PKF R.S. Bernaldo & Associates

Newsletter

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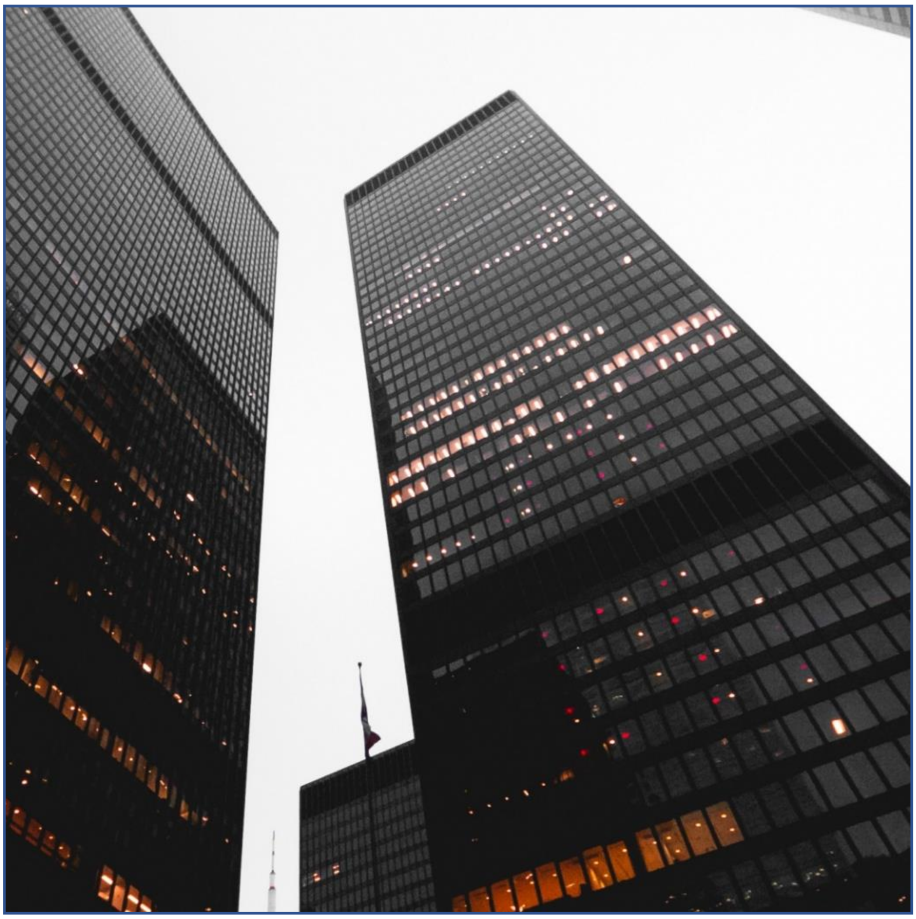

In this issue

The Commission *en Banc*, in its meeting held on 06 January 2022, resolved to approve the updating of existing Financial Reporting Bulletins (FRBs).

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FINANCIAL REPORTING BULLETINS (REVISED AS OF 2022)

To: All Concerned

The Commission, on its meeting held on January 6, 2022, has approved the revised Financial Reporting Bulletins (FRBs), as of 2022, in view of the changes in rules and regulations regarding financial reporting as implemented by the Commission in connection with the Revised SRC Rule 68, which took effect in 2019.

The following are the revisions in the FRBs:

NOTE: The revised/amended portions are highlighted in bold font for ease of reference while those deleted were marked as accordingly.

Previous Financial Reporting Bulletin (As of February 16, 2012)	Financial Reporting Bulletin (Revised as of 2022)
Bulletin No. 1	
SRC Rule 68, as amended (2011) Additional components of financial statements	**Revised Securities Regulation Code (SRC) Rule 68** **Other documents and schedules to be filed with the financial statements**
(1) The additional components that are submitted with the company's financial statements, forming part thereof, should necessarily be covered by the Statement of Management's Responsibility (SMR). Thus, the first paragraph of the SMR must partly read "The management of (name of reporting company) is responsible for the preparation and fair presentation of the financial statements for the year (s) ended (date), including the additional components attached therein x x x."	(1) The **other documents under Part I, Section 5, and schedules under Annex 68-J of the Rule** that are submitted with the company's financial statements, forming part thereof, should necessarily be covered by the Statement of Management's Responsibility (SMR). Thus, the first paragraph of the SMR must partly read *"The management of (name of reporting company) is responsible for the preparation and fair presentation of the financial statements <u>including the schedules attached therein</u>, for the year(s) ended (date) xxx"*.
(2) The following additional components, if applicable to the company, should be covered by a legal matter paragraph in the Auditor's Report or a separate report of auditor on each component:	(2) The following documents and schedules, if applicable to the company, should be covered by a legal matter paragraph in the Auditor's Report or a separate report of the auditor on each component:

i. Schedule of receipts and disbursements of non-stock and non-profit organizations (Part 1, 4A)	**(i) For Issuers of Securities to the Public, and Stock Corporations with Unrestricted Retained Earnings in Excess of 100% of Paid-In Capital Stock, a Reconciliation of Retained Earnings Available for Dividend Declaration, which shall present the prescribed adjustments in the prescribed Form per Annex 68 - D of the Rule (Part I, Section 5B);**
ii. Reconciliation of Retained Earnings Available for Dividend Declaration (Part 1, 4C);	**(ii) For Listed Companies, a schedule in the prescribed Form per Annex 68-E of the Rule, showing financial soundness indicators in two (2) comparative periods, as follows: (i) current/liquidity ratios; (ii) solvency ratios, debt-to-equity ratios; (iii) asset-to-equity ratios; (iv) interest rate coverage ratios; (v) profitability ratios; and (vi) other relevant ratios as the Commission may consider necessary (Part I, Section 5C);**
iii. Tabular schedule of standards and interpretations as of reporting date (for large and/or publicly-accountable entities);	**(iii) For Listed Companies and Investment Houses that are Part of a Conglomerate or Group of Companies, a map showing the relationships between and among the company and its ultimate parent company, middle parent, subsidiaries or co-subsidiaries, and associates, wherever located or registered, shall be submitted with the annual AFS (Part I, Section 5G); and**
iv. Supplementary schedules required by Annex 68-E (for issuers of securities to the public);	**(iv) For corporations covered by Part II of the Rule, supplementary schedules in the prescribed Form per Annex 68-J of the Rule (Part II, Section 7D).**
v. A map of the conglomerate or group of companies within which the reporting entity belongs (Part 1, 4H) (for listed companies and investment houses);	

