Republic of the Philippines
Department of Trade and Industry
Securities and Exchange Commission
SEC Bldg. EDSA, Greenhills, Mandaluyong City

SEC Memorandum Circular No. 3
Series of 2011

GUIDELINES ON THE IMPLEMENTATION OF PFRS 9 (FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT)

Pursuant to its commitment to align its rules with global standards and practices, the Commission has in the recent past adopted International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) by including them in the rules of the Commission as Philippine Financial Reporting Standards (PFRS).

In May 2010, the Commission adopted as part of its rules the original PFRS 9 that contains requirements on financial assets. Thereafter, in January 2011, the revised PFRS 9 covering both financial assets and financial liabilities were adopted by the Commission. These standards are based on two IFRS 9 issued by the IASB in 2009 and 2010, respectively. The titles "PFRS 9 (2009)" and "PFRS 9 (2010)" shall therefore be used for purposes of these Guidelines.

As stated in the notices issued by the Commission, PFRS 9 shall apply to financial statements for annual periods beginning on or after 1 January 2013. The covered entities are, however, given the option to adopt the standard earlier than the said date. Although PFRS 9 (2009) was superseded by PFRS 9 (2010), an entity may elect to apply PFRS 9 (2009) for annual periods beginning before 1 January 2013. If an entity however, opts to early adopt PFRS 9 (2010), it shall apply the requirements of this standard in its entirety.

Considering the significant impact on the financial statements of the recognition and measurement requirements under PFRS 9 and the need for availability of sufficient information to users of financial statements, the Commission resolved to issue these Guidelines on the transition and disclosure requirements for the early adoption of the subject standard.

1. The following companies that shall early adopt either PFRS 9 (2009) or PFRS 9 (2010) for their 2011 or 2012 annual financial reporting shall be covered by the following rules:

(a) Large corporations with total assets of more than P350 Million and total liabilities of P250 Million, and publicly-accountable entities that are mandated to adopt PFRS;

(b) Small and medium entities that availed of the exemption from PFRS for SMEs and have opted to adopt PFRS.

2. Covered companies are given up to **30 September 2011** to conduct a study on the potential impact of the adoption of PFRS 9 on their 2011 annual financial statements. However, companies that have early adopted in their 2010 financial statements PFRS 9 (2009) shall only cover the impact evaluation of PFRS 9 (2010) with respect to financial liabilities.

3. Covered companies that are required to submit interim financial statements shall comply with the following requirements:

(a) Interim financial statements that shall be submitted in 2011 by covered companies should not yet reflect the impact of the early adoption of either PFRS 9 (2009) or PFRS 9 (2010) unless a complete evaluation has been undertaken by the company and it has already decided to early adopt such standard for interim reporting. In the latter case, there shall be sufficient disclosure of the completion of the said process;

(b) For those which have already adopted PFRS 9 (2009) in their 2010 financial reporting, the interim financial statements for 2011 and succeeding periods shall reflect the application of such standard;

(c) The following information shall be disclosed in the interim financial statements as of **30 June 2011**:

(i) The company has not yet decided whether or not to early adopt PFRS 9 (2009) or PFRS 9 (2010) for its 2011 financial reporting and therefore, the interim financial statements do not reflect the impact of the said standard unless the circumstances cited in item (a) or (b) above are applicable and therefore, such fact must be disclosed;

(ii) It is currently evaluating the impact of the possible early adoption of either PFRS 9 (2009) or PFRS 9 (2010) in its financial statements;

(iii) A brief discussion of the accounts that are to be affected in case of early adoption.

(d) If the company decides to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its **2011 annual financial reporting**, its interim financial statements as of **30 September 2011** shall contain a qualitative

and quantitative discussion of the result of the company's impact evaluation;

(e) For covered entities that will decide **not to early adopt** either PFRS 9 (2009) or PFRS 9 (2010) for their 2011 annual financial reporting, each company shall conduct early in 2012 another impact evaluation using the outstanding balances as of 31 December 2011, and shall provide the following information in its **interim financial statements as of 30 September 2011**:

(i) After consideration of the result of its impact evaluation, the company has decided not to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2011 annual financial reporting;

(ii) It shall conduct in early 2012 another impact evaluation using the outstanding balances of financial statements as of 31 December 2011;

(iii) A statement that the company's decision whether to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its **2012 financial reporting** shall be disclosed in its interim financial statements as of **31 March 2012**. The company shall likewise state that if the decision of the company will be to early adopt the subject standard for its 2012 financial reporting, its interim report as of 31 March 2012 will already reflect the application of the requirements under the said standard and will contain a qualitative and quantitative discussion of the result of the company's impact evaluation.

The Scale of Fines, as provided in SEC Memorandum Circular No. 8, Series of 2009, shall be applied to companies that will fail to comply with these Guidelines.

16 May 2011, Mandaluyong City.

For the Commission:

TERESITA J. HERBOSA
Chairperson