Republic of the Philippines
SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills
Mandaluyong City

SEC Memorandum Circular No. 10
Series of 2008

To: All Concerned Corporations

Subject: Amendments to Philippine Accounting Standard 39 and Philippine Financial Reporting Standard 7

Date: November 14, 2008

IN its meeting on November 13, 2008, the Commission en banc resolved to adopt amendments to **Philippine Accounting Standard 39 – Financial Instruments: Recognition and Measurement** and **Philippine Financial Reporting Standard 7 – Financial Instruments: Disclosures** to permit the following actions for some financial instruments:

- *Reclassification of securities out of the trading category in rare* circumstances;
- Reclassification to loan category (cost basis) if there is an intention and ability to hold the financial instruments for the foreseeable future (in the case of loans) or until maturity (for debt securities).

The following guidelines shall be observed in the implementation of the abovestated amendments to PAS 39 and PFRS 7:

1. All companies that intend to make the reclassification shall strictly comply with the conditions for the exercise of such option and, to ensure transparency in financial reporting, highlight in their disclosures or Notes the following information:
    a. The financial assets reclassified into and from each category;
    b. For each reporting period until derecognition, the carrying amounts and fair values of all financial assets reclassified in the current reporting period and previous reporting periods;
    c. For financial assets reclassified in rare circumstances, the facts that would establish such kind of circumstances;

d. In the reporting period to which financial assets are reclassified, the fair value of the gains or losses of those assets as recognized either in profit or loss, or in equity (other comprehensive income) in that reporting period and previous reporting periods;

e. For the remainder of the instruments' lives, the gains or losses that would have been recognized in profit or loss, or equity had they not been reclassified, together with the gains, losses, income and expenses now recognized;

f. As at the date of reclassification, the effective interest rates and estimated amounts of cash flows the company expects to recover.

2. The effective date of the amended standard shall be July 1, 2008, hence, no reclassification before such date shall be permitted. On first application, companies can revert to July 1, 2008 and make transfers as of that date. Any subsequent reclassification made in periods beginning on or after **November 15, 2008** shall be effective from the date the reclassification is made. Companies with cross-border offerings or trading may use the **November 1, 2008** cut-off date set by the International Accounting Standards Board.

3. The reclassification of financial assets under this Circular should be supported by a resolution of the company's Audit Committee, as certified by the corporate secretary, and documents showing the change of intention on the financial assets proposed to be reclassified. The said resolution shall indicate a single chosen date of rare circumstance, in the case of *Held for Trading* reclassification, and the date of change of intention, for reclassification of *Available for Sale* to *Held to Maturity* category.

4. Companies that are required to submit quarterly reports shall reflect in their quarter report as of September 30, 2008 any reclassification made in accordance with this Circular and comply with the following requirements:

a. The resolution of the company's Audit Committee approving the reclassification shall be attached to the report and shall indicate, among others, the single chosen date of rare circumstance in the case of *Held for Trading* reclassification, and the date of change of intention, for reclassification of *Available for Sale* to *Held to Maturity* category. The information in the said resolution shall cover any reclassification made as of September 30, 2008, and from October 1 to November 14, 2008.

b. Companies that will avail of the reclassification option under the said standard shall have up to **November 30, 2008** within which to submit the said report to the Commission.

c. For companies that have already submitted their quarter report as of September 30, 2008, an amended report that complies with the above requirements should be filed on or before November 30, 2008.

5. For pre-need companies, reclassification of *Held for Trading* or *Available for Sale* investments to *Held to Maturity* shall be allowed only upon showing to the Commission that their liquid assets will be sufficient to service maturing/availing plans within the term of the instruments proposed to be reclassified.

The concerned company shall submit to the Commission the resolution of its Audit Committee which should state, among others, the single chosen date of rare circumstance in the case of *Held for Trading* reclassification, and the date of change of intention for *Available for Sale* to *Held to Maturity* category. The information shall cover reclassifications proposed to be made as of September 30, 2008, and from October 1 to November 14, 2008.

6. Mutual funds or investment companies cannot avail of the reclassification option provided for in this Circular on account of the nature of their business, in particular, the redeemable feature of their shares and the prescribed daily computation of net asset value per share which are used as basis for the computation of redemption and selling prices of their instruments.

7. This Circular, and the aforementioned amendments to PAS 39 and PFRS 7 shall take effect immediately.

Issued this 14th day of November 2008 at Mandaluyong City, Philippines.

For the Commission:

FE B. BARIN
Chairperson