Previous Financial Reporting Bulletin (As of February 16, 2012)	Financial Reporting Bulletin (Revised as of 2022)
Bulletin No. 2	
SRC Rule 68, as amended (2011) Emphasis of Matter paragraph for companies with capital deficiency – Part I, 3.B(iv)	**Revised SRC Rules 68 Material Uncertainty Related to Going Concern section – Part I, Section 3(E)(vi)**
<u>Request for Additional Ground for Exemption</u> • If, other than those specific exemptions provided under subpar. (viii) items (a) to (c) of Part I, par. 3.B(iv), the auditor believes that the audit report on a company with capital deficiency does not warrant an emphasis matter paragraph, a confirmation must be obtained from the Commission through the submission of a position paper. • A determination will be made by the Commission whether the circumstance/s described in the position paper will qualify under item (d) of the exemption list [i.e., such other cases which the Commission may consider as valid ground for considering the company as a going concern]. • For those availing of the exemption based on items (a) to (c) or pursuant to an additional exemption granted by the Commission, the notes to the financial statements should include a disclosure of the basis for the exemption.	<u>Request for Additional Ground for Exemption</u> • If, other than those specific exemptions provided under **subpar. (vi), items (1) to (3) of Part I, Section 3(E) of the Rule**, the auditor believes that the audit report on a company with capital deficiency does not warrant an additional section for **material uncertainty related to going concern**, a confirmation must be obtained from the Commission through the submission of a position paper. • A determination will be made by the Commission whether the circumstance/s described in the position paper will qualify under **item (4)** of the exemption list [i.e., such other cases which the Commission may consider as a valid ground for considering the company as a going concern]. • For those availing of the exemption based on **items (1) to (3)** or pursuant to an additional exemption granted by the Commission, <u>the notes to the financial statements should include a disclosure of the basis for the exemption</u> **as prescribed under Part I, Section 3(E)(vii) of the Rule.**

Wordings of the Emphasis of Matter paragraph	<u>Wordings of the **Material Uncertainty Related to Going Concern section**</u>
The external auditor of a company which has incurred a capital deficiency, shall provide in the audit report an emphasis paragraph indicating the following information: (a) The fact that the company has incurred a capital deficiency that raises an issue on its going concern status; (b) A brief discussion of a concrete plan of the company to address the capital deficiency and reference to the note to financial statements that provides a complete disclosure of the said plan; (c) A statement that the auditor conducted sufficient audit procedures to verify the validity of the aforementioned plan. Under PSA 570, external auditors are required to perform additional procedures when materiality uncertainty exists as to the ability of the company to continue as a going concern. Thus, in lieu of the statement under item (c) above, the following provisions consistent with PSA 570 provisions, may be indicated: that the auditor performed audit procedures to evaluate management's plans for such future actions as to likelihood to improve the situation and as to feasibility under the circumstances.	The external auditor of a company that has incurred a capital deficiency, shall provide in the audit report a **Material Uncertainty Related to Going Concern section** indicating the following information: (a) The fact that the company has incurred a capital deficiency that raises an issue on its going concern status; (b) A brief discussion of a concrete plan of the company to address the capital deficiency and reference to the note to financial statements that provides a complete disclosure of the said plan; (c) <u>A statement that the auditor conducted sufficient audit procedures to verify the validity of the aforementioned plan.</u> Under PSA 570 **(revised as of 2016)**, external auditors are required to perform additional procedures when material uncertainty exists as to the ability of the company to continue as a going concern. Thus, in lieu of the statement under item (c) above, the following provisions consistent with PSA 570, as revised, may be indicated: <u>that the auditor performed audit procedures to evaluate management's plans for such future actions as to likelihood to improve the situation and as to feasibility under the circumstances.</u>

Previous Financial Reporting Bulletin (As of February 16, 2012)	Financial Reporting Bulletin (Revised as of 2022)
Bulletin No. 3	
SRC Rule 68, as amended (2011) Disclosures of receivables/ payables with related parties eliminated during consolidation (Annex 68-D)	**Revised SRC Rule 68** **Disclosures of receivables/ payables with related parties eliminated during consolidation (Annex 68-J)**
Information required under par. (1)(A)(ii) and (1)(F)(ii) on receivables/payables with related parties that are eliminated during consolidation, may be incorporated in the applicable schedules under Annex 68-E of Part II. The subject information need not be comparative. It shall cover only to those transactions eliminated at the reporting entity's level. This disclosure requirement is applicable only to issuers of securities to the public, companies listed in an exchange and public companies as provided under Part II of the Rule.	Information on receivables/payables with related parties that are eliminated during consolidation may be incorporated in the applicable schedules under **Annex 68-J of the Rule.** The subject information need not be comparative. It shall cover only those transactions eliminated at the reporting entity's level. This disclosure requirement applies only to companies covered under Part II of the Rule.

