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

SEC MEMORANDUM CIRCULAR NO. 2
SERIES OF 2014

GUIDELINES ON ASSET VALUATIONS

To enhance reliability and quality of reports on valuation or appraisal of assets of registered corporations imbued with public interest and pursuant to its powers and authority under Sections 62 and 141 of the Corporation Code and Sections 5 and 68 of the Securities Regulation Code (SRC), the Commission in its meeting on **21 January 2014** resolved to revise the Guidelines on Property Valuations under the previously-issued SEC Memorandum Circular No. 4, Series of 2010.

I. DEFINITIONS

1. **Appraiser** also known as valuer, is a Filipino citizen who possesses the necessary qualifications, license, ability and experience to execute the valuation or appraisal of an asset.

2. **Appraisal company** is a corporation or partnership registered under the laws of the Philippines, engaged in the business of valuing properties for its clients;

3. **Assets** are resources controlled by an entity as a result of past events and from which some future economic benefits are expected to flow to the entity. An asset includes real property, intangible asset or financial asset.

4. **Intangible Asset** is an identifiable non-monetary asset without physical substance which may include patents, trademarks, scientific or technical knowledge, brandnames.

5. **Financial Asset** is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets to financial liabilities with another entity under conditions that are potentially favorable to the entity, or a contract that will or may be settled in the entity's own equity instruments meeting the criteria under the existing financial reporting standards.

6. **Professional Services Organization (PSO)** is either a professional partnership or corporation organized under Philippine law to provide professional services which may include assurance, tax, business and transaction advisory, and corporate finance services.

7. **Public company** is an entity with assets of at least P50 Million and have 200 or more shareholders who each own at least 100 shares of a class of its equity securities;

8. **Real estate** refers to the land and all those items which are attached to the land. It is the physical, tangible entity, together with all the additions or improvements on, above or below the ground.

9. **Real property** includes all the rights, interests and benefits related to the ownership of real estate.

10. **Real estate appraiser** is a professional licensed by the Professional Regulation Commission (PRC) who, for a professional fee, compensation or other valuable consideration, performs or renders, or offers to perform services in estimating and arriving at an opinion of or acts as an expert on real estate values, such services of which shall be finally rendered by the preparation of the report in acceptable written form.

11. **Secondary licensees** are grantees of a license from the Commission, namely:

    i. Issuers of registered securities to the public;
    ii. Investment houses;
    iii. Brokers and dealers of securities;
    iv. Investment companies or mutual funds;
    v. Government securities eligible dealers;
    vi. Universal banks registered as underwriters of securities;
    vii. Investment company advisers;
    viii. Clearing agency and clearing agency as depository;
    ix. Stock and securities exchange/s;
    x. Financing companies;
    xi. Lending Companies;
    xii. Transfer agents;
    xiii. Such other corporations as may be required by law to secure a secondary license from the Commission to be able to engage in certain business activities.

12. **Valuation Specialist** is a Filipino citizen employed by a PSO and who has completed relevant training and possesses the ability and experience to perform the valuation of a business, shares of stock, other financial assets, and intangible assets.

II. ACCREDITATION

1. The following corporations shall engage the services of an SEC-accredited appraisal company if the asset involved is real estate, or a PSO if the asset is other than real estate:

    i. Public companies and secondary licensees of the Commission, including their significant subsidiaries as defined under SRC Rule 68, that propose to receive an asset, in exchange for shares of stock, as provided for in Section 62 of the Corporation Code;

    ii. Issuers of securities to the public or public companies that propose to transfer their asset to another entity in exchange for shares of stock or asset. For this transaction, the contracting entity that will exchange its asset with that of the issuers of securities or public companies shall likewise engage the services of an SEC-accredited appraisal company or PSO, as the case maybe;

    iii. Public companies and secondary licensees and their significant subsidiaries that adopt the fair value model in measuring their real properties pursuant to the Philippine Financial Reporting Standards (PFRS);

    iv. Public companies and secondary licensees of the Commission covering the asset that would be declared as dividend or the non-financial assets that they would receive arising from a business combination;

    v. Such other entities and transactions that the Commission may determine as requiring the services of an appraisal company.

