Securities and Exchange Commission
PHILIPPINES

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GUIDELINES ON THE ADOPTION OF CENTRALIZED (ONE-STOP-SHOP) FRAMEWORK FOR ACCREDITATION/SELECTION OF EXTERNAL AUDITORS/AUDITING FIRMS OF THE SECURITIES AND EXCHANGE COMMISSION, BANGKO SENTRAL NG PILIPINAS AND INSURANCE COMMISSION'S REGULATED AND SUPERVISED INSTITUTIONS

SECTION 1. POLICY STATEMENT

The Securities and Exchange Commission (SEC) considers the external auditing profession as a partner in promoting the integrity of financial reports and transparency in the financial system. In this light, the SEC is issuing the guidelines on the adoption of a centralized framework for accreditation/selection of external auditors (individual practitioners and audit firms) in the financial sector in line with its cooperative arrangements with the Bangko Sentral ng Pilipinas (BSP), Insurance Commission (IC), and Philippine Deposit Insurance Corporation (PDIC), under the auspices of the Financial Sector Forum (FSF). The guidelines aim to streamline the accreditation/selection process for external auditors of institutions belonging to the financial sector and to promote the ease of doing business.

SECTION 2. DEFINITION OF TERMS

- Conditional accreditation – refers to the approval of the application with shorter validity period.

- Delisting – refers to the revocation of the validity of inclusion in the Financial Sector Regulators' List of Accredited/Selected External Auditors.

- Engagement Quality Control Reviewer – refers to a partner who is responsible for the audit engagement quality control review.

- Financial Sector Regulators – refers to the BSP, SEC, IC and PDIC constituting the FSF.

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- Financial Sector Forum - a voluntary interagency body that aims to:

    a. Facilitate consultations and the exchange of information among its members on matters relating to the supervision and regulation of financial institutions supervised and regulated by the BSP, SEC or IC or insured by the PDIC; and

    b. Coordinate the regulatory and supervisory policies and efforts of the member agencies.

- Key Audit Partners – pertain to the engagement partner (or in most cases, the signing partner), the engagement quality control reviewer and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion.

- Lead Partner – refers to the partner or other person in the firm who is responsible for the engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

- Manager – refers to a managerial or supervisory staff of the audit engagement

- Suspension – refers to temporarily barring the external auditor to conduct audit of covered institutions for a certain period of time.

In case of conflict between the above definition of terms and the definition of terms as provided for in the rules and regulations of the Financial Sector Regulators, the definition adopted by the concerned financial sector regulator shall prevail.

SECTION 3. COVERED INSTITUTIONS AND APPOINTMENT OF EXTERNAL AUDITORS

a. External auditors shall be classified into three groups or categories and shall extend their services to covered entities belonging to the same category or to categories lower than the category of the external auditor, as follows:

    1. Group A

        Bangko Sentral ng Pilipinas:

        a. Universal/Commercial Banks;
        b. Foreign Banks and branches or subsidiaries of foreign banks; and

c. Banks, trust departments and trust corporations with additional derivatives authority.

Securities and Exchange Commission:

a. Issuers of registered securities which have sold class of securities pursuant to a registration under the Securities Regulation Code except those issuers of registered time shares, proprietary and non-proprietary membership certificates which are covered in Category B. This category shall also cover corporations applying for the registration of their securities;
b. Issuers with a class of securities listed for trading in an Exchange; and
c. Public companies or those which have total assets of at least Fifty Million Pesos (P50 million) or such other amount as the Commission shall prescribe, and having Two Hundred (200) or more holders each holding at least One Hundred (100) shares of a class of its equity securities;
d. Clearing Agency and clearing agency as depository; and
e. Stock and securities exchange/s and other Self-Regulatory Organizations.

Insurance Commission:

a. Insurance companies;
b. Reinsurance companies; and
c. Mutual benefit associations (MBA).

2. Group B.

Bangko Sentral ng Pilipinas:

a. Thrift Banks;
b. Non-bank financial institutions with quasi-banking license; and
c. Trust departments and trust corporations.

Securities and Exchange Commission:

a. Issuers of registered timeshares, proprietary and non-proprietary membership certificates, and corporations applying for the registration of such securities;
b. Investment houses;
c. Brokers and dealers of securities;
d. Investment companies that are not in the process of registering securities or have no registered securities yet;
e. Government securities eligible dealers;
f. Universal banks registered as underwriters of securities;
g. Investment company advisers;

h. Special purpose corporations registered under the Securitization Act of 2004 and its implementing rules; and
i. Such other corporations which may be required by law to be supervised by the Commission.

