

Newsletter

Issue No. 01 | January 2025



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The Securities and Exchange Commission (SEC) has issued Memorandum Circular No. 16, series of 2024 about the Deferral of Philippine Financial Reporting Standards (PFRS) 17, Insurance Contracts

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DEFERRAL OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) 17, INSURANCE CONTRACTS

TO: Mutual Benefit Associations (MBAs) and Health Maintenance Organizations (HMOs)

The Securities and Exchange Commission (SEC) has issued Memorandum Circular No. 16, series of 2024 about the deferral in the implementation of PFRS 17, *Insurance Contracts* and amendments defers the date of initial application of PFRS 17 by two years to annual periods beginning on or after January 1, 2025. This deferral is a significant development for the insurance industry in the Philippines, providing additional time for companies to prepare for the new reporting standards.

The SEC previously issued the following Memorandum Circulars (MCs) adopting the following PFRS as part of its financial reporting Rules:

MC Nos.	Standard	Effectivity Date
MC 8, Series of 2020	PFRS 17, <i>Insurance Contracts</i>	Effective beginning on or after January 1, 2021
MC 1, Series of 2022	Amendments to PFRS 17, <i>Insurance Contracts</i>	Effective beginning on or after January 1, 2023

On December 15, 2021, the Financial Reporting Standards Council (FRSC), now known as Financial and Sustainability Reporting Standards Council (FSRSC), approved an amendment to PFRS 17: *Insurance Contracts*. The amendment defers the initial application date of PFRS 17 by two years, making it effective for annual periods beginning on or after January 1, 2025.

On October 17, 2024, the Insurance Commission (IC) as the primary regulator of MBAs and HMOs, issued Circular Letters (CL) Nos. 2024-19 and 2024-20 to defer the implementation of PFRS 17 for MBAs and HMOs operating in the Philippines:

Entities	CL No.	Effectivity Date
MBAs	2024-19	Effective beginning on or after January 1, 2030
HMOs	2024-20	Effective beginning on or after January 1, 2027

On October 18, 2024, the IC requested the SEC to incorporate the deferral of PFRS 17 into its financial reporting rules. The SEC authorized by paragraph 1(B) of the Revised Securities Regulation Code Rule 68 can issue guidance on this deferral. The SEC has no objections to the IC's deferral as specified in CL Nos. 2024-19 and 2024-20, which apply to MBAs and HMOs. The SEC *en banc* approved the deferral of PFRS 17's effective date during its meeting on November 19, 2024, in line with the IC's circular letters.

The accounting relief is considered a deviation from the requirements of PFRS.

EFFECT OF AVAILMENT OF THE RELIEF IN THE NOTES TO FINANCIAL STATEMENTS AND IN AUDITOR'S REPORT

Effect of availment of the relief in the notes to financial statements:

- MBAs and HMOs that opt to avail of the relief should **prepare their Audited Financial Statements (AFS) using the industry-specific PFRS framework**, modified by SEC-approved financial reporting relief.
- MBAs and HMOs that opt to adopt the industry-specific framework should specify the relief availed of in the **'Basis of Preparation of the Financial Statements' section**. For consistency in presentation, these companies should use the following prescribed wording:

***“The accompanying financial statements have been prepared in accordance with (state the applicable financial reporting framework), as modified by the application of the following financial reporting relief issued and approved by the Securities and Exchange Commission: (state the relief availed of).**”*
- All MBAs and HMOs should **disclose the requirements of PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors** in the notes to the financial statements, especially regarding the adoption of new standards like PFRS 17.
- MBAs and HMOs that avail of the relief but find the impact on financial statements immaterial may still **state in the notes that the financial statements comply fully with the applicable reporting framework**.

Effect of availment of the relief in auditor's report:

- MBAs and HMOs must **comply with financial reporting standards when reverting to full PFRS after the relief period**.
- Where the external auditor performs an audit in accordance with PSA on financial statements prepared using PFRS, as modified by SEC-approved relief, **the auditor's opinion should state compliance with the framework described in the notes. Additionally, the auditor should include an Emphasis of Matter paragraph to highlight the basis of accounting used**.

Our View:

The additional disclosures required due to the deferral of PFRS 17 are crucial for maintaining transparency and comparability in financial reporting. However, the deferral of PFRS 17 provides a valuable opportunity for insurance companies to ensure a smooth transition to the new reporting standards. These disclosures ensure that the companies are well-informed of the reasons for the deferral and their impact on financial statements.

Overall, these disclosures help bridge the gap during the transition period, ensuring that financial statements remain reliable and informative despite the deferral of the new standard.

For the full text of the Memorandum Circular, refer to the link below.

SEC Memorandum Circular No. 16, series of 2024. [Deferral of Philippine Financial Reporting PFRS 17 Insurance Contracts.](#)

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Comments and suggestions are welcome.

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