2. For corporations that are not public companies or secondary licensees and the asset involved is real property, they shall engage the services of an appraiser or valuer who is licensed by the PRC and registered with the Professional Regulatory Board of Real Estate Service (PRBRES) pursuant to Republic Act No. 9646 (Real Estate Service Act of the Philippines 2009). The

appraisal report of an appraiser or valuer shall indicate his complete name, office address, the validity periods and numbers of license and registration with PRC and PRBRES, respectively, Accredited Professional Organization (APO) Receipt Number, Professional Tax Receipt Number (PTR) and his Tax Identification Number (TIN). If the subject of the valuation is other than real property, the appraiser or valuer issuing the report shall show proof upon request by the Commission, of the technical expertise on conducting such valuation.

3. The criteria for accreditation shall be the following:

   i. The applicant shall be registered with the Commission either as a corporation or general professional partnership organized by individuals engaged in appraisal or valuation work and shall be 100% Filipino-owned pursuant to the 9th Foreign Investment Negative List.

   ii. The appraisers of the applicant-appraisal company who are authorized by its Board of Directors to act and/or sign appraisal reports on its behalf shall each possess the following qualifications:

      a. He is a professional appraiser or valuer licensed and registered by the PRC and PRBRES, respectively, pursuant to R. A. No. 9646 and its Implementing Rules and Regulations;

      b. He is one of the executive officers or directors of the applicant-appraisal company;

      c. He is an officer or a member in good standing of any registered association of property appraiser or valuers under the Philippine laws;

      d. He has a minimum experience of five (5) years in providing property valuation services on a regular basis;

      e. He is compliant with the Continuing Professional Education (CPE) prescribed by the CPE Council of the PRBRES pursuant to Section 35 of R.A. No. 9646;

      f. He is covered by a professional indemnity insurance.

   iii. The valuation specialists of an applicant-PSO who are authorized by the firm or the Board of Directors to act and/or sign on behalf of the PSO shall each possess the following qualifications:

      a. He is a Certified Public Accountant or Engineer licensed by the appropriate Board of the PRC;

      b. He is one of the partners of the firm or one of the executive officers or directors of the corporation, as the case maybe;

      c. He is a member in good standing of a recognized professional organization;

      d. He has a minimum experience of five (5) years in providing valuation services on a regular basis. The said work experience should be recent and continuous and should involve valuation of intangible and financial assets;

      e. He is compliant with the CPE prescribed for the profession;

      f. He is covered by a professional indemnity insurance

   iv. At the time of application, the applicant appraisal company or PSO shall have the following minimum qualifications:

      a. It has all the requisite business permits and licenses to operate the business;

b. It has at least two (2) appraisers or valuation specialists who are duly authorized to act and/or sign appraisal reports on behalf of the appraisal company or PSO, as the case maybe, and who each possesses the qualifications required under the above paragraphs;

c. It has adequate number of technical and administrative personnel for the conduct of valuation;

d. It has an unimpaired outstanding capital of not less than P5,000,000 or such higher amount of capital as the Commission may prescribe as a result of future assessment of the resources of appraisal companies or partnership. In addition, it must have positive financial ratios (e.g., current, solvency, liquidity and debt to equity ratios) based on the latest financial report of the company;

e. It has effective internal controls and checks and balances to ensure the quality and integrity of valuation reports;

f. It has a professional liability insurance for errors and omissions in the amount of at least Five Hundred Thousand Pesos (P500,000.00). It shall have a sworn undertaking that it will provide professional liability insurance in such higher amount as the client corporation shall require to adequately cover the risk exposure of the appraisal company.

v. The applicant entity shall have rendered professional services to at least two (2) banks, or two (2) public companies or secondary licensees, or two (2) large corporations which are those with more than P350 Million total assets and/or P250 Million total liabilities;

vi. The applicant and/or any of its directors/officers or partners, as the case may be, and its property appraisers or valuation specialists shall have no adverse judgment against them on any administrative, civil or criminal case involving its appraisal business. The adverse judgment must be final and executory.