Insurance Commission:

a. Trust for charitable uses;
b. Pre-need companies;
c. Health Maintenance Organizations (HMO) companies; and
d. Insurance, reinsurance, pre-need and HMO brokers.

3. Group C

Bangko Sentral ng Pilipinas:

a. Rural and Cooperative Banks;
b. Non-stock Savings and Loan Associations;
c. Pawnshops;
d. Remittance and Transfer Companies (RTCs)/Money Changers/Foreign Exchange Dealers (MCs/FXDs), including Virtual Currency Exchanges and Electronic Money Issuers; and
e. Credit Card Issuers/Acquirers.

Securities and Exchange Commission:

a. Financing Companies whose assets in the preceding year are above Ten Million Pesos (P10 Million);
b. Lending Companies whose assets in the preceding year are above Five Million Pesos (P5 Million);
c. Transfer agents;
d. Non-stock, non-profit corporations including foundations which solicit or receive annual donations or contributions and/or with fund balance amounting to more than Twenty-Five Million Pesos (P25 Million) and One Hundred Million Pesos (P100 Million), respectively, over the preceding three (3) years or such other amount that the Commission may set through order or guidelines.

   A non-stock, non-profit corporation that is already scoped in by the above requirement can only be excluded if its annual donations or contributions and/or fund balance fall below Twenty-Five Million Pesos (P25 Million) and One Hundred Million Pesos (P100 Million), respectively, over the preceding three (3) years; and

e. Such other corporations that the Commission may consider as imbued with public interest regardless of the lack of a requirement to obtain a secondary license from the Commission.

Insurance Commission:

a. Micro-MBAs; and
b. General Agents.

The Financial Sector Regulators may effect any modification or amendments to the above categories or groups as the need arises.

b. Covered institutions shall engage the services of an external auditor included in the List of Accredited/Selected External Auditors for covered institutions supervised by the Financial Sector Regulators. In this respect, covered institutions shall only appoint an external auditor belonging to the same category or from higher categories than what is required for the covered institutions: Provided, that the respective Financial Sector Regulators may require covered institutions to appoint an external auditor from higher categories than what is required as part of its supervisory action on the covered institution.

c. Lead partners and engagement quality control reviewers of the audit firms appointed by covered entities shall be included in the Financial Sector Regulators' List of Accredited/Selected External Auditors. They shall be subject to the same accreditation/selection process in accordance with this Memorandum Circular. In the event that the selected partners leave the audit firm prior to the expiration of his/her inclusion in the Financial Sector Regulators' List of Accredited/Selected External Auditors, he/she may only audit covered institutions under Category C unless he/she is subsequently included in the Financial Sector Regulators' list of Accredited/Selected External Auditors as an individual external auditor under another category.

d. As required under the Revised Securities Regulation Code (SRC) Rule 68, the independent auditors or in the case of an auditing firm, key audit partners, as defined under this Guidelines, shall comply with the provisions on long association of personnel (including partner rotation) with an audit client as prescribed in the Code of Ethics for Professional Accountants in the Philippines as adopted by the Board of Accountancy (BOA) and Professional Regulation Commission (PRC) and such other standards as may be adopted by the SEC.

e. The Financial Sector Regulators shall not be held responsible for any liability or loss that may arise from the accreditation/selection of the external auditor engaged by covered entities for audit or non-audit services.

f. The accreditation/selection of external auditor under this Guidelines shall be valid for five (5) years or for a shorter period prescribed by the Financial Sector Regulators, unless suspended or delisted by the Financial Sector Regulators based on their respective applicable rules and regulations. It is the responsibility of the accredited/selected external auditors to maintain the validity of their PRC/BOA Accreditation during the effectivity of their accreditation with the Financial Sector Regulators.

g. The approval or grant by the SEC of the application for accreditation/inclusion in the List of Accredited/Selected External Auditors of institutions supervised and regulated by the BSP and IC shall be subject to the prior clearance and concurrence of the BSP and/or IC, as applicable.

h. The suspension or delisting of the external auditors shall be the sole responsibility of each of the Financial Sector Regulators. The regulator concerned shall inform the SEC of the suspension or delisting of the external auditor.

SECTION 4. INDEPENDENCE OF EXTERNAL AUDITOR

The external auditor shall fully meet the independence requirements provided under the Code of Ethics for Professional Accountants in the Philippines on a continuing basis.

