REPUBLIC OF THE PHILIPPINES
SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills, Mandaluyong City

SEC MEMORANDUM CIRCULAR NO. 1
SERIES OF 2006

GUIDELINES ON THE FILING OF FUNCTIONAL CURRENCY FINANCIAL STATEMENTS

The Commission in its meeting of January 10, 2006, resolved to issue this Circular to guide companies whose functional currency (i.e., the currency of the primary economic environment in which the company operates) is other than the Philippine peso and which company file financial statements expressed in that functional currency.

1. The company's determination of its functional currency shall be made in accordance with PAS 21, *The Effects of Changes in Foreign Exchange Rates.*

2. A company that files for the first time financial statements denominated in a currency other than Philippine peso ("functional currency FS") for statutory reporting purposes shall notify the Commission that it shall file such financial statements, with an assessment that supports the determination of its functional currency. Please see attached *Annex "A"* for an illustrative notification.

3. The notification shall be signed by the company's chief executive officer and chief financial officer. It shall be accompanied by a report from the company's external auditor indicating his/her assessment that the company's determination of its functional currency was made in accordance with PAS 21. Please see attached *Annex "B"* for an illustrative report of the external auditor.

4. A company whose functional currency is other than the Philippine peso that chooses to present financial statements expressed in Philippine peso shall submit financial statements expressed in both its functional currency and in Philippine peso. The company shall (a) translate its functional currency financial statements into Philippine pesos in accordance with PAS 21 and (b) submit a notification to the Commission in accordance with paragraphs (2) and (3) above.

5. The notification shall be filed within forty-five (45) days after the end of the year in which the company intends to initially present a functional currency FS.

6. In the case of a change in functional currency, the company shall file a notice indicating the proposed change including the reasons thereof within thirty (30) days after the end of year in which the change occurred. The notice shall be signed and accompanied by a report of the company's external auditor in the manner described in paragraph (3) above.

   The submission of the said notice is without prejudice to any objection that the Commission may raise on the proposed change taking into account the previous representations by the company and the principles set forth under PAS 21.

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This Circular shall be published in two (2) newspapers of general circulation in the Philippines and shall take effect fifteen (15) days after the date of the last publication.

Failure to comply with the foregoing Guidelines shall render the financial statements of the company non-compliant with the applicable rules and shall subject the company concerned to the appropriate sanctions provided for in the existing laws.

Signed on behalf of the Commission on January 11, 2006, Mandaluyong City, Philippines.

E B. BARIN
Chairperson

ANNEX "A"

Illustrative Notification to the SEC
on Filing of Functional Currency Financial Statements

To: Securities and Exchange Commission

Pursuant to the requirement of paragraph (6)(c) of SRC Rule 68, (*name of Company*) notifies the Commission that it will file its financial statements expressed in (*indicate functional currency*) starting in (*year*).

1. Determination of Functional Currency

Please present the following financial data to reflect the primary economic environment of the company:

a. Revenues (at least for the immediately preceding 2 years)

	Year 1 In Currency	%	Year 2 In Currency	%
Total Revenue per audited financial statements	xxx	xx	xxx	xx
Revenues in original currencies				
a. U.S. Dollars	xxx	xx	xxx	xx
b. Japanese Yen	xxx	xx	xxx	xx
c. Euro Dollars	xxx	xx	xxx	xx
d. Others (specify by currency)				

b. Cost and Expenses (at least for the immediately preceding 2 years)

	Year 1 In Currency	%	Year 2 In Currency	%
Total Cost and expenses per audited financial statements	xxx	xx	xxx	xx
Cost and expenses in original currencies				
a. U.S. Dollars	xxx	xx	xxx	xx
b. Japanese Yen	xxx	xx	xxx	xx
c. Euro dollars	xxx	xx	xxx	xx
d. Others (specify by currency)				

c. If the factor/s relied upon is other than those falling under paragraphs (a) & (b), discuss such other factors considered as allowed under PAS 21[1]. Attach relevant support as deemed necessary.

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[1] The following factors may also provide evidence of an entity's functional currency:

a. The currency in which funds from financing activities (i.e., issuing debt and equity instruments) are generated.
b. The currency in which receipts from operating activities are usually retained.

The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its subsidiary, branch, associate or joint venture):

a. whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency.

b. whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.

c. whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.

d. whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

2. Conclusion

Based on the consideration of the above factors, which are set forth in PAS 21, *The Effects of Changes in Foreign Exchange Rates*, the Company has determined that its functional currency is the *(indicate functional currency)*.

Signed under oath by:

Chief Executive Officer	Chief Finance Officer

NOTARY PUBLIC

ANNEX "B"

Illustrative Report of External Auditor to Accompany Company's Notification to the SEC on Filing of Functional Currency Financial Statements

To: (name of Company)

This report is issued in connection with (name of company)'s notification to the Securities and Exchange Commission (SEC) that it will file its financial statements expressed in (indicate functional currency) starting in (year).

We have reviewed (name of company)'s determination of its functional currency as described in its Notification to the SEC and we have assessed that the Company's determination of its functional currency was made in accordance with PAS 21, *The Effects of Changes in Foreign Exchange Rates.*

Name and signature of Independent CPA
BOA Registration Number
SEC Accreditation Number (if any)

Date
Address