4. The applicant shall submit to the Commission the following documents:

i. Notarized application for accreditation;

ii. Board or partners' resolution approving the filing of the application and the designation of authorized signatory on behalf of the company;

iii. Proof of payment of the prescribed processing fee;

iv. Profile showing the history, scope of services, list of employees and their corresponding profession, and bio-data of the directors/executive officers or partners, and certifying property appraisers or valuation specialists;

v. Documents showing compliance with the prescribed qualifications for the applicant's appraisers or valuation specialists, i.e., professional license, CPE certificates, working experience record;

vi. Certificate of good standing issued by PRC recognized or APO;

vii. List of clients showing current and previous clients;

viii. Certifications from at least two (2) banks, or two (2) public companies or secondary licensees or two (2) large corporations that they have engaged its services;

ix. Notarized certification of the applicant signed by its president or managing partner that it meets all the qualification requirements under paragraph II(3) above; that it has not

been declared liable by the Commission or any competent court for violation of the Corporation Code, SRC or any relevant laws and regulations, and that the applicant and/or any of its directors/officers or partners, or property appraisers or valuers have no adverse judgment against them on any administrative, civil or criminal case involving its appraisal business. The adverse judgment must be final and executory;

x. List of any pending administrative, civil or criminal case filed against the company or any of its officers and employees;

xi. Copy of the audited financial statements for the recent three years including the period due for filing;

xii. Copy of professional liability insurance policy and sworn undertaking to provide professional liability insurance as required by its clients; and

xiii. Copies of two (2) appraisal or valuation reports issued by the applicant, as may be requested by the Commission based on its selection criteria such as amount involved, purpose of the valuation and secondary license of the company-client;

xiv. A description of the framework from which the company's internal control procedures are based, and the code or standard it follows to ensure the integrity of valuation reports.

4. The accreditation that may be granted by the Commission under these Guidelines shall be effective for a period of five (5) years, subject to the following requirements:

   i. Payment of an annual fee of Two Thousand Pesos (P2,000.00) not later than January 31st of the year;

   ii. Submission of copies of renewed licenses of the company's appraisers or valuation specialists within fifteen (15) business days from expiration date;

   iii. Compliance with operational and reportorial requirements under these Guidelines.

5. The appraisal company or PSO may apply for the renewal of its accreditation six (6) months before the expiration thereof. The approval of such application shall be subject to compliance by the company of the requirements of accreditation under paragraph II and its record of observance of the operating and reporting requirements of these Guidelines.

6. Scope and Limitation of Accreditation

   i. The accreditation by the Commission of the appraisal company shall be permissive only and shall not constitute a recommendation or endorsement of its engagement or practice.

   ii. The review of the qualification and sample appraisal or valuation report of the company shall be based only on the documents submitted and the representations therein by the appraisal company or PSO. Parties directly concerned on a report issued by an appraisal company or PSO such as the reporting company, external auditor, creditor and investors, are expected to conduct due diligence towards reliance of the contents of the report.

   iii. The Commission shall not be liable for any liability or loss that may arise from the selection of the appraisal company or PSO accredited by the Commission.

III. OPERATIONAL REQUIREMENTS

All appraisal companies or PSOs accredited by the Commission shall comply with the following operational requirements:

1. Strictly observe the Code of Ethics applicable to professional appraisers or valuation specialists;

2. Indicate in the appraisal or valuation reports the following information:

   i. The complete name and address of the company including its SEC accreditation number and validity period;

   ii. The appraiser or valuation specialist's complete name, office address, the validity periods and numbers of license and registration with PRC and PRBRES or Board of Accountancy, respectively, APO Receipt Number, PTR Number and his TIN;

   iii. The purpose of the appraisal or valuation, the description and location of the asset and the type of business of the client company, e.g., bank, insurance company, financing company. If the client is a regulated entity like a bank, the report shall indicate whether or not the appraisal company or PSO has considered the appraisal or fair valuation requirements of the client's primary regulator like the Bangko Sentral ng Pilipinas;

   iv. The adoption of the current edition of International Valuation Standards (IVS) in the conduct of the subject valuation engagement. If the IVS has not been fully adopted, specify the standards that were not observed and the impact thereof. If the purpose however, of the appraisal is for financial reporting, the appraiser shall observe the requirements of the PFRS. For valuation of asset other than real estate, the valuation specialist shall comply with the requirements of PFRS and other best practices and standards on asset valuation, and shall fully disclose in his report such basis of valuation and all relevant information;

   v. Such other information that is prescribed under the IVS or other applicable framework.

   To determine compliance with the above requirements and the representation in the reports, the Commission may require an accredited appraisal company or PSO to submit a copy of any of its appraisal or valuation reports and supporting documents. For this purpose, the appraisal company or PSO shall indicate in its engagement contracts that it is obligated to provide to the Commission said documents upon its order.