SECTION 5. QUALIFICATION REQUIREMENTS

An accredited/selected external auditor shall have the following qualifications at the time of application:

a. Individual external auditor or Partner of an Audit Firm

1. Accredited and licensed by the PRC/BOA;
2. Has at least five (5) years experience in external audit as a manager, lead partner, engagement quality control reviewer or its equivalent (as previously/currently employed in an auditing firm);
3. Has established adequate quality assurance procedures to ensure full compliance with recognized standards in accounting, and regulatory requirements;
4. Has attended or participated in training for at least 120 hours in subjects like international financial reporting and auditing standards, corporate governance, taxation, code of ethics and regulatory requirements of the BSP, IC and SEC relevant to the practice and qualified as a form of compliance with the Continuing Professional Development Program of the BOA; and
5. At the time of application, the applicant must have the following track record:

BSP:

a. For Category A, he/she must have audited at least one (1) covered client under Category A or at least five (5) BSP-Supervised Financial Institutions (BSFI) clients under Category B.
b. For Category B, he/she must have at least two (2) covered clients under Category B or at least six (3) BSFI clients under Category C.
c. For Category C, he/she must have at least three (3) covered corporate clients with total assets of at least P10 Million.

SEC:

a. For Group A applicant, he/she shall have had a minimum of five (5) corporate clients with total assets of at least Fifty Million Pesos (P50 Million) each, or such amount as may be prescribed by the SEC.
b. For Group B, he/she shall have had a minimum of three (3) corporate clients with total assets of at least Twenty Million Pesos (P20 Million) each, or such amount as may be prescribed by the Commission.
c. For Group C, he/she shall have had a minimum of three (3) corporate clients with total assets of at least Five Million Pesos (P5 Million) each, or such amount as may be prescribed by the SEC.

IC:

a. For Group A, the applicant must have audited at least five (5) IC-regulated entities under Group A either as lead or engagement quality control reviewer, or at least ten (10) IC-regulated entities under Group B, or ten (10) corporate clients with at least Fifty Million Pesos (P50 Million) each. Provided further, there are no material findings on the quality of his/her audit work within the last three (3) years.
b. For Group B, the applicant must have audited at least three (3) IC-regulated entities under Group B either as lead or engagement quality control reviewer, or at least five (5) IC-regulated entities under Group C, or five (5) corporate clients with total assets of at least Twenty Million Pesos (P20 Million) each. Provided further, there are no material findings on the quality of his/her audit work within the last three (3) years.
c. For Group C, he shall have had a minimum of three (3) IC-regulated entities under Group C either as lead or engagement quality control reviewer, or at least five (5) corporate clients with total assets of at least Five Million Pesos (P5 Million) each. Provided further, there are no material findings on the quality of his/her audit work within the last three (3) years.

b. Audit Firm

1. Must be accredited with the PRC/BOA and the name of the partners applying for accreditation/selection should appear in the attachment to the certificate of accreditation issued by the PRC/BOA.
2. Must have established adequate quality assurance procedures to ensure full compliance with the recognized standards in accounting, auditing and regulatory requirements;
3. Must have partner/s, who are accredited/selected under the same category as the audit firm is applying for, at the time of application and during the validity of its inclusion in the Financial Sector Regulators' List of Accredited/Selected External Auditors: and
4. At the time of application, the applicant firm must have the following track record:

BSP:

a. For Category A, the applicant firm must have audited at least five (5) covered clients under Category A or ten (10) covered clients under Category B.
b. For Category B, the applicant firm must have audited at least three (3) covered clients under Category B or five (5) covered clients under Category C.
c. For Category C, the applicant firm must have audited at least five (5) corporate clients with total assets of at least Fifty Million Pesos (P50 Million) each.

SEC:

a. For Group A applicant, he shall had a minimum of five (5) corporate clients with total assets of at least Fifty Million Pesos (P50 Million) each, or such amount as may be prescribed by the Commission.
b. For Group B, he shall have had a minimum of three (3) corporate clients with total assets of at least Twenty Million Pesos (P20 Million) each, or such amount as may be prescribed by the Commission.
c. For Group C, he shall have had a minimum of three (3) corporate clients with total assets of at least Five Million Pesos (P5 Million) each, or such amount as may be prescribed by the Commission.

