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

SEC Memorandum Circular No. 2
Series of 2008

GUIDELINES ON REPORTING AND ATTESTATION OF PRO-FORMA FINANCIAL INFORMATION

I. Introduction

Pro-forma financial information enables investors to determine the continuing impact of a particular transaction by showing how it might have affected historical financial statements had it been consummated earlier. Through such information, the investor is in a position to analyze the future prospects of a securities registrant because the information presents the possible scope of the change in the registrant's historical financial position and operations on account of such transaction.

II. Application

This Circular shall apply to pro-forma financial information that should be submitted with the registration statement in the registration of securities for initial public offerings or follow-on offerings. The pro-forma financial information shall be submitted if any of the following transactions arises after the date of the most recent balance sheet or during the interim period:

(a) Significant business combination/s accounted for as a purchase (for this purpose, the term "purchase" shall include the purchase of an interest in a business accounted for by the equity method);

(b) Consummation of a significant business combination, or which will probably be consummated;

(c) The securities being registered by the registrant will be offered to the security holders of a significant business to be acquired, or the proceeds from the offered securities will be directly or indirectly applied to the purchase of a specific significant business;

(d) A significant portion of a business shall be disposed of either by sale, abandonment or distribution to shareholders through spin-off, split-up or split-off, or will probably be disposed of in the manner described above, and that disposition is not fully reflected in the financial statements filed by the registrant;

(e) Acquisition of one or more real estate operations or properties which in the aggregate are significant, or since the date of filing of the most recent balance sheet the registrant has acquired or proposes to acquire one or more operations or properties that in the aggregate are significant;

(f) The registrant was previously a part of another entity and information about that fact is necessary to reflect the operations and financial position of the registrant as an autonomous entity; or

(g) Consummation of other events or transactions, or which will probably be consummated, whose disclosure would be material to investors.

This Circular shall not apply when, for purposes of a more meaningful presentation, a transaction consummated after the balance-sheet date is reflected in the historical financial statements.

III. Preparation and Presentation Requirements

(a) The requirements of paragraph 9 of SRC Rule 68.1 shall be followed in the preparation and presentation of the pro-forma financial information;

(b) The pro-form financial information shall consist of condensed Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity (if applicable), and the related notes to financial statements. If practicable, the pro-forma financial statements shall be presented in two-year comparative periods;

(c) Pro-forma adjustments in historical financial information shall be applied. The adjustments should be based on management's assumptions and should take into account all significant effects directly attributable to the transaction (or event);

(d) The pro-forma financial information should be labeled as such to distinguish it from historical financial information. The presentation should describe the transaction (or event) reflected in the pro-forma financial information, the source of the historical financial information on which it is based, the significant assumptions used in developing the pro-forma adjustments, and any significant uncertainties about those assumptions. The presentation should also indicate that the pro-forma financial information should be read in conjunction with related historical financial information and that the pro-forma financial information is not necessarily indicative of the results (such as, financial position and results of operations, as applicable) that would have been attained had the transaction (or event) taken place earlier.

IV. Attestation of the External Auditor

(a) The pro-forma financial information to be submitted with the registration statement shall be accompanied by an examination or review report by an external auditor accredited by the Commission under Group A category;

(b) An external auditor who is engaged to issue or issues an examination or review report on pro-forma financial information shall comply with the relevant standards established by the Philippine Auditing and Assurance Standards Council, e.g., Philippine Standard for Assurance Engagements (PSAE) 3000, *Assurance Engagements other than Audits or Reviews of Historical Financial Information,* and the specific performance and reporting standards set forth in this Circular;

(c) The external auditor may agree to report on an examination or review of pro-forma financial information under the following conditions:

1. The document that contains the pro-forma financial information includes (or incorporates by reference) complete historical audited financial statements of the entity for the most recent year (or for the preceding year if financial statements for the most recent year are not yet available) and, if the pro-forma financial information is presented for an interim period, the document also includes (or incorporates by reference) historical interim financial information for that period (which may be presented in condensed form). In the case of a business combination, the document should include (or incorporates by reference) the appropriate historical financial information about the significant constituent parts of the combined entity;

2. The historical financial statements of the entity (or, in the case of a business combination, of each significant constituent part of the combined entity) on which the pro-forma financial information is based have been audited.

(d) The external auditor's audit or review report should be attached to the document containing the pro-forma financial information.

(e) Since the risk relating to the pro-forma financial information is affected by the scope of the engagement that provides the external auditor with assurance about the underlying historical financial information to which the pro-forma adjustments are applied, the level of assurance given by the external auditor on the pro-forma financial information, as of a particular date or for a particular period, should be limited to the level of assurance provided for the historical financial statements (or, in the case of a business combination, the lowest level of assurance provided in the underlying historical financial statements of any significant constituent part of the combined entity). For example, if the underlying historical financial statements of each constituent part of the combined entity were audited at year-end and reviewed at an interim date, the external auditor may perform an examination or review of the pro-forma financial information at year-end but it shall be limited to performing a review of the pro-forma financial information at the interim date.

