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

**SEC MEMORANDUM CIRCULAR NO. 2**
**Series of 2004**

**SUBJECT: ADOPTION OF THE STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS**

The Commission, in its Resolution No. 23 Series of 2004 dated January 15, 2004, approved the adoption in its rules and regulations of the following Statements of Financial Accounting Standards (SFAS), as approved by the Professional Regulation Commission through the Board of Accountancy after the same were approved by the Accounting Standards Council:

| SFAS/IAS No. | Title |
|---|---|
| 12 | **Income Taxes**<br>Establishes rules that will:<br>- Accrue deferred tax asset or liability for nearly all taxable differences<br>- Accrue unused tax losses and tax credits if it is probable that they will be realized<br>- Use tax rates expected at settlement |
| 17 | **Leases**<br>Establishes rules that:<br>- Lessee should capitalize a finance lease at the lower of the fair value and the present value of the minimum lease payments<br>- Rental payments should be split into (i) a reduction of liability, and (ii) a finance charge designed to reduce in line with the liability.<br>- Lessee should expense operating lease payments<br>- Require enhanced disclosures by lessees, including disclosure of rental expenses, sublease rentals, and a description of leasing arrangements.<br>- Require enhanced disclosures by lessors, such as disclosure about future minimum rentals and amounts of contingent rentals included in net profit or loss. |

CERTIFIED XEROXED COPY
1 PAGE OF 2 PAGES
OFFICE OF THE COMMISSION SECRETARY

26 **Accounting and Reporting by Retirement Benefit Plan**
Establishes separate standards for reporting by defined benefit plans and by defined contribution plans.

These are all effective for financial reporting periods beginning January 1, 2004.

Copies thereof are available at the offices of the Philippine Institute of Certified Public Accountants (PICPA).

This Memorandum Circular shall take effect fifteen (15) days following its publication in a newspaper of general circulation.

Issued this 22 day of January 2004 at EDSA, Greenhills, Mandaluyong City.

**LILIA R. BAUTISTA**
**Chairperson**

CERTIFIED XEROXED COPY
1 PAGE OF 2 PAGES
OFFICE OF THE COMMISSION SECRETARY