Previous Financial Reporting Bulletin (As of February 16, 2012)	Financial Reporting Bulletin (Revised as of 2022)
Bulletin No. 4	
Companies not covered Under SRC Rule 68	**Companies not covered under Revised SRC Rule 68**
The financial statements of companies not covered by SRC Rule 68 should be accompanied by a certification under oath by the company's Treasurer or Chief Finance Officer. Such FS should have at least a Statement of Financial Position (Balance Sheet) or a Statement of Fund Balance, Income Statement (or a Statement of Receipts and Disbursements) and applicable explanatory notes.	The financial statements of companies not covered by **Revised** SRC Rule 68 should be accompanied by a certification under oath by the company's Treasurer or Chief Finance Officer. Such financial statements should have at least a Statement of Financial Position (Balance Sheet) or a Statement of Fund Balance, **Statement of Profit or Loss and Other Comprehensive Income** (Income Statement) or a Statement of Receipts and Disbursements, and applicable explanatory notes.
Bulletin No. 5	
Companies with no operation but are covered under SRC Rule 68	**Companies with no operation but are covered under Revised SRC Rule 68**
If no operation only for one (1) year: a complete set of audited financial statements must be submitted by the company despite its non-operation If no operation for the last two (2) years: <u>The Income Statement</u> need NOT be included in the audited financial statements	• If no operation only for one (1) year: a complete set of audited financial statements must be submitted by the company despite its non-operation. • If no operation for the last two (2) years: The **Statement of Profit or Loss and Other Comprehensive Income** need NOT be included in the audited financial statements.

Previous Financial Reporting Bulletin (As of January 24, 2013)	Financial Reporting Bulletin (Revised as of 2022)
Bulletin No. 6	
Deposits for Future Subscriptions	**Deposits for Future Subscriptions**
Section 22.3 of PFRS for SMEs and par. 11 of PAS 32, Financial Instruments: Presentation, defines an equity instrument as "any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities." The standards provide that "a contract that will be settled by the entity delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument." Under Section 36 of the Corporation Code of the Philippines ("Code"), a corporation has the power to issue or sell stocks to subscribers in accordance with the Code. The requirements for the issuance of shares are provided under Section 38 of the Code which provides, as follows: *"SEC. 38. Power to increase or decrease capital stock; incur, create or increase bonded indebtedness. — No corporation shall increase or decrease its capital stock or incur, create or increase any bonded indebtedness unless approved by a majority vote of the board of directors and, at a stockholders' meeting duly called for the purpose, two-thirds (2/3) of the outstanding capital stock shall favor the increase or diminution of the capital stock, or the incurring, creating or increasing of any bonded indebtedness. Written notice of the proposed increase or diminution of the capital stock or of the incurring, creating, or increasing of any bonded indebtedness and of the time and place of the stockholders' meeting at which the proposed increase or diminution of the capital stock or the incurring or increasing of any bonded indebtedness is to be considered, must be addressed to each stockholder at his place of residence as shown on the books of the corporation and deposited to*	(1) FRB No. 6 dated **11 May 2017** provides that: **With the adoption of "one-day processing" policy of applications to increase authorized capital stock (ACS), the Commission, in its meeting held on 11 May 2017, approved the amendments in this guideline,** as follows: *"…an entity shall classify a contract to deliver its own equity instruments under equity as a separate account (e.g., Deposit for Stock Subscription) from "Outstanding Capital Stock" if and only if, all of the following elements are present as of the end of the reporting period:* *(i) The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;* *(ii) There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);* *(iii) There is stockholders' approval of said proposed increase; and* *(iv) <u>The application for the approval of the proposed increase has been presented for filing or has been filed with the Commission. (emphasis supplied)</u>* To deter abuse of the Rule, it is expected that the approval of the application to increase ACS be obtained within one (1) year from the date the said application was presented to the Commission through Company Registration and Monitoring Department. **(2) Following the issuance of SEC Memorandum Circular No. 33, series of 2020, which took effect on 20 December 2020, an investment company is no longer**

the addressee in the post office with postage prepaid, or served personally. A certificate in duplicate must be signed by a majority of the directors of the corporation and countersigned by the chairman and the secretary of the stockholders' meeting, setting forth: x x x x x x Any increase or decrease in the capital stock or the incurring, creating or increasing of any bonded indebtedness shall require prior approval of the Securities and Exchange Commission." Considering the requirements of the Corporation Code on increase in authorized capital stock and PAS 32 or Section 22.3 of PFRS for SMEs defining an equity instrument as "any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities," it can be held that the contract or agreement between the corporation and its contracting party (i.e., a stockholder or an investor) must create a right in favor of that party to claim over the residual interest in the net assets of the corporation. Such right could only arise when there are Board of Directors' and stockholders' approvals and, most importantly, regulatory imprimatur over the increase in capital stock. In view of the foregoing, an entity shall classify a contract to deliver its own equity instruments under equity as a separate account (e.g., Deposit for Stock Subscription) from "Outstanding Capital Stock" if and only if, all of the following elements are present as of end of the reporting period: (1) The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract; (2) There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation); (3) There is stockholders' approval of said proposed increase; and	**required to comply with the minimum subscribed and paid-up capital relative to the increase in its authorized capital stock. Thus, an investment company is no longer allowed to accept any deposits for future stock subscription starting 20 December 2020.** **Any DFFS recognized as equity in the financial statements are still acceptable provided that all the elements above are present as of the end of the reporting period and the application for an increase in authorized capital stock has been filed with the Commission prior to 20 December 2020.**

(4) The application for the approval of the proposed increase has been filed with the Commission. It is understood from the foregoing that there is a subscription agreement which, among other things, states that the corporation is not contractually obliged to return the consideration received and that the corporation is obliged to deliver a fixed number of its own shares of stock for a fixed amount of cash or property paid or to be paid by the contracting party. In its financial statements for the reporting period, the corporation shall disclose at a minimum the following information with respect to the subject transaction, among other things: (a) the value received and nature of such consideration (whether cash or noncash and if noncash, the basis of measurement); (b) the relationship with the contracting party (i.e., stockholder, investor, or other related party (indicate relationship); (c) the treatment used in the recognition of the transaction (whether as an equity or a liability) and the reason for such recognition; (d) if the transaction has been recognized as an equity, the fact that the corporation has met all the conditions required for such recognition as at the end of the reporting period (disclose relevant dates of approvals and filing); (e) information about the increase in the authorized capital stock (i.e., old and new authorized capital stock, number of shares, par value per share, etc.); and (f) if the approval is obtained subsequently before the issuance of the financial statements, the date of the Commission's approval. All companies that adopted either PFRS for SMEs or the full PFRS as their financial reporting framework should have observed the strict definition of equity instruments under Section 22.3 or PAS 32 that have been effective since 01 January 2010 and 01 January 2005, respectively.	