(f) The external auditor who is reporting on the pro-forma financial information should have an appropriate level of knowledge of the accounting and financial reporting practices of each significant constituent part of the combined entity. Such knowledge should have been obtained by auditing historical financial

statements of each entity for the most recent annual or interim period for which the pro-forma financial information is presented. If another external auditor performed the audit, the external auditor reporting on the pro-forma financial information should nonetheless have sufficient understanding of the entity's accounting and financial reporting practices, and that external auditor should consider whether, under the particular circumstances, he/she can acquire sufficient knowledge about these matters to perform the procedures necessary to report on the pro-forma financial information.

(g) **External Auditor's objective**

The objective of the external auditor's examination procedures as applied to pro-forma financial information is to provide reasonable assurance on whether --

- Management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event);
- The related pro-forma adjustments give appropriate effect to those assumptions;
- The pro-forma column reflects the proper application of those adjustments to the historical financial statements.

The objective of the external auditor's review procedures as applied to pro-forma financial information is to provide negative assurance on any information that may have come to his/her attention that gives him/her reason to believe that --

- Management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event);
- The related pro-forma adjustments give appropriate effect to those assumptions;
- The pro-forma column reflects the proper application of those adjustments to the historical financial statements.

(h) ***Procedures***

Other than the procedures applied to the historical financial statements, the procedures that the external auditor should apply to the assumptions and pro-forma adjustments for either an examination or a review engagement shall be the following:

1. Obtain an understanding of the underlying transaction (or event) by, for example, reading the relevant contracts and minutes of meetings of the board of directors and by making inquiries with the appropriate officials of the entity, or, where applicable, from the officials of the entity acquired or to be acquired;

2. Obtain a level of knowledge about each constituent part of the combined entity in a business combination that will enable the external auditor to perform the required procedures. The procedures to obtain this knowledge may include communicating with other external auditors who audited or reviewed the historical financial information on which the pro-forma financial information is based. In that interaction, matters concerning the accounting principles and financial reporting practices followed, transactions between the entities, and material contingencies may also be taken up;

3. Discuss with management its assumptions regarding the effects of the transaction (or event);

4. Evaluate whether pro-forma adjustments are included for all significant effects directly attributable to the transaction (or event) and, if they are, obtain sufficient evidence in support of such adjustments.

The evidence required to support the level of assurance given is a matter of professional judgment. The external auditor typically would obtain more evidence in an examination engagement than in a review engagement. Examples of evidence that the external auditor may consider obtaining are the purchase documents, merger or exchange agreements, appraisal reports, *debt agreements, employment agreements, actions of the board of directors*, and existing or proposed legislation or regulatory actions.

5. Evaluate whether management's assumptions that underlie the pro-forma adjustments are presented in a sufficiently clear and comprehensive manner. Also, evaluate whether the pro-forma adjustments are consistent with each other and with the data used to develop them;

6. Determine that computations of pro-forma adjustments are mathematically correct and that the pro-forma column reflects the proper application of those adjustments to the historical financial statements;

7. Obtain written representations from management regarding their --

- Responsibility for the assumptions used in determining the pro-forma adjustments;
- Assertion that the assumptions provide a reasonable basis for presenting all of the significant effects directly attributable to the transaction (or event), that the related pro-forma adjustments give appropriate effect to those assumptions, and that the pro-forma column reflects the proper application of those adjustments to the historical financial statements;
- Assertion that the significant effects directly attributable to the transaction (or event) are appropriately disclosed in the pro-forma financial information.

9. Read the pro-forma financial information and evaluate whether -

- The underlying transaction (or event), the pro-forma adjustments, significant assumptions and significant uncertainties, if any, about those assumptions have been appropriately described;

- The source of the historical financial information on which the pro-forma financial information is based has been appropriately identified.

V. Report of the External Auditor on Pro-forma financial information

(a) The external auditor's report on pro-forma financial information should be dated as of the completion of the appropriate procedures. The external auditor's report on pro-forma financial information may be added to the external auditor's report on historical financial information, or may appear separately. If the reports are combined and the date of completion of the procedures for the examination or review of the pro-forma financial information is after the date of completion of the fieldwork for the audit or review of the historical financial information, the combined report should be dual-dated. (For example, "February 15, 2007, except for the paragraphs regarding pro-forma financial information as to which the date is March 20, 2007.").

(b) An external auditor's examination or review report on pro-forma financial information should include the following:

1. A title that clearly indicates that the report is an *independent assurance report;*

2. The name of the client-corporation and its complete address;

3. An identification of the pro-forma financial information, including the criteria used on the subject matter of the transaction, e.g., business combination;

4. A reference to the financial statements from which the historical financial information is derived and a statement that such financial statements were audited (The report on pro-forma financial information should refer to any modification in the external auditor's report on the historical financial information.);

5. An identification of the responsible party and a statement that the responsible party is responsible for the pro-forma financial information;

6. A statement that the external auditor's responsibility is to express an opinion on the pro-forma financial information based on his/her examination. In case of a review engagement, a statement that the review is substantially less in scope than an examination because in a review, the auditor does not express an opinion;

