SEC Memorandum Circular No. 35
Series of 2020

TO	**:**	**THE FINANCING COMPANIES, LENDING COMPANIES AND ACCREDITED MICROFINANCE-NGOs**
SUBJECT	**:**	**FINANCIAL REPORTING RELIEF IN LIGHT OF COVID-19 PANDEMIC**

WHEREAS, the Philippine Finance Association (PFA) and the Microfinance Council of the Philippines, Inc. (MCPI) requested for prudential accounting relief measures for licensed financing companies (FCs) and lending companies (LCs), and accredited microfinance NGOs (MF-NGOs).

WHEREAS, pursuant to RA 11494, *Bayanihan to Recover as One Act,* the SEC is allowed to adopt measures to enable companies to cope with the impact brought by Covid-19 pandemic.

NOW THEREFORE, the Commission *en banc*, in its meeting held on 22 December 2020, decided to provide relief to the subject institutions by allowing staggered booking of provision for credit losses calculated in accordance with the requirements of Philippine Financial Reporting Standards (PFRS), PFRS for Small and Medium-Sized Entities (SMEs), or PFRS for Small Entities (SEs), as applicable, for annual period ending on or after December 31, 2020 (to consider those with fiscal year-end) for a **maximum period of five (5) years using straight-line amortization method to be recognized in the profit or loss.** FCs, LCs and MF-NGOs shall continue to report actual past due and non-performing loans and provision for credit losses in their reports submitted to the Corporate Governance and Finance Department to facilitate the generation of industry statistics and provide the Commission with information on the true health of these institutions.

The accounting relief is considered a deviation from the requirements of PFRS, PFRS for SMEs and PFRS for SEs.

Published:
Manila Bulletin, December 30, 2020
Manila Standard, December 30, 2020

FCs, LCs and MF-NGOs that opts to avail of the relief should prepare their Audited Financial Statements (AFS) in accordance with an industry-specific framework, to be referred to as the PFRS/PFRS for SMEs/PFRS for SEs, as modified by the application of the financial reporting reliefs issued and approved by the SEC.

FCs, LCs and MF-NGOs which opt to adopt the industry-specific framework, should specify in the "Basis of Preparation of the Financial Statements" section of the financial statements the relief availed of and indicate that the availment thereof covers only current-year transactions. For consistency of presentation, the subject companies should comply with the following prescribed wordings:

> *"The accompanying financial statements have been prepared in accordance with (state the applicable financial reporting framework), as modified by the application of the following financial reporting relief issued and approved by the Securities and Exchange Commission in response to the COVID-19 pandemic: (state the relief availed of). The relief covers only current-year transactions/ events and do not impact the comparative period/s."*

To ensure transparency in financial reporting, a qualitative disclosure of the impact of the relief availed of should be disclosed. The following information should likewise be provided in tabular format in the Note to Financial Statements that contains the "Basis for Preparation of the Financial Statements":

a) Impact on the affected financial statement line items if the provision for credit losses was measured and recorded in accordance with PFRS, PFRS for SMEs, or PFRS for SEs, as applicable (loans and receivables, allowance for credit losses, provision for credit losses, retained earnings, deferred tax asset and expense, earnings per share [for listed companies], etc.)
b) Amount of allowance recognized/amortized for the period.
c) Balance of unrecognized (unamortized) allowance.

Entities must comply with the requirements of the financial reporting standards in doing the above adjustments when it reverts to full PFRSs, PFRS for SMEs, or PFRS for SEs, as applicable, after the period of relief.

The aforementioned industry-specific accounting framework shall form part of the applicable financial reporting framework for the purpose of preparing and filing general-purpose financial statements with the Commission pursuant to the Revised SRC Rule 68.

FCs, LCs and MF-NGOs, which may avail of the relief but the impact on the financial statements is deemed not material, may still represent in the notes that the financial statements are presented in full compliance with their applicable financial

reporting framework. Under such circumstance, the disclosure requirements for such relief are not mandatory.

Where the external auditor has been engaged to perform an audit engagement in accordance with PSA on these annual financial statements, which have been prepared using PFRS/PFRS for SMEs/PFRS for SEs, as modified by the application of the financial reporting relief issued and approved by the SEC, the external auditor shall reflect in the opinion paragraph that the financial statements are prepared in accordance with the compliance framework described in the notes to the financial statements. In addition, the external auditor shall include an Emphasis of Matter paragraph in the auditor's report to draw attention to the basis of accounting that has been used in the preparation of the financial statements.

Issued this 28th day of December 2020 in Pasay City, Philippines.

For the Commission:

EMILIO B. AQUINO
Chairperson