3. An accredited appraisal company or PSO shall maintain the following prescribed qualifications:

   i. It is 100% Filipino-owned pursuant to the 9th Foreign Investment Negative List and it is managed and operated by licensed appraisers or valuation specialists;

   ii. It has all the requisite business permits and licenses to operate the business;

   iii. It has at least two (2) qualified appraisers or valuation specialists, and adequate number of technical and administrative personnel for the conduct of valuation. The qualifications for appraisers and valuation specialists prescribed under paragraph II(3) of these Guidelines shall be complied with;

   iv. It has unimpaired outstanding capital stock of not less than Five Million Pesos (P5,000,000.00);

v. It has effective internal controls and checks and balances to ensure the quality and integrity of valuation reports;

vi. It has a professional liability insurance for errors and omissions in the amount of at least Five Hundred Thousand Pesos (P500,000.00). If applicable, it complies with its sworn undertaking that it will provide professional liability insurance in such higher amount as the client corporation shall require to adequately cover the risk exposure of the appraisal company.

IV. REPORTING REQUIREMENTS

1. All accredited appraisal companies or PSOs shall submit within one hundred five (105) days from end of its fiscal year, an annual report under SEC Form AC-AR duly signed by its Chief Executive Officer and Chief Finance Officer, or Managing Partner, as the case may be. The report shall provide the following information:

   i. List of licensed property appraisers or valuation specialists with the following information for each: position in the firm or company, validity periods and numbers of license and registration with PRC and PRBRES or Board of Accountancy, respectively, APO Receipt Number, PTR Number and TIN;

   i. List of clients for the immediately preceding year and a brief description of the engagement for each, e.g., assets covered by the valuation, values, and basis of valuation;

   ii. Summary of financial information based on audited financial statements that were recently due for filing; and

   iii. Other information that may materially affect the operation of the company.

2. An accredited appraisal company or PSO shall notify the Commission of any finding of discrepancy in the value resulting from its valuation and the amount indicated in the report or document of any of its clients submitted to the Commission. This shall be made by the appraisal company or PSO in writing within five (5) business days from its finding.

V. FINES AND PENALTIES FOR VIOLATION

1. Failure to comply with the prescribed qualification and documentary requirements under these Guidelines shall be a valid ground for the denial of the application for accreditation as an appraisal company or PSO.

2. Subject to the limits provided under Section 54 of the SRC, the following shall be the consequence or penalty in case a corporation covered under these Guidelines engages an appraisal company or PSO that is not accredited by the Commission:

Covered Companies	Consequence/Penalty
i. Public companies and secondary licensees of the Commission, including their significant subsidiaries as defined under SRC Rule 68, that propose to receive asset in exchange for shares of stock, as provided for in Section 62 of the Corporation Code	Denial of the request for approval of the consideration

Covered Companies	Consequence/Penalty
ii. Issuers of securities to the public or public companies that propose to transfer their property to another entity in exchange for shares of stock or cash or property, including the contracting entity that will exchange its asset with that of the issuers of securities or public companies	1/10 of 1% of the carrying amount property transferred or received whichever is higher
iii. Public companies and secondary licensees and their significant subsidiaries, that adopt the fair value model in measuring their properties pursuant to the PFRS	1/100 of 1% of the fair value of the property recorded in the financial statements without the required valuation of an accredited appraisal company
iv. Issuers of securities to the public or public companies covering their property that would be declared as dividend or the non-financial assets that they would receive arising from a business combination	1/100 of 1% of the amount of dividend declared or the non-financial assets received, without the required valuation of an accredited appraisal company

For entities that are not public companies or secondary licensees and the asset involved is real estate, a request for approval of the consideration shall be denied if - (i) the property appraiser or valuer is not licensed by the PRBRES; and (2) the appraisal report does not contain the appraiser or valuer's signature, complete name, office address, the validity periods and numbers of license and registration with PRC and PRBRES, respectively, APO Receipt Number, PTR Number and TIN.

3. The Commission may require the amendment and re-issuance of an appraisal or valuation report if it does not comply with the prescribed contents under these Guidelines and there is a misrepresentation as to compliance with the adopted framework. A misrepresentation arises when the report indicates compliance with the standards but it is not supported by adequate documents or the supporting documents reflect otherwise. Lack of clarity of the information in the report may likewise constitute a misrepresentation. The re-issuance shall be without prejudice to any penalty that may be imposed on the appraisal company or PSO for incomplete report or for misrepresentation.

