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

SEC MEMORANDUM CIRCULAR NO. 6
SERIES OF 2008

GUIDELINES ON ON-SITE VERIFICATION OF FINANCIAL RECORDS RELATIVE TO CERTAIN APPLICATIONS FILED WITH THE COMMISSION

SECTION 1. These guidelines shall govern the requirements on on-site verification of financial records relative to the following applications:

(a) Applications for Increase in Capital Stock where the following information have to be verified:

1. Cash payment for subscriptions;
2. Conversion of advances/liabilities to payments for subscription to the increase.

(b) Applications for a Certificate of Authority to operate as a Financing or Lending Company in order to verify if the entity has accepted or solicited investments, other than loans, from more than 19 persons without prior compliance with Sections 8 and 12 of the Securities Regulation Code and its Amended Rules and Regulations.

(c) Such other applications that the Commission may require an on-site evaluation of certain financial records to ensure the accuracy and completeness of the information submitted to the Commission.

SECTION 2. ON-SITE VERIFICATION PROCEDURES

2.1 Applications for Increase in Capital Stock

(a) **Payment of cash on subscription.** Among other requirements for the approval of the application, a report on the conduct of the following on-site verification procedures should be submitted:

i. Obtain from the company a schedule of cash received as deposits for subscription on the proposed increase in capital stock which shows the following information:

1. Date recorded in the books
2. Official receipt number
3. Name of subscriber
4. Amount of cash received
5. Form of payment (cash or check)

Note: A copy of the official receipts should be attached to the company's schedule.

ii. Check the mathematical accuracy of the company's schedule;

iii. Compare the balance of the deposits for subscription to the general ledger;

iv. Trace the cash received as deposits for subscription to the cash receipts book;

v. Obtain a copy of the minutes of the meetings of the board of directors and stockholders approving the increase in capital stock of the company;

vi. Compare the amounts received from the subscribers to the duplicate copy of the official receipts;

vii. Trace the amounts received to the bank-validated deposit slips and, for check payments, trace the amounts to the bank statement. (**Note**: A copy of the deposit slip, passbook, and/or bank statement should be attached to the company's schedule.);

viii. Inspect all entries in the cash disbursement books of the company for any prior disbursements made to the subscribers that can be linked or associated with the subscriber's payment for subscriptions;

ix. Inspect all entries in the cash disbursements book of the company for any subsequent disbursements, advances or loans granted to the subscriber;

x. Conduct a cash count of the funds of the company as of the date of examination and work back up to the month immediately preceding the date of the meeting when the stockholders approved the increase in capital stock of the company;

xi. Obtain a summary of the cash in the bank account of the company and bank reconciliation statements as of the end of the month immediately preceding the submission of the application;

xii. Check the mathematical accuracy of the summary and bank reconciliation statements; trace the receipts and disbursements and other transactions in the summary and bank reconciliation statements to the entries in the general ledger; and compare the balances shown in the summary and bank reconciliation statements with the balances per books and bank statements.

(b) **Advances/liabilities as payment for subscription to the proposed increase in capital stock**. Among other requirements for the approval of the application, a report on the conduct of following on-site verification procedures should be submitted:

i. Obtain a schedule of advances/liabilities (or other account title used by the company) as payment for subscription to the proposed increase in capital that shows the following information:

1. Date recorded in the books
2. Name of creditor/subscriber
3. Amount of advance/liability
4. Nature of advances/liabilities (e.g., cash, equipment, other assets)
5. Balance as of (*date*)

ii. Check the mathematical accuracy of the company's schedule;

iii. Compare the balance of the advances/ liabilities in the schedule to the general ledger;

iv. Trace the advances/liabilities to the cash receipts book (if received in cash) or to the journal book (if received as a non-cash asset);

v. Obtain a copy of the minutes of the meetings of the board of directors and stockholders approving the increase in capital stock of the company and the conversion of the advances/liabilities to equity;

vi. Compare the amount approved for conversion to that shown in the schedule of advances/liabilities;

vii. Compare the information shown in the schedule (e.g., date of entry, creditor/subscriber, amount of advance/liability, etc.) to that shown in the supporting documents (e.g., duplicate copy of official receipt for cash advances, journal voucher for non-cash advances);

viii. Obtain confirmation of the advances/liabilities, and compare the amount confirmed with that shown in the schedule;

ix. Verify the utilization of the proceeds from the advances (if in cash), and state the result of the verification in the report;

