

Newsletter

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The Securities and Exchange Commission (SEC) has issued Memorandum Circular No. 18, series of 2024, concerning the Guidelines on the Disclosure of Fee-Related Information of External Auditors

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GUIDELINES ON THE DISCLOSURE OF FEE-RELATED INFORMATION OF EXTERNAL AUDITORS

TO: All Concerned Corporations

The Securities and Exchange Commission (SEC) has issued Memorandum Circular No. 18, s. 2024, to enhance transparency concerning the external auditors' independence and align the Commission's rules on fee disclosure requirements with the Code of Ethics for Professional Accountants.

GUIDELINES

▪ **Companies covered**

This covers public entities that fulfill any of the conditions specified under the Revised Securities Regulations Code (SRC) Rule 68, as amended:

- a. Listed companies or issuers with a class of securities listed for trading on an Exchange;
- b. Issuers which have sold a class of its securities pursuant to a registration under Section 12 of the SRC;
- c. Public companies or companies with assets of at least Fifty Million Pesos (P50 Million) or such other amount as the Commission shall prescribe and has Two Hundred (200) or more holders each holding at least One Hundred (100) shares of a class of its equity securities;
- d. Companies in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market;
- e. Holders of secondary licenses issued by the Securities and Exchange Commission (SEC), Bangko Sentral ng Pilipinas (BSP), and Insurance Commission (IC); and
- f. Such other corporations that the Commission may consider in the future as imbued with public interest.

▪ **Disclosure of fee information of external auditors**

All covered companies shall present two (2)-year comparative information as one of the supplementary schedules in the audited financial statements (AFS), this shall be in accordance with the form and content prescribed under Annex A of SEC Memorandum Circular No. 18, series of 2024. Covered companies can provide additional information on details on non-audit services. These schedules need **not** be covered by an Auditors' Report. Companies that are not covered may submit with their AFS the supplementary schedules and shall fully comply with the requirements of the guidelines.

Exception – a covered company is not required to attach Supplementary Schedule in its AFS if it relates to:

- a. A parent entity that prepares group/consolidated financial statements, as long as the supplementary schedule is included with the group/consolidated financial statements and provides an opinion from the same external auditor/audit firm or its network firm; or
- b. An entity that is (directly or indirectly) wholly-owned by another PIE provided that the information is consolidated to and the supplementary schedule is affixed to the group/consolidated financial statements that include an opinion from the same external auditor/audit firm or one of its network firms.

- **Penalties**

Failure to adhere to the aforementioned requirements will lead to the imposition of penalties as per the Revised SRC Rule 68 and the Commission's Consolidated Scale of Fines and Penalties following the notice and hearing.

- **Transitory Clause**

The requirements outlined in these Guidelines will take effect for **AFS ending December 31, 2024**. The two (2)-year comparative presentation will be applicable in the initial year of implementation.

- **Effectivity Clause**

These guidelines shall commence 15 days from its publication in two (2) newspapers of general circulation.

Our View:

The Guidelines on the Disclosure of Fee-Related Information of External Auditors is a significant step in enhancing transparency and protecting the independence of external auditors in the Philippines. This initiative aids stakeholders, such as investors and regulators, in gaining a clearer understanding of the financial connections between companies and their auditors, thereby fostering trust and accountability in financial reporting. This also identifies potential conflicts of interest early, and may gain a competitive edge in the market, which results in a more credible and ethical environment.

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

SEC Memorandum Circular No. 18, series of 2024. [Guidelines on the Disclosure of Fee-Related Information of External Auditors](#)

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Comments and suggestions are welcome.

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