IC:

a. For Group A, the applicant audit firm must have audited at least five (5) IC-regulated entities under Group A, or at least ten (10) IC-regulated entities under Group B, or ten (10) corporate clients with at least Fifty Million Pesos (P50 Million) each. Provided further, there are no material findings on the quality of audit work within the last three (3) years.

b. For Group B, the applicant audit firm must have audited at least three (3) IC-regulated entities under Group B, or at least five (5) IC-regulated entities under Group C, or five (5) corporate clients with total assets of at least Twenty Million Pesos (P20 Million) each. Provided further, there are no material findings on the quality of audit work within the last three (3) years.
c. For Group C, the applicant firm must have audited at least three (3) IC-regulated entities under Group C or five (5) corporate clients with total assets of at least Five Million Pesos (P5 Million) each. Provided further, there are no material findings on the quality of his/her audit work during the last three years.

SECTION 6. APPLICATION/RENEWAL DOCUMENTARY REQUIREMENTS

a. A notarized Application Form (Form 1 for Audit Firm; Form 2 for Individual External Auditor) shall be submitted by the applicant to the SEC, together with the following supporting documents:

For Initial Application:

1. Copy of a valid PRC/BOA Certificate of Accreditation or PRC Accreditation under Philippine bilateral agreements, with attachment listing the name of qualified partner/s of the firm (as applicable);
2. Notarized certification that the applicant has attended or participated in training for at least 120 hours in subjects like international financial reporting and auditing standards, corporate governance, taxation, code of ethics and regulatory requirements of the BSP, IC and SEC relevant to the practice and qualified as a form of compliance with the Continuing Professional Development Program of the PRC/BOA;
3. Copy of the Quality Assurance Manual; and

For Renewal Application:

1. Copy of a valid PRC/BOA Certificate of Accreditation or PRC Accreditation under Philippine bilateral agreements, with attachment listing the name of qualified partner/s of the firms (as applicable);
2. Notarized certification that the applicant has attended or participated in training for at least 120 hours in subjects like international financial reporting and auditing standards, corporate governance, taxation, code of ethics and regulatory requirements of the BSP, IC and SEC relevant to the practice and qualified as a form of compliance with the Continuing Professional Development Program of the PRC/BOA; and
3. Copy of Amended Quality Assurance Manual (if any).

b. The external auditor shall apply for renewal within the first six (6) months of the last year of validity of its inclusion in the Financial Sector Regulators' List of Accredited/Selected External Auditors.

c. The applicable fees currently collected by each of the Financial Sector Regulators shall apply in the applications for accreditation/selection of External Auditors until the same has been adjusted or increased by the SEC.

The procedures for the processing and approval of applications for accreditation of external auditors, as provided for under the Revised Securities Regulation Code (SRC) Rule 68 or subsequent amendments thereto shall govern for those who are applying for SEC accreditation.

However, the SEC Conditional Accreditation granted under this Memorandum Circular shall be for a period of one audit year only. The external auditors granted a Conditional Accreditation shall file a new application before the expiration of the same.

SECTION 7. REPORTORIAL REQUIREMENTS

The external auditor included in the List of Accredited/Selected External Auditors shall adhere to the regulatory and reportorial requirements set out by the respective Financial Sector Regulators of the covered institutions.

SECTION 8. SUSPENSION AND/OR DELISTING OF EXTERNAL AUDITORS IN THE LIST OF ACCREDITED/SELECTED EXTERNAL AUDITORS

An external auditor included in the List of Accredited/Selected External Auditors shall be suspended or delisted by the Financial Sector Regulator concerned based on its applicable rules and regulations

The suspension or delisting of the external auditors shall be the sole responsibility of each of the Financial Sector Regulators. The regulator concerned shall inform the SEC of the suspension and/or delisting of external auditor, including the grounds for the same.

SECTION 9. TRANSITORY PROVISION

External auditors whose validity of SEC accreditation will expire on or before December 31, 2020 are hereby given an extension of their accreditation therefore allowing them to engage in the audit of the 2019 financial statements.

SECTION 10. REPEALING CLAUSE

The provisions of Revised SRC Rule 68, not consistent with the provisions of this Memorandum Circular, particularly the validity period of the SEC accreditation, the terms for the grant of Conditional Accreditation and training requirements for accreditation are hereby repealed or amended.

SECTION 11. EFFECTIVITY

This Memorandum Circular shall become effective upon its publication in two (2) newspapers of general circulation.

Issued this 11 day of November 2019.

Pasay City.

For the Commission *en banc*:

EMILIO B. AQUINO
Chairperson