rules relating to suitability of investments should be tightened (and properly enforced) to ensure that the funds target those investors who can afford to take the risks associated with the equity market.

However, it would be a shame to restrain a new competitor for retail deposits. If mutual funds have the infrastructure for handling smaller deposits, then they should be encouraged to do this but without the need to convert the savings portfolio into equity.

The quality of the equity and bond markets and the number of issues should be improved so that mutual funds can have an adequate range of investment possibilities.
INSURANCE COMPANIES
The rules on the CGT mean that insurance companies, which can and do act as venture capital companies elsewhere, are restricted in their private equity investments to more substantial companies, i.e., those likely to seek and gain a listing within the insurance companies’ investment horizon. They are deterred from a true venture capital role of investing in start-up enterprises. The effect of the CGT on smaller company investment should be examined. It seems unlikely that the yield is high, but its effect is to stultify a valuable source of development capital.

Even more than pension funds, life assurance companies need access to liquid bond markets where they can match the duration of their liabilities with appropriate, secure assets. Policy changes to provide a bond market infrastructure, as described, would benefit insurance companies and facilitate the provision of life cover. In the absence of a domestic market, insurance companies will have little alternative but to move money offshore into foreign bond markets, thus depriving the country of a valuable investment source.

COMMON TRUST FUNDS
CTFs are important retail savings channels and could become an important element in a private pension system. As such it is inappropriate for them to be regulated by a regulator with little interest or expertise in the regulation of savings products. Their regulatory reporting line should be reviewed. More generally, this sort of problem becomes more acute as markets become more sophisticated and institutional boundaries begin to blur. An eventual shift toward a function-based rather than institution-based regulatory structure is likely to be the best long-term solution.

FOREIGN INVESTORS
Restrictions on foreign ownership should be removed; they are largely without purpose and create a negative impression of a restricted and overcontrolled market. They also deny foreign capital to important sectors. However, there is a problem in removing such restrictions too precipitately. While such a move would be to the long-term benefit of foreign investors, foreign funds that have bought at a premium in the restricted market will experience losses if a unification of the market leads to a fall in the value of their holdings – as it very likely will. Two possible approaches are (i) the death of a thousand cuts, i.e., gradually remove restrictions so the pain is spread; or (ii) a one-time move that is timed to coincide with a low point in the premium.

Enforcement should be improved. Foreign investors were most critical of the enforcement efforts of SEC and the PSE. In short, they felt there was no enforcement worthy of the name. Foreign investors will continue to regard the Philippines as a “cowboy” market (i.e., no effective laws, regulations, or enforcement) unless there is convincing action. The consequence is that foreign investors will only look at more speculative investments and will get out at a hint of trouble.

Settlement security should also be improved. Foreign fund managers are rarely fired for picking the wrong stocks, but they are fired for letting stock or money get lost in settlement. If the Philippines would continue to have a shaky settlement system, foreign fund managers would put the country toward the bottom of their market lists and only look there when other, more secure, opportunities have been exhausted.
Notes

1 T+4 means that settlement of a trade occurs on the fourth business day after the trade, e.g., a Monday trade gets settled on Friday.

2 Shadow clearing produces reports that are not actually used—a sort of parallel running.

3 Under US Laws, an insolvent company can apply for Chapter 11 protection. Essentially, this gives the company protection from creditors who may wish to force it into receivership. Such protection enables the company to continue operating, instead of closing, and using its proceeds to meet creditors’ claims.

4 Maximum percentage limits on investment of social security funds are as follows:

<table>
<thead>
<tr>
<th>Investment Category</th>
<th>Percentage Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds issued and guaranteed by the Philippine Government</td>
<td>No limit</td>
</tr>
<tr>
<td>Philippine Government or State agency bonds to fund infrastructure and guaranteed by the Government</td>
<td>30</td>
</tr>
<tr>
<td>Bonds of Government financial institutions or corporations</td>
<td>30</td>
</tr>
<tr>
<td>Bonds or deposits of good quality banks operating in the Philippines</td>
<td>40</td>
</tr>
<tr>
<td>Bonds issued by housing corporations (including Government corporations)</td>
<td>35</td>
</tr>
<tr>
<td>Bonds of educational and medical institutions</td>
<td>10</td>
</tr>
<tr>
<td>Real estate and stocks of real estate companies</td>
<td>20</td>
</tr>
<tr>
<td>Bonds and securities of prime corporations</td>
<td>30</td>
</tr>
<tr>
<td>Common stock of listed companies</td>
<td>30</td>
</tr>
<tr>
<td>Domestic mutual funds</td>
<td>20</td>
</tr>
<tr>
<td>Foreign mutual funds</td>
<td>7.5</td>
</tr>
<tr>
<td>Foreign currency deposits or foreign currency denominated assets</td>
<td>7.5</td>
</tr>
<tr>
<td>Loans secured by collateral of Government debt or similar instruments</td>
<td>30</td>
</tr>
</tbody>
</table>

5 The PSE trades from 9:30 a.m. to 12:30 p.m.