Previous Financial Reporting Bulletin (As of April 3, 2012)	Financial Reporting Bulletin (Revised as of 2022)
Bulletin No. 7	
Statement of Management's Responsibility (SMR)	Statement of Management's Responsibility (SMR)
(1) For issuers of securities to the public, the SMR shall be attached to both the consolidated financial statements and the parent company's financial statements for filing with the Commission. (2) Paragraph (iv) of Part I (2)(B)(iv) of the Rule is also applicable to representative offices established in the Philippines. Thus, the SMR shall be signed by its local manager or chief representative in the Philippines. (3) If the financial statements for filing are comparative, the SMR has to be comparative, even if the independent auditors for the comparative periods are different. The following is an illustration on how the last paragraph of the SMR may be worded in such a case: "(name of audit firm) and (indicate prior year auditor), the independent auditors appointed by the stockholders for the period December 31, 2011 and 2010, respectively, have examined the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in their reports to the stockholders (or members), have expressed their opinion on the fairness of presentation upon completion of such examination."	**(1) The Regional or Area Headquarters (RHQ) established in the Philippines with total assets of Six Hundred Thousand (P600,000.00) or more is also covered by Revised SRC Rule 68. Likewise, Paragraph (vi) of Part I, Section (2)(B) of the Rule shall also be applied to RHQ. Thus, the SMR shall be signed by its local manager who is in charge of its operations within the Philippines.** (2) **Pursuant to Part I, Section 2(B)(iii) of Revised SRC Rule 68**, if the entity's financial statements for filing are comparative, the SMR has to be comparative, even if the independent auditors for the comparative periods are different. The following is an illustration on how the last paragraph of the SMR may be worded in such a case: *"(name of audit firm) and (indicate prior year auditor), the independent auditors appointed by the stockholders for the periods 31 December 2021 and 2020, respectively, have audited the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in their reports to the stockholders (or members), have expressed their opinion on the fairness of presentation upon completion of such audit."*

Previous Financial Reporting Bulletin (As of April 3, 2012)	Financial Reporting Bulletin (Revised as of 2022)
Bulletin No.8 (DELETED)	
Small and Medium-sized Entities (SMEs)	~~**Small and Medium-sized Entities (SMEs)**~~
Under Part I (2)(A)(ii)(b) of the Rule, certain types of SMEs may be exempted from the mandatory adoption of the Philippine Financial Reporting Standard (PFRS) for SMEs and may instead apply, at their option, full PFRS. SMEs that availed of the exemption and applied the full PFRS are not considered as large and/or publicly-accountable entities, and therefore are not required to file the tabular schedule of all effective standards and interpretations under the PFRS as of year-end, as required under Part I (4)(J) of the Rule.	~~Under Part I (2)(A)(ii)(b) of the Rule, certain types of SMEs may be exempted from the mandatory adoption of the Philippine Financial Reporting Standard (PFRS) for SMEs and may instead apply, at their option, full PFRS. SMEs that availed of the exemption and applied the full PFRS are not considered as large and/or publicly-accountable entities, and therefore are not required to file the tabular schedule of all effective standards and interpretations under the PFRS as of year-end, as required under Part I (4)(J) of the Rule.~~
Bulletin No. 9	
MICRO-ENTITES	**Micro Entities**
(1) Under SEC's Notice of Implementation Guidelines on PFRS for SMEs dated February 9, 2010, micro entities have the option to use any of these bases of accounting in the preparation of their financial statements: (a) full PFRS, (b) PFRS for SMEs, or (c) another acceptable basis of accounting. Under Part I (2)(A)(iii) of the Rule, micro entities have the option to use as their financial reporting framework the income tax basis, accounting standards in effect as of December 31, 2004 or PFRS for SMEs. Micro entities which have previously adopted full PFRSs in accordance with SEC's Notice of Implementation Guidelines on PFRS for SMEs dated February 9, 2010 are allowed to continue the use of full PFRS. Nevertheless, micro entities may also choose to change their financial reporting framework to one of the options made available under the Rule. Such change should be accounted for in accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. (2) Micro entities are not required to disclose in the notes to the financial statements their rationale for choosing a particular financial reporting framework available to them.	**Micro entities which have previously adopted full PFRSs in accordance with SEC's Notice of Implementation Guidelines on PFRS for SMEs dated 09 February 2010 are allowed to continue the use of full PFRS. Nevertheless, micro entities may also choose to change their financial reporting framework to one of the options made available under the Rule. Such change should be accounted for in accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.** **Micro entities are not required to disclose in the notes to the financial statements their rationale for choosing a particular financial reporting framework available to them.**

