SEC Memorandum Circular No. 34
Series of 2020

TO : THE REAL ESTATE INDUSTY

SUBJECT : DEFERRAL OF PHILIPPINE INTERPRETATIONS COMMITTEE QUESTION & ANSWER (PIC Q&A) NO. 2018-12 AND IFRS INTERPRETATIONS COMMITTEE (IFRIC) AGENDA DECISION ON OVER TIME TRANSFER OF CONSTRUCTED GOODS [PHILIPPINE ACCOUNTING STANDARDS (PAS) 23- BORROWING COST] FOR REAL ESTATE INDUSTRY

WHEREAS, in various issuances, the SEC provided relief to the real estate industry by deferring the application of the following accounting pronouncements. The deferral is in response to the issues raised by the real estate industry in the implementation of the said pronouncements.

Memorandum Circular	Rule/Guideline	Date Issued
SEC MC No. 14, Series of 2018	Deferral of the application of the provisions of the Philippine Interpretation Committee Question and Answer (PIC Q&A) No. 2018-12 with respect to the accounting for significant financing component, and uninstalled materials and the exclusion of land in the calculation of percentage of completion (POC) for a period of three (3) years.	29 October 2018
SEC MC No. 3, Series of 2019	Deferral of PIC Q&A 2018-12(H) on Accounting for Common Usage Service Area (CUSA) Charges and 2018-14 on Accounting for Cancellation of Real Estate Sales until December 31, 2020.	08 February 2019

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Philippine Daily Inquirer, December 19, 2020
Manila Times, December 19, 2020

Memorandum Circular	Rule/Guideline	Date Issued
SEC MC No. 4, Series of 2020	Deferral of the Implementation of IFRS Interpretations Committee ("IFRIC") Agenda Decision on Over Time Transfer of Constructed Goods [Philippine Accounting Standards (PAS) 23-Borrowing Cost] For Real Estate Industry until December 31, 2020.	21 February 2020

WHEREAS, the implementation issues raised are expected to be addressed within the period of deferral through consultation of the real estate industry with the Financial Reporting Standards Council (FRSC) and Philippine Interpretations Committee (PIC). Hence, beginning January 01, 2021, real estate companies are expected to fully comply with the requirements of the above pronouncements and any subsequent amendments thereof.

WHEREAS, in a letter dated September 10, 2020, the real estate industry informed the SEC of the new developments in the implementation of the above pronouncements as a result of its continuous consultation with PIC. While various implementation issues have already been resolved, the following items remain:

1. Assessing whether the transaction price includes a significant financing component;
2. Treatment of land in the determination of the POC; and
3. Impact of implementing the IFRIC Agenda Decision on Over Time Transfers of Constructed Goods under PAS 23-Borrowing Cost.

WHEREAS, in a letter dated December 2, 2020, the real estate industry requested an additional period of deferral, if permanent deferral is not possible, to afford the industry reasonable time to further evaluate the impact of the above remaining items given the added hardship brought about by COVID-19 pandemic.

WHEREAS, pursuant to RA 11494, *Bayanihan to Recover as One Act,* the SEC is allowed to adopt measures to enable companies to cope with the impact brought by Covid-19 pandemic.

NOW THEREFORE, the Commission *en banc*, in its meeting held on 15 December 2020, decided to provide relief to the real estate industry by deferring the application of the provisions of the PIC Q&A No. 2018-12 with respect to the accounting for significant financing component and the exclusion of land in the calculation of POC and IFRIC Agenda Decision on Over Time Transfers of Constructed Goods under PAS 23-Borrowing Cost, **for another period of three (3) years or until 2023.**

The SEC believes that the deferral will give more than enough time to real estate industry to further evaluate and explore options to resolve the above remaining implementing issues and help the industry to mitigate the impact of COVID-19 crisis.

A real estate company may opt not to avail of any of the relief provided above and therefore will comply in full with the requirements of PIC Q & A 2018-12 and IFRIC Agenda Decision in respect of the relief not availed of.

Moreover, real estate companies which opted for the deferral shall be required to disclose in the Notes to the Financial Statements the accounting policies applied, a discussion of the deferral of the subject implementation issues and a qualitative discussion of the impact in the financial statements had the concerned application guidelines been adopted. However, should any of the deferral options result into an accounting policy change, such accounting change will have to be accounted for under Philippine Accounting Standard (PAS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* i.e., retrospectively, together with the corresponding required quantitative disclosures.

The above regulatory relief, once adopted and recorded for financial reporting purposes, are not considered in accordance with Philippine Financial Reporting Standards (PFRS). Real estate companies which opt to avail of the deferral shall specify in the "Basis of Preparation of the Financial Statements" section of the financial statements the relief availed of and indicate that the financial statements are prepared in accordance with Philippine Financial Reporting Standards (PFRS), as modified by the application of the above financial reporting reliefs. For consistency of presentation, real estate companies 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 and approved by the Securities and Exchange Commission in response to the COVID-19 pandemic: (enumerate reliefs availed of)."

Where the external auditor has been engaged to perform an audit engagement in accordance with PSA on these financial statements, which have been prepared using PFRS, as modified by the application of the financial reporting relief issued 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 15th day of December 2020 in Pasay City, Philippines.

For the Commission:

EMILIO B. AQUINO
Chairperson