Securities and Exchange Commission
PHILIPPINES

SEC Memorandum Circular No. 5
Series of 2018

SUBJECT : ADOPTION OF PHILIPPINE FINANCIAL REPORTING STANDARDS FOR SMALL ENTITIES

The Commission, in its meeting held on 22 March 2018, approved the adoption of the Philippine Financial Reporting Standards for Small Entities (PFRS for Small Entities) as part of SEC's rules and regulations on financial reporting.

In view thereof, Part I, Section 2 of SRC Rule 68, as amended, is hereby revised as follows:

"2. GENERAL GUIDES TO FINANCIAL STATEMENTS PREPARATION

A. Financial Reporting Framework

The financial statements that shall be prepared and filed by entities covered by this Rule shall be in accordance with the financial reporting framework as prescribed under this section.

(i) LARGE AND/OR PUBLICLY-ACCOUNTABLE ENTITIES

a) For purposes of this Rule, large or publicly accountable entities are those that meet any of the following criteria:

(1) Total assets of more than P350 Million or total liabilities of more than P250 Million; or

(2) Are required to file financial statements under Part II of SRC Rule 68; or

(3) Are in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market; or

(4) Are holders of secondary licenses issued by regulatory agencies.

b) Large and/or publicly-accountable entities shall use as their financial reporting framework the Philippine Financial Reporting Standards ("PFRS") as adopted by the Commission. However, a set of financial reporting framework other than the **full** PFRS may be allowed by the Commission for certain sub-class (e.g., banks, insurance companies) of

these entities upon consideration of the pronouncements or interpretations of any of the bodies listed in paragraph 1(B)(ii) above.

(ii) MEDIUM-SIZED ENTITIES

a) ***Medium-sized entities*** are those that meet all of the following criteria:

(1) Total assets of more than P100 Million to P350 Million or total liabilities of more than P100 Million to P250 Million. If the entity is a parent company, the said amounts shall be based on the consolidated figures;

(2) Are not required to file financial statements under Part II of SRC Rule 68;

(3) Are not in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market; and

(4) Are not holders of secondary licenses issued by regulatory agencies.

b) ***Medium-sized entities*** shall use as their financial reporting framework the **Philippine Financial Reporting Standards for Small and Medium Entities ("PFRS for SMEs")** as adopted by the Commission. However, the following medium-sized entities shall be exempt from the mandatory adoption of the PFRS for SMEs and may instead apply, at their option, the **full** PFRS:

(1) An SME which is a subsidiary of a parent company reporting under the **full** PFRS;

(2) An SME which is a subsidiary of a foreign parent company which will be moving towards International Financial Reporting Standards ("IFRS") pursuant to the foreign country's published convergence plan;

(3) An SME, either as a significant joint venture or associate, is part of a group that is reporting under the **full** PFRS;

(4) An SME which is a branch office or regional operating headquarter of a foreign company reporting under the **full** IFRS;

(5) An SME which has a subsidiary that is mandated to report under the **full** PFRS;

(6) An SME which has a short term projection that show that it will breach the quantitative thresholds set in the criteria for an SME. The breach is expected to be significant and continuing due to its long-term effect on the company's asset or liability size;

(7) An SME which has a concrete plan to conduct an initial public offering within the next two (2) years;

(8) An SME which has been preparing financial statements using **full** PFRS and has decided to liquidate;

(9) Such other cases that the Commission may consider as valid exceptions from the mandatory adoption of PFRS for SMEs.

c) An SME availing of any of the above-mentioned grounds for exemption shall provide a discussion in its notes to financial statements of the facts supporting its adoption of the **full** PFRS instead of the PFRS for SMEs.

d) If an SME that uses the PFRS for SMEs in a current year breaches the floor or ceiling of the size criteria at the end of that current year, and the event that caused the change is considered "significant and continuing", the entity shall transition to the applicable financial reporting framework in the next accounting period. If the event is not considered "significant and continuing", the entity can continue to use the same financial reporting framework it currently uses.

e) The determination of what is "significant and continuing" shall be based on management's judgment taking into consideration relevant qualitative and quantitative factors. As a general rule, 20% or more of the consolidated total assets or total liabilities would be considered significant.