(3) Micro entities that continue to use full PFRS are not required to file the tabular schedule of all the effective standards and interpretations under the PFRS as of year-end as required under Part I (4)(J) of the Rule.	
Bulletin No. 10	
Entities in the process of filing their financial statements for the purpose of issuing any class of instruments (whether shares of stock or bonds) in a public market	**Entities in the process of filing their financial statements for the purpose of issuing any class of instruments (whether shares of stock or bonds) in a public market**
Financial statements to be filed by entities for the purpose of issuing any class of instruments (whether shares of stock or bonds) in a public market are required to comply with the provisions of Part II of the Rule, including Annexes 68-D and 68-E. Likewise, the following documents are to be filed with the financial statements, as required by Part I, Section 4 of the Rule: (1) Issuers of securities to the public and stock corporations with unrestricted retained earnings in excess of 100% of paid-in capital stock – A Reconciliation of Retained Earnings Available for Dividend Declaration which shall present the prescribed adjustments as indicated in Annex 68-C of this Rule. (2) Listed companies and investment houses that are part of a conglomerate or group of companies – A map showing the relationships between and among the companies and its ultimate parent company, middle parent, subsidiaries or co-subsidiaries, and associates.	"Financial statements to be filed by entities for the purpose of issuing any class of instruments (whether shares of stock or bonds) in a public market are required to comply with the provisions of Part II of the Revised SRC Rule 68, ***including the supplementary schedules in Annex 68-J.*** Likewise, the following documents are to be filed with the financial statements, as required by **Part I, Section 5 of the Revised Rule:** (1) A Reconciliation of Retained Earnings Available for Dividend Declaration which shall present the prescribed adjustments as indicated in Annex 68-D of the Rule. (2) **A schedule in the prescribed Form per Annex 68-E of the Rule, showing financial soundness indicators in two (2) comparative periods, as follows: (i) current/liquidity ratios; (ii) solvency ratios, debt-to-equity ratios; (iii) asset-to-equity ratios; (iv) interest rate coverage ratios; (v) profitability ratios; and (vi) other relevant ratios as the Commission may consider necessary.**

(3) Large and/or publicly-accountable entities – A schedule, in table format, showing in the first column a list of all the effective standards and interpretations under the PFRS as of year-end, and an indication opposite each in the second column on whether it is "Adopted". "Not adopted" or "Not applicable". The above components should be covered by an auditor's report.	(3) If an entity is part of a conglomerate or group of companies - A map showing the relationships between and among the companies and its ultimate parent company, middle parent, subsidiaries or co-subsidiaries, and associates. The above documents and schedules should be covered by an Auditor's Report. **For item No. 2, the requirement that the schedule be covered by an Auditor's Report only applies to *Listed Companies*.**
Bulletin No. 11	
Non-stock and non-profit organizations	**Non-stock and non-profit organizations**
The provisions of Part I (3)(iv)(v) of the Rule, regarding capital deficiency, shall not be applicable to non-stock and non-profit organizations with negative fund balance.	The provision of **Part I Section 3(E)(v) of the Revised SRC Rule 68**, regarding capital deficiency, shall not be applicable to non-stock and non-profit organizations with negative fund balance.

Previous Financial Reporting Bulletin (As of April 3, 2012)	Financial Reporting Bulletin (Revised as of 2022)
Bulletin No. 12	
Annex 68-E – Schedule A. Financial Assets (Issuers of Securities to the Public)	**Annex 68-J – Schedule A. Financial Assets (For Issuers of Securities to the Public)**
The schedule shall be applicable for Available-For-Sale (AFS), Fair Value through Profit or Loss (FVPL) and Held-to-Maturity (HTM) investments. Loans and Receivables shall be included in the schedule only if the information requirements are applicable. For example, trade receivables of a reporting entity need not be included in this Schedule A but Long-term Commercial Papers classified under Loans and Receivables shall be included.	The schedule shall be applicable for **Financial Instruments at Fair Value through Profit or Loss (FVPL), Financial Instruments at Fair Value through Other Comprehensive Income (FVOCI), and Financial Instruments at Amortized Cost**. Financial Instruments at Amortized Cost shall be included in the schedule only if the information requirements are applicable. For example, trade receivables of a reporting entity need not be included in this Schedule A but Long-term Commercial Papers classified under **Financial Instruments at Amortized Cost** shall be included.

Previous Financial Reporting Bulletin (As of January 24, 2013)	Financial Reporting Bulletin (Revised as of 2022)
Bulletin No. 13	
Presentation of Related Party Disclosures	**Presentation of Related Party Disclosures**
Philippine Accounting Standard (PAS) 24 provides that an entity should disclose information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. At a minimum, the disclosures shall include: (a) the amount of the transactions; (b) the amount of outstanding balances and their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement, and details of any guarantees given or received; (c) provisions for doubtful debts related to the amount of outstanding balances; (d) the expense recognized during the period in respect of bad or doubtful debts due from related parties.[2] PAS 24 also provides that the said disclosures shall be made separately for each of the following categories: (a) the parent; (b) entities with joint control or significant influence over the entity; (c) subsidiaries; (d) associates; (e) joint ventures in which the entity is a venture; (f) key management personnel of the entity or its parent; and (g) other related parties.[3]	Philippine Accounting Standard (PAS) 24 provides that an entity should disclose information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. At a minimum, the disclosures shall include: (a) the amount of the transactions; (b) the amount of outstanding balances, **including commitments**, and their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement, and details of any guarantees given or received; (c) provisions for doubtful debts related to the amount of outstanding balances; and (d) the expense recognized during the period in respect of bad or doubtful debts due from related parties. PAS 24 also provides that the said disclosures shall be made separately for each of the following categories: (a) the parent; (b) entities with joint control of, or significant influence over, the entity; (c) subsidiaries; (d) associates; (e) joint ventures in which the entity is a venturer; (f) key management personnel of the entity or its parent; and (g) other related parties.