4. Pursuant to the power of the Commission to impose administrative sanctions under Section 54 of the SRC, an appraisal company which misrepresents itself as an appraisal company accredited with the Commission or agrees to undertake an appraisal activity covered by these Guidelines without the required accreditation shall be subject to a penalty of Fifty Thousand Pesos (P50,000.00). The appraisal report issued by such company shall not be acceptable to support any application or report of a corporation covered by these Guidelines.

5. An appraiser or valuation specialist who practices without the required valid license, as can be shown in any documents submitted to the Commission, shall be referred to the PRC for appropriate imposition of penalties, administrative and/or criminal.

6. An accredited appraisal company or PSO that fails to comply with any of the operational and reportorial requirements of valuation report or misrepresentation therein, shall be imposed a fine of Ten Thousand Pesos (P10,000.00) for each violation, after due notice and hearing. For reportorial violation, a daily fine of P100 for each of day of delay shall be added to the said basic fine. Penalties for second offenses shall be imposed with a penalty twice the amount of the fine for the first offense.

A third offense for the same violation shall be considered a delinquency and shall be a sufficient ground for the revocation of the accreditation of the erring appraisal company or PSO.

7. An accredited appraisal company or PSO that misrepresents in its application or appraisal/valuation report, shall be imposed with penalties of Ten Thousand Pesos (P10,000.00) and Fifty Thousand Pesos (P50,000), respectively. For second offense, it shall be imposed with a penalty twice the amount of the fine for the first offense plus a one-year suspension of accreditation if the misrepresentation is on the appraisal or valuation report.

   A third offense for the same violation shall be considered a delinquency and shall be a sufficient ground for the revocation of the accreditation of the erring appraisal company and the imposition of fines of Twenty Thousand Pesos (P20,000) and Two Hundred Thousand Pesos (P200,000.00) for misrepresentation in the application and report, respectively.

VI. TRANSITORY CLAUSE

1. SEC Memorandum Circular No. 4, Series of 2010 (Guidelines on Property Valuations) is hereby superseded by this Circular subject to the prescribed transition indicated herein.

2. The requirements of these Guidelines covering the following entities and transactions shall start on **01 March 2014**:

   i. Public companies and secondary licensees of the Commission, including their significant subsidiaries as defined under SRC Rule 68, that propose to receive asset in exchange for shares of stock, as provided for in Section 62 of the Corporation Code;

   ii. Issuers of securities to the public or public companies that propose to transfer their asset to another entity in exchange for shares of stock or asset including the contracting entity that will exchange its asset with that of the issuers of securities or public companies;

   iii. Public companies and secondary licensees of the Commission covering the asset that would be declared as dividend or the non-financial assets that they would receive arising from a business combination.

3. For annual reporting purposes, public companies and secondary licensees including their significant subsidiaries that adopt the fair value model in measuring their properties shall comply with the requirements of these Guidelines starting with their annual financial statements beginning **01 January 2014**. For those with fiscal year other than December 31, the requirements of these Guidelines shall apply to their annual financial reports for the period ending **30 June 2014**.

4. The accreditation requirements contained in these Guidelines shall be mandatory for all applications that will be filed starting **01 March 2014.**

5. For companies that are already accredited as of date of effectivity of these Guidelines, the new requirements on capital stock shall be complied with within two (2) years or up to **31 December 2015** based on their capital build-up program that shall be disclosed in their financial statements as of 31 December 2013. All other new operational requirements shall be complied with from date of effectivity of these Guidelines.

6. The technical requirements for appraisal reports under paragraph III(2) above shall be mandatory starting **01 March 2014.**

7. The revised schedule for the submission of an annual report per paragraph IV(1) above shall start in 2014, e.g., Annual Report for the period ended December 31, 2013, shall be due on April 15, 2014.

8. The reportorial requirements under Paragraph IV(2) of the Guidelines particularly the submission of a notice of discrepancy shall be mandatory starting **01 March 2014**.

Except as otherwise indicated above, these Guidelines shall be effective within fifteen (15) days after the date of last publication in two (2) newspapers of general circulation in the Philippines.

Issued this day of 21 January 2014, at Mandaluyong City, Philippines.

For the Commission:

TERESITA J. HERBOSA
Chairperson