SEC Memorandum Circular No. 32
Series of 2020

TO : **ALL BSP SUPERVISED FINANCIAL INSTITUTIONS (BSFIs)**

SUBJECT : **BASIS OF PREPARATION OF AUDITED FINANCIAL STATEMENTS FOR BSFIs**

WHEREAS, the Bangko Sentral ng Pilipinas (BSP) issued a Memorandum to all Banks[1] allowing regulatory relief measures, as follows:

a) Staggered booking of allowance for credit losses over a maximum period of five years;
b) Reclassification of debt securities measured at fair value to amortized cost category;
c) Exclusion of eligible loans from past due and non-performing classification until 31 December 2021; and
d) Any other regulatory relief that will be issued for prudential reporting due to COVID-19 pandemic;

WHEREAS, the above regulatory reliefs, once adopted and recorded for financial reporting purposes, are not considered in accordance with Philippine Financial Reporting Standards (PFRS);

WHEREAS, the BSP requested that the SEC allow Audited Financial Statements of BSFIs to be prepared in accordance with Philippine Financial Reporting Standards (PFRS), as modified by the application of the above financial reporting reliefs, for the duration and terms allowed by the BSP, in response to the request of the Bankers Association of the Philippines (BAP) addressed to both the SEC and BSP;

[1] BSP Memoranda Nos. M-2020-008 dated 14 March 2020, as amended by M-2020-0032 dated 27 April 2020, and M-2020-0022 dated 8 April 2020

Published:
Manila Bulletin, November 20, 2020
Manila Standard, November 20, 2020

WHEREAS, the SEC agrees that the prudential accounting relief measures, as well as the other regulatory reliefs issued by the BSP, fully complement government plans and measures to counter the impact of the COVID-19 outbreak on the operations of BSFIs. Specifically, these reliefs were intended to reduce the impact of losses that BSFIs may incur due to exposure to borrowers, industries and sectors severely affected by COVID-19 and the mark-to-market (MTM) losses that may be sustained due to volatilities in the financial markets brought about by the pandemic;

WHEREAS, these relief measures aim to strengthen the ability of BSFIs to continue to operate and service the financing requirements of the general public;

WHEREAS, under Philippine Accounting Standard (PAS) 1, an entity shall not describe financial statements as complying with PFRSs unless they comply with all the requirements of PFRSs;

WHEREAS, the Revised SRC Rule 68 prescribes that the financial statements that shall be prepared and filed by entities covered by the Rule should be in accordance with the financial reporting framework, i.e., PFRS, PFRS for Small and Medium Enterprises and PFRS for Small Entities, as appropriate;

WHEREAS, the SEC has the authority, subject to prior consultation with concerned parties, to prescribe the most appropriate requirement that shall form part of the applicable financial reporting framework of corporations covered by the Rule. In prescribing the applicable financial reporting framework for a particular class or sub-class of entities covered by the Rule, the Commission shall consider the pronouncements and interpretations of the Philippine Financial Reporting Standards Council. However, a financial reporting framework other than the PFRSs that complies with the regulatory reportorial requirements of the concerned regulatory agency such as the BSP or the IC may be allowed by the Commission;

NOW THEREFORE, the Commission *En Banc*, in its meeting held on 17 November 2020, in consideration of the government's initiative to provide relief to industries impacted by the COVID-19 pandemic, approved the adoption of an industry-specific framework, to be referred to as the PFRS, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC. Accordingly, BSFIs have the option to prepare their financial statements using said industry-specific framework or full PFRS for the duration and terms allowed by the BSP.

BSFIs, which opt to adopt the industry-specific framework, should specify in the "Basis of Preparation of the Financial Statements" section of the financial statements the reliefs availed of and indicate that the availment thereof covers only current-year transactions. For consistency of presentation, BSFIs should comply with the following prescribed wordings:

"The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards, as modified by the application of the following financial reporting reliefs issued by the Bangko Sentral ng Pilipinas and approved by the Securities and Exchange Commission in response to the COVID-19 pandemic: (enumerate reliefs availed of). The reliefs cover only current-year transactions/ events and do not impact the comparative period/s."

To ensure transparency in financial reporting, a qualitative disclosure of the impact of the reliefs availed of should be disclosed. The following information should likewise be provided in tabular format in the Note to Financial Statements that contains the "Basis for Preparation of the Financial Statements":

1. For staggered booking of allowance for credit losses:
    a) Impact on the affected financial statement line items if the allowance was measured and recorded in accordance with PFRS (loans and receivables, allowance for credit losses, provision for credit losses, retained earnings, deferred tax asset and expense, earnings per share [for listed BSFIs], etc.)
    b) Amount of allowance recognized/amortized for the period
    c) Balance of unrecognized (unamortized) allowance

2. For reclassification of debt securities measured at fair value to amortized cost category, a disclosure of the impact on the affected financial statement line items had the reclassification not been made (financial assets at FVPL, financial assets at FVOCI, investment securities at amortized cost, other comprehensive income, gain or loss from fair value changes, provision for credit losses, deferred tax asset and expense, earnings per share, etc.).

Entities have the option to take either the full retrospective or the modified retrospective approach in doing the above adjustments when it reverts to full PFRS after the period of relief.

The PFRS, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC, shall form part of the applicable financial reporting framework for the purpose of preparing and filing general-purpose financial statements with the Commission pursuant to the Revised SRC Rule 68[2].

BSFIs, which may avail of these reliefs but the impact on the financial statements is deemed not material, may still represent in the notes that the financial statements are presented in full compliance with PFRS. Under such circumstance, the disclosure requirements for such reliefs are not mandatory.

[2] Part I paragraph 2

Where the external auditor has been engaged to perform an audit engagement in accordance with PSA on these annual financial statements, which have been prepared using PFRS, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC, the external auditor shall reflect in the opinion paragraph that the financial statements are prepared in accordance with the compliance framework described in the notes to the financial statements. In addition, the external auditor shall include an Emphasis of Matter paragraph in the auditor's report to draw attention to the basis of accounting that has been used in the preparation of the financial statements.

Issued this 17th day of November 2020 in Pasay City, Philippines.

For the Commission:

EMILIO B. AQUINO
Chairperson