To attain the objective of PAS 24 of providing an understanding of the potential effect of the relationship on the financial statements, the following requirements under the said standard must be observed by corporations: 1. The required disclosures on transactions and outstanding balances shall be made separately for each of the following categories: (a) the parent; (b) entities with joint control or significant influence over the entity; (c) subsidiaries; (d) associates; (e) joint ventures in which the entity is a venture; (f) key management personnel of the entity or its parent; and (g) other related parties. 2. For each of said category, the following information shall be provided: (a) the amount of the transactions; (b) the amount of outstanding balances and their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement, and details of any guarantees given or received; (c) provisions for doubtful debts related to the amount of outstanding balances; (d) the expense recognized during the period in respect of bad or doubtful debts due from related parties. The presentation shall be made in columnar format according to the above categories and disclosure items.	To attain the objective of PAS 24 of providing an understanding of the potential effect of the relationship on the financial statements, the following requirements under the said standard must be observed by corporations: (1) The required disclosures on transactions and outstanding balances shall be made separately for each of the following categories: (a) the parent; (b) entities with joint control of, or significant influence over, the entity; (c) subsidiaries; (d) associates; (e) joint ventures in which the entity is a venturer; (f) key management personnel of the entity or its parent; and (g) other related parties. (2) For each of said category, the following information shall be provided: (a) the amount of the transactions; (b) the amount of outstanding balances, **including commitments**, and their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement, and details of any guarantees given or received; (c) provisions for doubtful debts related to the amount of outstanding balances; (d) the expense recognized during the period in respect of bad or doubtful debts due from related parties. The presentation shall be made in columnar format according to the above categories and disclosure items.

Previous Financial Reporting Bulletin (As of January 24, 2013)	**Financial Reporting Bulletin (Revised as of 2022)**
Bulletin No. 14	
Presentation Reconciliation of Retained Earnings	Presentation Reconciliation of Retained Earnings
Under paragraph 4(C) of SRC Rule 68, as amended, issuers of securities to the public, and stock corporations with unrestricted retained earnings in excess of 100% of paid-in capital stock, are mandated to submit with their audited financial statements a Reconciliation of Retained Earnings Available for Dividend Declaration which should present the prescribed adjustments as indicated in Annex 68-C of the Rule.	Under **Part I, Section 5 (B) of the Revised SRC Rule 68**, issuers of securities to the public, and stock corporations with unrestricted retained earnings in excess of 100% of paid-in capital stock, are mandated to submit with their audited financial statements a Reconciliation of Retained Earnings Available for Dividend Declaration.
The amount of retained earnings of a company should be based on its separate ("stand alone") financial statements and not on its consolidated financial statements if it is a parent company. This is because the retained earnings based on the consolidated financial statements include surplus of the subsidiaries which are not yet actual earnings of the parent unless released by the subsidiaries in the form of dividends. The reconciliation of retained earnings of the parent company shall however, be submitted with the consolidated financial statements pursuant to SRC Rule 68, as amended.	The amount of retained earnings of a company should be based on its separate ("stand alone") financial statements and not on its consolidated financial statements if it is a parent company. This is because the retained earnings based on the consolidated financial statements include surplus of the subsidiaries which are not yet actual earnings of the parent unless released by the subsidiaries in the form of dividends. The reconciliation of retained earnings of the parent company shall however, be submitted with the consolidated financial statements pursuant to Revised SRC Rule 68. **To avoid inconsistencies in the balances, the Reconciliation should present the prescribed adjustments as indicated in Annex 68-D of the Rule.**

Previous Financial Reporting Bulletin (As of January 24, 2013)	Financial Reporting Bulletin (Revised as of 2022)
Bulletin No. 15	
Appropriation of Retained Earnings for Business Expansion	**Appropriation of Retained Earnings for Business Expansion**
PAS 1 prescribes that the notes to financial statements of corporations shall disclose among others, information that is relevant to an understanding of the financial statements. For corporations with excess retained earnings, their financial statements must contain relevant information in connection with Section 43 of the Corporation Code (the "Code") which provides in part: "Stock corporations are prohibited from retaining surplus profits in excess of one hundred (100%) percent of their paid-in capital stock, except: a. when justified by definite corporate expansion projects or programs approved by the board of directors; or b. when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not yet been secured; or c. when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies." (emphasis, ours)	PAS 1 prescribes that the notes to financial statements of corporations shall disclose among others, information that is relevant to an understanding of the financial statements. For corporations with excess retained earnings, their financial statements must contain relevant information in connection with **Section 42 of the Revised Corporation Code (the "RCC") which provides in part:** "Stock corporations are prohibited from retaining surplus profits in excess of one hundred (100%) percent of their paid-in capital stock, except: (a) when *justified by definite corporate expansion projects or programs approved by the Board of Directors*; or (b) when the corporation is prohibited under any loan agreement with financial institutions or creditors, whether local or foreign, from declaring dividends without their consent, and such consent has not yet been secured; or (c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies."

The above provisions indicate that the retention for expansion projects must be definite and approved by the Board of Directors. Pursuant to PAS 1, the following disclosures are relevant to provide an understanding on the impact of the retention of earnings on the financial statements and thus, must be provided therein: 1. Details of the expansion (e.g., description of the project, timeline) to render the project definite; 2. The date of the approval by the Board of Directors of the project.	The above provisions indicate that the retention for expansion projects must be definite and approved by the Board of Directors. Pursuant to PAS 1, the following disclosures are relevant to provide an understanding on the impact of the retention of earnings on the financial statements and thus, must be provided therein: *(i) Details of the expansion (e.g., description of the project, timeline) to render the project definite;* *(ii) (ii) The date of the approval of the project by the Board of Directors.*
Bulletin No. 16 (DELETED)	
List of Effective Standards and Interpretations (as of December 31, 2012)	~~**List of Effective Standards and Interpretations (as of 31 December 2012)**~~
Under paragraph 4(J) of SRC Rule 68, as amended, large and/or publicly-accountable entities are required to submit with their audited financial statements a schedule, in table format, showing in the first column a list of all the effective standards and interpretations under the PFRS as of year-end, and an indication opposite each in the second column on whether it is "A*dopted"*, "*Not adopted"* or *"Not applicable"*.	~~Under paragraph 4(J) of SRC Rule 68, as amended, large and/or publicly-accountable entities are required to submit with their audited financial statements a schedule, in table format, showing in the first column a list of all the effective standards and interpretations under the PFRS as of yearend, and an indication opposite each in the second column on whether it is "Adopted", "Not adopted" or "Not applicable".~~ ~~To comply with the said requirement, the following list must be accomplished, audited by the company's external auditor and submitted with annual financial statements:~~