7. A statement that the examination or review of the pro-forma financial information was conducted in accordance with the requirements set forth in this Circular and with PSAE 3000 and, accordingly, includes such procedures as the external auditor considered necessary under the circumstances;

8. A statement that the external auditor believes that the examination provides a reasonable basis for his/her opinion;

9. A separate paragraph explaining the objective of the pro-forma financial information and its limitations;

10. The external auditor's opinion as to whether management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the transaction (or event), whether the related pro-forma adjustments give appropriate effect to those assumptions, and whether the pro-forma column reflects the proper application of those adjustments to the historical financial statements. In case of review engagement, the practitioner's conclusion as to whether any information came to his/her attention to cause him/her to believe that management's assumption do not provide a reasonable basis for presenting the significant effects directly attributable to the transaction (or event), or that the related pro-forma adjustments do not give appropriate effect to those assumptions, or that the pro-forma column does not reflect the proper application of those adjustments to the historical financial statements;

11. The manual signature and printed name of the external auditor, printed name of the firm, BOA registration number, SEC accreditation number of the firm and signing partner and PTR number and the specific location where the practitioner maintains an office that has responsibility for the engagement;

12. The date of the examination report.

*See **Appendices A and B** for an illustration of the auditor's report.*

VI. Effectivity

This Circular shall take effect on February 15, 2008.

For the Commission:

FE B. BARIN
Chairperson

Appendix A

Report on Examination of Pro-forma financial information
Independent Accountant's Report

To the Board of Directors
Name of Company
Complete Address

We have examined the pro-forma adjustments reflecting the transaction [*or event*] described in Note 1 and the application of those adjustments to the historical amounts in [*the assembly of*] the accompanying pro-forma financial condensed balance sheet of X Company as of December 31, 200X, and the pro-forma condensed statement of income for the year then ended. The historical condensed financial statements are derived from the historical financial statements of X Company, which were audited by us, and of Y Company, which were audited by other accountants, appearing elsewhere herein [*or incorporated by reference*]. Such pro-forma adjustments are based on management's assumptions described in Note 2. X Company's management is responsible for the pro-forma financial information. Our responsibility is to express an opinion on the pro-forma financial information based on our examination.

Our examination was conducted in accordance with PSAE 3000 and SEC Memorandum Circular No. 2, Series of 2008 and, accordingly, included such procedures that we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion.

The objective of this pro-forma financial information is to show what the significant effects on the historical financial information might have been had the transaction [*or event*] occurred at an earlier date. However, the pro-forma condensed financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above-mentioned transaction [*or event*] actually occurred earlier.

[*Additional paragraph(s) may be added to emphasize certain matters relating to the attest engagement or the subject matter.*]

In our opinion, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction [*or event*] described in Note 1, the related pro-forma adjustments give appropriate effect to those assumptions, and the pro-forma column reflects the proper application of those adjustments to the historical financial statements amounts in the pro-forma condensed balance sheet as of_____, and the pro-forma condensed statement of income for the year then ended.

Name of the firm
Name of the signing partner
[*Signature*]
BOA registration number
SEC accreditation number
PTR number
The specific location where the practitioner maintains an office that has responsibility for the engagement

[Date]

Appendix B

Report on Review of Pro-forma financial information
Independent Accountant's Report

To the Board of Directors
Name of Company
Complete Address

We have reviewed the pro-forma adjustments reflecting the transaction [*or event*] described in Note 1 and the application of those adjustments to the historical amounts in [*the assembly of*] the accompanying pro-forma financial condensed balance sheet of X Company as of December 31, 200X, and the pro-forma condensed statement of income for the year then ended. The historical condensed financial statements are derived from the historical financial statements of X Company, which were audited by us, and of Y Company, which were audited by other accountants, appearing elsewhere herein [*or incorporated by reference*]. Such pro-forma adjustments are based on management's assumptions described in Note 2. X Company's management is responsible for the pro-forma financial information.

Our review was conducted in accordance with PSAE 3000 and SEC Memorandum Circular No. 2, Series of 2008 and, accordingly, included such procedures as we considered necessary in the circumstances. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assumptions, the pro-forma adjustments and the application of those adjustments to historical financial information. Accordingly, we do not express an opinion.

The objective of this pro-forma financial information is to show what the significant effects on the historical financial information might have been had the transaction [*or event*] occurred at an earlier date. However, the pro-forma condensed financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above-mentioned transaction [*or event*] actually occurred earlier.

[*Additional paragraph(s) may be added to emphasize certain matters relating to the attest engagement or the subject matter.*]

Based on our review, nothing came to our attention to cause us to believe that management's assumptions do not provide a reasonable basis for presenting the significant effects directly attributable to the transaction (or event) described in Note 1, that the related pro-forma adjustments do not give appropriate effect to those assumptions, or that the pro-forma column does not reflect the proper application of those adjustments to the historical financial statements in the pro-forma condensed balance sheet as of ____ and the pro-forma condensed statement of income for the period ended ____.

Name of the firm
Name of the signing partner
[*Signature*]
BOA registration number
SEC accreditation number
PTR number
The specific location where the practitioner maintains an office that has responsibility for the engagement.

[Date]