Securities and Exchange Commission
PHILIPPINES

SEC Memorandum Circular No. 14
Series of 2018

SUBJECT: **PHILIPPINE INTERPRETATION COMMITTEE QUESTION AND ANSWER (PIC Q&A) NO. 2018-12 IMPLEMENTATION ISSUES AFFECTING REAL ESTATE INDUSTRY.**

WHEREAS, with the adoption of Philippine Financial Reporting Standard (PFRS) No. 15, Revenue from Contracts with Customers, effective for annual reporting periods beginning or after January 1, 2018, the Philippine Interpretation Committee (PIC) issued PIC Q&A No. 2016-04 - Application of PFRS 15, "Revenue from Contracts with Customers," on Sale of Residential Properties under Pre-completion Contracts, concluding that sale of residential properties under pre-completion stage meets the third criterion under Paragraph 35 (c) of PFRS 15;

WHEREAS, on 14 February 2018, the PIC issued PIC Q&A 2018-12, providing guidance on some implementation issues affecting the real estate industry due to changes brought about by the adoption of PFRS 15. Both PIC Q&As were subsequently approved by the Financial Reporting Standards Council (FRSC) on February 14, 2018, the Board of Accountancy (BOA) and Professional Regulation Commission (PRC) on May 18, 2018.

WHEREAS, the real estate industry through its various associations, raised several implementation issues with respect to the following relative to the issuance of PIC Q&A 2018-12:

1. Concept of the significant financing component in the contract to sell
2. Treatment of land in the determination of the percentage of completion (POC)
3. Treatment of the uninstalled materials in the determination of POC.

WHEREAS, in response to the aforesaid issues raised by the real estate industry, the PIC informed the industry that given the significant impact and difficulties that are being encountered in the implementation of PFRS 15 and the related PIC Q&As, it will work closely with the FRSC and SEC in exploring other options that will help the industry in coping with the challenges of PFRS 15 adoption, which may include

requesting the SEC to allow alternative accounting treatment for certain areas of PFRS 15 or to explore giving additional time for companies to implement and adopt PFRS 15;

WHEREAS, upon further consultations and discussions with the real estate industry through its various associations, the Commission took note of the significant impact and difficulties faced by the real estate industry in immediately implementing the guidance in PIC Q&A 2018-12.

NOW THEREFORE, the Commission *en banc*, in its meeting held on October 25, 2018, decided to provide relief to the real estate industry by deferring the application of the provisions of the PIC Q&A No. 2018-12 with respect to the accounting for significant financing component, uninstalled materials and the exclusion of land in the calculation of percentage of completion (POC), for a period of three (3) years.

During this period of deferral, land will be allowed to be included in the POC calculation only at historical acquisition cost. Uninstalled materials shall be included in the calculation of the POC based on the proportionate work accomplishment of significant building components procured which are specifically and directly identifiable to the project, as long as covered by contracts, purchase orders and partially paid for. These include structural, architectural, mechanical, electrical, plumbing/sanitary and fire protection materials. Moreover, the impact of significant financing component on the transaction price shall not be considered during the period of deferral.

This deferral will only be applicable for real estate transactions. Effective January 01, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

A real estate company may opt not to avail of any of the relief provided above and therefore will comply in full with the requirements of PIC Q&A 2018-12 in respect of the relief not availed of.

Moreover, real estate companies which opted for the deferral shall be required to disclose in the Notes to the Financial Statements the accounting policies applied, a discussion of the deferral of the subject implementation issues in the PIC Q & A and a qualitative discussion of the impact in the financial statements had the concerned application guideline in the PIC Q & A been adopted. However, should any of the deferral options result into an accounting policy change (e.g., when an entity currently excludes the land component in the POC calculation and will opt to include the same under the relief provided by this Circular), such accounting change will have to be accounted for under Philippine Accounting Standard (PAS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* i.e., retrospectively, together with the corresponding required quantitative disclosures.

The above relief shall form part of Philippine Financial Reporting Standards (PFRS) for the purpose of preparing and filing general-purpose financial statements with the Commission.

The FRSC, PIC and real estate industry, through its various associations are encouraged to have continuous dialogue to address any challenges in the implementation of PIC Q&A No. 2018-12 and for any new developments in the implementation of PFRS 15 and its related PIC Q&As.

Issued this 29th day of October 2018 at Pasay City, Philippines.

For the Commission:

EMILIO B. AQUINO
Chairperson