Previous Financial Reporting Bulletin (As of March 7, 2013)	Financial Reporting Bulletin (Revised as of 2022)
Bulletin No. 17 (DELETED)	
Newly registered Corporations	~~**Newly registered Corporations**~~
Under Section 141 of the Corporation Code, every corporation, domestic or foreign, lawfully doing business in the Philippines shall submit to the Securities and Exchange Commission an annual report of its operations, together with a financial statement of its assets and liabilities, certified by any independent certified public accountant in appropriate cases, covering the preceding fiscal year and such other requirements as the Securities and Exchange Commission may require. Such report shall be submitted within such period as may be prescribed by the Securities and Exchange Commission. A threshold for the submission of the said audited financial statements is indicated in Section 75 of the Code, as follows: "SEC. 75. Right to financial statements. — Within ten (10) days from receipt of a written request of any stockholder or member, the corporation shall furnish to him its most recent financial statement, which shall include a balance sheet as of the end of the last taxable year and a profit or loss statement for said taxable year, showing in reasonable detail its assets and liabilities and the result of its operations. At the regular meeting of stockholders or members, the board of directors or trustees shall present to such stockholders or members a financial report of the operations of the corporation for the preceding year, which shall include financial statements, duly signed and certified by an independent certified public accountant. However, if the paid-up capital of the corporation is less than P50,000.00 the financial statements may be certified under oath by the treasurer or any responsible officer of the corporation." Except for the above limitation on the coverage of entities whose financial report	~~Under Section 141 of the Corporation Code, every corporation, domestic or foreign, lawfully doing business in the Philippines shall submit to the Securities and Exchange Commission an annual report of its operations, together with a financial statement of its assets and liabilities, certified by any independent certified public accountant in appropriate cases, covering the preceding fiscal year and such other requirements as the Securities and Exchange Commission may require. Such report shall be submitted within such period as may be prescribed by the Securities and Exchange Commission.~~ ~~A threshold for the submission of the said audited financial statements is indicated in Section 75 of the Code, as follows:~~ ~~"SEC. 75. *Right to financial statements*. — Within ten (10) days from receipt of a written request of any stockholder or member, the corporation shall furnish to him its most recent financial statement, which shall include a balance sheet as of the end of the last taxable year and a profit or loss statement for said taxable year, showing in reasonable detail its assets and liabilities and the result of its operations.~~ ~~However, if the paid-up capital of the corporation is less than P50,000.00 the financial statements may be certified under oath by the treasurer or any responsible officer of the corporation."~~ ~~Except for the above limitation on the coverage of entities whose financial report must be audited, the provisions of the Corporation Code do not grant any exemption from the required submission of annual financial statements (AFS). The filing requirement is applicable to all corporations and organizations registered with the~~

must be audited, the provisions of the Corporation Code do not grant any exemption from the required submission of annual financial statements (AFS). The filing requirement is applicable to all corporations and organizations registered with the Commission as of the fiscal year end including those newly incorporated during the said year. Corporations with fiscal year of 31 December that were registered during the last preceding year, regardless of the date of incorporation, must submit their AFS in accordance with the Annual Schedule of Filing of Financial Statements indicated in the applicable Circular of the Commission (for 2012 AFS, SEC Memorandum Circular No. 7, Series of 2012 is applicable). For those with fiscal year other than 31 December, their first AFS shall be due within 120 days after the end of their fiscal year."	~~Commission as of the fiscal year end including those newly incorporated during the said year.~~ ~~Corporations with fiscal year of 31 December that were registered during the last preceding year, regardless of the date of incorporation, must submit their AFS in accordance with the Annual Schedule of Filing of Financial Statements indicated in the applicable Circular of the Commission (for 2012 AFS, SEC Memorandum Circular No. 7, Series of 2012 is applicable). For those with fiscal year other than 31 December, their first AFS shall be due within 120 days after the end of their fiscal year."~~ ***NOTE: Updates are incorporated in Part I, Section 1(A)(iii) of the Revised SRC Rule 68.***

Previous Financial Reporting Bulletin (As of December 22, 2015)	Financial Reporting Bulletin (Revised as of 2022)
Bulletin No. 18 (DELETED)	
Age Requirement for Financial Statements	~~**Age Requirement for Financial Statements**~~
Under Part II, Section 4 of SRC Rule 68, as amended, issuers of securities to the public are required to comply with the following provisions of the Rule: "At the time a registration statement on SEC Form 12-1 is to become effective, the financial information therein shall be as of a date within 135 days from effective date or such longer period which the Commission may allow upon favorable consideration of a written request of the registrant. The factors that may considered in granting the request include the time constraints and the significant circumstances surrounding the given proposed issue." It has been noted that several corporations applying for registration of their securities have requested for exemptive relief from the adoption of the above-cited provisions, particularly on the extension of the effectivity of financial statements from 135 days to 180 days.	~~Under Part II, Section 4 of SRC Rule 68, as amended, issuers of securities to the public are required to comply with the following provisions of the Rule:~~ ~~"At the time a registration statement on SEC Form 12-1 is to become effective, the financial information therein shall be as of a date within 135 days from effective date or such longer period which the Commission may allow upon favorable consideration of a written request of the registrant. The factors that may considered in granting the request include the time constraints and the significant circumstances surrounding the given proposed issue."~~ ~~It has been noted that several corporations applying for registration of their securities have requested for exemptive relief from the adoption of the above-cited provisions, particularly on the extension of the effectivity of financial statements from 135 days to 180 days.~~

