Republic of the Philippines
Department of Finance
Securities and Exchange Commission
SEC Bldg. EDSA, Greenhills, Mandaluyong City

SEC MEMORANDUM CIRCULAR NO. 3
SERIES OF 2009

SUBMISSION OF TRUST FUND VALUATION AND COMPLIANCE REPORT OF PRE-NEED COMPANIES

In line with the monitoring of compliance by pre-need companies on the requirements covering their trust funds, the Commission hereby issues the following directives to pre-need companies and trustee banks:

I. Baseline Report

Sec. 1. A one-time independent audit of trust fund accounts of pre-need companies as of **March 31, 2009,** shall be conducted to establish baseline information on trust fund valuation and compliance.

Sec. 2. (a) The Trust Fund Valuation and Compliance (TFVC) Report shall be prepared and submitted directly to the Commission **not later than July 15, 2009**, by an independent financial institution or accounting firm with expertise on the requirements on trust funds, valuation of assets and investment guidelines of the Commission. Such independent party shall be engaged by the pre-need company at its own expense.

(b) Subsequent changes in the Report as provided in Part II of this Circular, must be prepared and signed under oath by the Chief Finance Officer and either by the Compliance Officer or Chief Executive Officer of the pre-need company.

Sec. 3. The TFVC report shall cover all trust fund accounts of a pre-need company with all its trustee banks.

Sec. 4. The TFVC report shall contain among others, the following information:

a. Internal Control of Trustee Banks

A discussion on the evaluation of **internal control policies and procedures** of the trustee bank/s including findings thereon;

b. Trust Fund Assets

i. A complete description of each trust fund assets including titles/ownership on each;
ii. A discussion of the procedures conducted to determine the following:

1. Whether or not the trustee has the legal title/interest over each trust fund asset;
2. Whether or not it has possession/custody or control of the asset;
3. Whether or not the asset is encumbered.

The discussion shall include information on the documents supporting such title/interest.

iii. A comparison between the valuation for each asset provided by the trustee and the valuation made by the independent party. It shall include a discussion on the basis of valuation used by such independent party;

iv. A presentation of the percentage of the amount of each trust fund asset over total trust fund (i.e., portfolio mix) and investment qualifications (i.e., investment grade);

c. Trust Fund Liabilities

i. A complete description of each trust fund liability including the documents supporting each item;

ii. A discussion on the procedures conducted to determine the validity and reasonableness of each trust fund liability.

d. Deposits and Withdrawals from the Trust Fund

i. A discussion on the procedures conducted to determine sufficiency of deposits made to the fund;

ii. A discussion on the procedures conducted to determine any unauthorized or prohibited withdrawals from the trust fund;

iii. A presentation of the deposits and withdrawals made from the trust fund for the period ended December 31, 2008 and March 31, 2009;

iv. A discussion on the procedures conducted to determine compliance by the parties with prescribed trust fees and charges under the Trust Agreement.

e. Divestment Program

If the company has a divestment program to comply with the Guidelines set by the Commission, a discussion of the said program and the actions taken by the company based on supporting documents.

f. Findings

The findings may include any or all of the following items:

i. The internal control policies and procedures of the trustee banks are not sufficient or there are material weaknesses that raise an issue on the reliability of the monthly reports of the trustee bank;
ii. The deposits made are not in accordance with the prescribed amount;
iii. The asset is not in the name of the trustee;
iv. The asset is not in the possession/custody or control of the trustee;
v. The asset is encumbered or restricted as a collateral under a loan agreement;
vi. The withdrawals are not for the benefit of planholders;
vii. There are reimbursements by the trustee bank to the pre-need company for its alleged advances which based on documents were used for the settlement of benefits of planholders;
viii. The trust fees and charges paid to the trustee bank are not in accordance with the terms of the Trust Agreement;
ix. The recorded liability is not valid or not supported by documents;
x. The valuation used by the trustee-bank is overstated or understated;
xi. The portfolio mix is not in accordance with the SEC Guidelines;
xii. The asset is not a qualified investment item under the SEC Guidelines;
xiii. The company failed to comply with its divestment program.

g. Recommendations.

II. Quarterly Reports

Sec. 1. Subsequent changes in the baseline TFVC report shall be reflected in Quarterly TFVC reports beginning the quarter ended **June 30, 2009** and onwards, and shall be submitted within forty five (45) days from end of each quarter

Sec. 2. The TFVC report shall be prepared and signed under oath by the Chief Finance Officer and either by the Compliance Officer or Chief Executive Officer of the pre-need company.

Sec. 3. The TFVC report shall cover all trust fund accounts of a pre-need company with all its trustee banks.

Sec. 4. The TFVC report shall contain among others, the following information:

a. Trust Fund Assets

i. A comparison of the trust asset composition and values as of previous and latest quarters;

ii. A detailed description of the additional asset including titles/ownership thereof;

iii. A comparison between the valuation for each asset provided by the trustee and the valuation made by the company. It shall include a discussion on the basis of valuation used by the trustee bank and the company;

iv. A presentation of the percentage of the amount of each trust fund asset over total trust fund (i.e., portfolio mix) and investment qualifications (i.e., investment grade), as of the reporting quarter end.

b. Trust Fund Liabilities

i. A comparison of the trust fund liabilities as of the previous and latest quarter;

ii. A detailed description of the additional liabilities including its supporting documents;

c. Deposits and Withdrawals from the Trust Fund

i. A comparison of the prescribed deposit for the quarter and the amount deposits made to the trust fund for the quarter;

ii. A presentation of the withdrawals made from the trust fund for the quarter including recipients thereof.

d. Divestment Program

If the company has a divestment program to comply with the Guidelines set by the Commission, a discussion of the said program and the actions taken by the company based on supporting documents.

e. Requirements Not Complied With

A detailed description of any noted non-compliance with requirements by the company including its proposed course of actions to address the same.

This Circular shall take effect on **June 1, 2009**.

Issued this 29th day of May 2009, Mandaluyong City, Philippines.

For the Commission:

FE B. BARIN
Chairperson