(iii) SMALL ENTITIES

a) Small entities are those that meet all of the following criteria:

(1) Total assets of between P3 Million to P100 Million or total liabilities of between P3 Million to P100 Million. If the entity is a parent company, the said amounts shall be based on the consolidated figures;

(2) Are not required to file financial statements under Part II of SRC Rule 68;

(3) Are not in the process of filing their financial statements for the purpose of issuing any class of instruments in public market; and

(4) Are not holders of secondary licenses issued by regulatory agencies.

(b) ***Small entities shall use as their financial reporting framework the PFRS for Small Entities as adopted by the Commission. However, entities who have operations or investments that are based or conducted in a different country with different functional currency shall not apply***

this Framework and should instead apply the full PFRS or PFRS for SMEs. The following small entities shall also be exempt from the mandatory adoption of the PFRS for Small Entities and may instead apply, as appropriate, the full PFRS or PFRS for SMEs:

(1) A small entity which is a subsidiary of a parent company reporting under the full PFRS or PFRS for SMEs;

(2) A small entity which is a subsidiary of a foreign parent company which will be moving towards IFRS or IFRS for Small and Medium-sized Entities ("IFRS for SMEs") pursuant to the foreign country's published convergence plan;

(3) A small entity, either as a significant joint venture or associate, is part of a group that is reporting under the full PFRS or PFRS for SMEs;

(4) A small entity which is a branch office or regional operating headquarter of a foreign company reporting under the full IFRS or IFRS for SMEs;

(5) A small entity which has a short term projection that show that it will breach the quantitative thresholds set in the criteria for a small entity. The breach is expected to be significant and continuing due to its long-term effect on the company's asset size;

(6) A small entity which has been preparing financial statements using full PFRS or PFRS for SMEs and has decided to liquidate;

(7) Such other cases that the Commission may consider as valid exceptions from the mandatory adoption of PFRS for Small Entities.

(c) A small entity availing of any of the above-mentioned grounds for exemption shall provide a discussion in its Notes to Financial Statements of the facts supporting its adoption of the full PFRS or PFRS for SMEs instead of the PFRS for Small Entities.

(d) If a small entity that uses the PFRS for Small Entities in a current year breaches the floor or ceiling of the size criteria at the end of that current year, and the event that caused the change is considered "significant and continuing", the entity shall transition to the applicable financial reporting framework in the next accounting period. If the event is not considered "significant and continuing", the entity can continue to use the same financial reporting framework it currently uses.

(e) The determination of what is "significant and continuing" shall be based on management's judgment taking into consideration relevant qualitative and quantitative factors. As a

general rule, 20% or more of the consolidated total assets would be considered significant.

(iv) MICRO ENTITIES

a) Micro entities are those that meet all of the following criteria:

(1) Total assets and liabilities are below P3 Million;

(2) Are not required to file financial statements under Part II of SRC Rule 68;

(3) Are not in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market; and

(4) Are not holders of secondary licenses issued by regulatory agencies.

b) Micro entities have the option to use as their financial reporting framework either the income tax basis or the ***PFRS for Small Entities,*** provided however, that the financial statements shall at least consist of the Statement of Management's Responsibility, Auditor's Report, Statement of Financial Position, Statement of Income and Notes to Financial Statements, all of which cover the two-year comparative periods, if applicable.

c) If an entity uses a basis of accounting other than the ***PFRS for Small Entities*** in the preparation of its financial statements, its management shall assess the acceptability of such basis of accounting in the light of the nature of the entity and the objective of the financial statements, or the requirements of the law or regulators."

In the event where an entity breaches the prescribed threshold in terms of total assets or total liabilities thus falls within different classification, the AFS of said entity shall be prepared in accordance with the higher framework.

The PFRS for Small Entities which is effective for annual periods beginning on or after January 01, 2019 with early application permitted, has been adopted by Philippine Financial Reporting Standards Council on December 13, 2017 and approved by the Board of Accountancy and Professional Regulation Commission on February 20, 2018. Said Framework was published in the Official Gazette on February 26, 2018.

Issued this 26 day of March 2018 at Pasay City, Philippines.

For the Commission:

TERESITA J. HERBOSA
Chairperson