While the proposed amendments to SRC Rule 68, as Amended, to consider the matter are still pending consideration by the Commission, and in line with its preparation for the capital market integration and for consistency with the adopted ASEAN Framework, companies are hereby informed that the following proposed amendments to Part II Section 4 of SRC Rule 68 can already be adopted: "At the time a registration statement on SEC Form 12-1 is to become effective, the financial information therein shall be as of a date 180 days from effective date." The SEC shall no longer grant further request for extension of said period.	~~While the proposed amendments to SRC Rule 68, as Amended, to consider the matter are still pending consideration by the Commission, and in line with its preparation for the capital market integration and for consistency with the adopted ASEAN Framework, companies are hereby informed that the following proposed amendments to Part II Section 4 of SRC Rule 68 can already be adopted:~~ ~~"At the time a registration statement on SEC Form 12-1 is to become effective, the financial information therein shall be as of a date 180 days from effective date."~~ ~~The SEC shall no longer grant further request for extension of said period.~~ ***NOTE: Updates are incorporated in Section 5(A)(vi) of the Revised SRC Rule 68.***

Previous Financial Reporting Bulletin (As of May 3, 2016)	Financial Reporting Bulletin (Revised as of 2022)
Bulletin No. 19	
Expectations for an Effective Audit Function	Expectations for an Effective Audit Function
In line with the continuing effort to promote quality control standards in external audit, the following principles on the expectation for an effective audit function are required to be observed by independent auditors. The FRB basically contains the responsibilities of the external auditor some of which are actually covered by the requirements under Philippine Standards on Auditing (PSA). The PSAs are the standards that the external auditors are required to apply when they conduct a financial statement audit. Consistent with the PSA, the principles herein highlight the responsibilities of the external auditor when conducting an audit of financial statements. They provide guidelines on how external auditors are expected to carry out audit engagements to achieve the overall objective of an audit of financial statements, i.e., expression of an opinion on the fairness of the financial statements. The member-agencies of the Financial Sector Forum, namely, the Securities and Exchange Commission, Bangko Sentral ng Pilipinas, Insurance Commission and Philippine Deposit Insurance Commission, had agreed that these principles for an effective external audit function be adopted in their respective supervisory jurisdictions.	**(NO CHANGES)** In line with the continuing effort to promote quality control standards in external audit, the following principles on the expectation for an effective audit function are required to be observed by independent auditors. The FRB basically contains the responsibilities of the external auditor some of which are actually covered by the requirements under Philippine Standards on Auditing (PSA). The PSAs are the standards that the external auditors are required to apply when they conduct a financial statement audit. Consistent with the PSA, the principles herein highlight the responsibilities of the external auditor when conducting an audit of financial statements. They provide guidelines on how external auditors are expected to carry out audit engagements to achieve the overall objective of an audit of financial statements, i.e., expression of an opinion on the fairness of the financial statements. The member-agencies of the Financial Sector Forum, namely, the Securities and Exchange Commission, Bangko Sentral ng Pilipinas, Insurance Commission and Philippine Deposit Insurance Commission, had agreed that these principles for an effective external audit function be adopted in their respective supervisory jurisdictions.

Previous Financial Reporting Bulletin (As of January 26, 2017)	Financial Reporting Bulletin (Revised as of 2022)
Bulletin No. 20 (DELETED)	
Revised Statement of Management's Responsibility (SMR)	~~Revised Statement of Management's Responsibility (SMR)~~
In line with the adoption of the new and revised auditor reporting standards, the standard form of SMR prescribed under Section 2 (B) of SRC Rule 68, as amended, is hereby revised to read as follows: **STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS** The management of (name of reporting company) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the year(s) ended (date), in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Directors (Trustees) is responsible for overseeing the Company's financial reporting process. The Board of Directors (Trustees) reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.	~~In line with the adoption of the new and revised auditor reporting standards, the standard form of SMR prescribed under Section 2 (B) of SRC Rule 68, as amended, is hereby revised to read as follows:~~ ~~**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**~~ ~~The management of (name of reporting company) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the year(s) ended (date), in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.~~ ~~In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.~~ ~~The Board of Directors (Trustees) is responsible for overseeing the Company's financial reporting process.~~ ~~The Board of Directors (Trustees) reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.~~

(Name of auditing firm), the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit. Signature Printed Name of the Chairman of the Board Signature Printed Name of Chief Executive Officer Signature Printed Name of Chief Financial Officer Signed this ____ day of _________	~~(Name of auditing firm), the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.~~ ~~Signature~~ ~~Printed Name of the Chairman of the Board~~ ~~Signature~~ ~~Printed Name of Chief Executive Officer~~ ~~Signature~~ ~~Printed Name of Chief Financial Officer~~ ~~Signed this ____ day of _________~~ ***NOTE: Updates are incorporated in Part I, Section 2(B)(ii) of the Revised SRC Rule 68.***

The above-mentioned revisions are effective immediately.

SEC FRBs: https://www.sec.gov.ph/accountants-information/financial-reporting-bulletin/

This Newsletter is the official publication of R.S. Bernaldo & Associates to keep the Firm's professional staff informed of the issues affecting the practice. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The Firm cannot be held liable for any losses suffered as a result of reliance upon information contained in this memo.

R.S. Bernaldo & Associates is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.

Comments and suggestions are welcome.

BOA /PRC No. 0300 • BIR Accredited • SEC Group A Accredited • BSP Group B Accredited • IC Accredited
18/F Cityland Condominium 10 Tower 1, 156 H.V. dela Costa Street, Ayala North, Makati City, Philippines 1226
Tel: +632 8812-1718 to 22 **Fax:** +632 8813-6539 **Email:** rsbassoc@pkfrsbernaldo.com
www.pkfrsbernaldo.com