2.2 Applications for a Certificate of Authority to operate as a Financing or Lending Company

Among other requirements for the approval of the application, a report on the conduct of following on-site verification procedures should be submitted:

i. Obtain a schedule of the financial instruments or securities offered/issued by the company that shows the following information:

   1. Date recorded in the books
   2. Name of investor/subscriber
   3. Amount of proceeds received
   4. Nature of the instrument
   5. Balance as of (*date*)

ii. Check the mathematical accuracy of the company's schedule;

iii. Compare the amount/balance of the issuance in the schedule to the general ledger;

iv. Trace the proceeds of the issuance to the cash receipts book (if received in cash) or to the journal book (if received as a non-cash asset);

v. Obtain a copy of the minutes of meeting of the board of directors and stockholders approving the issuance of the securities/financial instruments ;

vi. Compare the information shown in the schedule (e.g., date of entry, investor/ subscriber, amount, etc.) to that shown in the supporting documents (e.g., *duplicate copy of official receipt and certificates* issued);

vii. Obtain confirmation of the securities/financial instruments, and compare the amount confirmed with that shown in the schedule;

viii. Verify from the records if the company obtained from the Commission an exemption from the registration requirements covering the securities offered/issued.

SECTION 3. PROOF OF CONDUCT OF THE VERIFICATION PROCEDURES

As part of the documents required to be submitted with the applications covered by this Circular, the applicant-corporation should submit the following:

A. Management Representation signed under oath by the President/Chief Executive Officer and Treasurer/Chief Finance Officer with the following wordings:

To the Securities and Exchange Commission:

In connection with the application of _____(name of company) for _____ (describe the application), the undersigned hereby declare under oath the following:

(1) That all information and representations contained in the submitted application and its supporting documents are true and correct;

(2) That the verification procedures required by the Commission were conducted by an independent auditor who issued a report thereon in accordance with the auditing standards in force;

(3) That the items/accounts subject of the application are authorized, valid and legal; and

(4) That the shares of stock to be issued are not watered (if the subject application pertains to an increase in capital stock).

The management hereby authorizes the Commission to examine any time, even after the approval of the application, the company's books of accounts and records to determine the validity and accuracy of the transaction.

President/Chief Executive Officer

Chief Financial Officer

B. Report of an Independent Certified Public Accountant on the conduct and result of the required verification procedures.

This report shall be prepared and issued in accordance with the auditing standards and practices in force. If the engagement of the external auditor involves agreed-upon procedures, the report should have a covering letter of the external auditor addressed to the Commission with the following wordings:

To the Securities and Exchange Commission:

In connection with the application of _____(name of company) for _____ (describe the application), the undersigned hereby declares:

(1) *That, as an external auditor engaged by the said company, I/we conducted the verification procedures required under Section 2 of the Guidelines on On-site Verification of Financial Records Relative to Certain Applications Filed with the Commission, and that I/we observed all the requirements of existing auditing standards and practices applicable to the said engagement; and*

(2) *That since the foregoing engagement does not involve an audit or review of the company's financial statements but only the conduct of a set of agreed-upon procedures and issuance of a report of the factual findings thereon, I/we gave a "no assurance" statement in my/our _____ (date) report attached to this letter. I/We understand, however, that the "no assurance" statement in my/our said report does not exempt me/us from responsibility over the conduct of the said procedures and the factual findings stated therein.*

Name and signature of external Auditor
BOA Registration No.
SEC Accreditation No. (if any)

SECTION 4. EFFECTIVITY AND TRANSITION CLAUSE

This Circular shall take effect on **July 30, 2008**.

However, corporations with pending applications prior to the effectivity of this Circular that cannot meet the previous requirements of the Commission on on-site verification procedures may request the Commission to be allowed instead to comply with this Circular.

This Circular repeals and supersedes all earlier rules or circulars that may be inconsistent with it.

July 22, 2008, Mandaluyong City, Metro Manila, Philippines.

For the Commission:

FE B. BARIN
Chairperson