

SRC RULE 68, AS AMENDED

PART I GENERAL FINANCIAL REPORTING REQUIREMENTS

1. APPLICATION AND DEFINITION OF TERMS

A. Application of this Rule

- (i) This Rule (together with subsequent official pronouncements, interpretations and rulings on accounting and reporting matters, which may be issued by the Commission from time to time) states the requirements applicable to the form and content of financial statements required to be filed with the Commission by corporations which meet the threshold, as follows:
 - a) Stock corporations with paid-up capital stock of P50,000.00 or more;
 - b) Non-stock corporations with total assets of P500,000.00 or more, or with gross annual receipts of P100,000.00 or more;
 - c) Branch offices of stock foreign corporations with assigned capital in the equivalent amount of P1,000,000.00 or more;
 - d) Branch offices of non-stock corporations with total assets in the equivalent amount of P1,000,000.00 or more;
 - e) Regional operating headquarters of foreign corporations with total revenues in the equivalent amount of P1,000,000.00 or more.
- (ii) Financial statements of branch offices of foreign corporations licensed to do business in the Philippines by the Commission shall comply with the requirements of this Rule unless otherwise determined by the Commission as not applicable.
- (iii) Additional requirements for financial statements of corporations covered under Section 17.2 of the Securities Regulation Code are set forth under Part II of this Rule.

B. Definition of Terms Used in this Rule

- (i) Unless otherwise used in a different context, the terms used in this Rule shall have the same meanings as defined in the accounting and auditing standards adopted by the Commission as part of this Rule.
- (ii) **Financial reporting framework** means a set of accounting principles, standards, interpretations and pronouncements that must be adopted in the preparation and submission of the annual financial statements of a particular class of entities, as defined in this Rule by the Commission. This includes, but not limited to, the Philippine Financial Reporting Standards and the Philippine Financial Reporting Standards for Small and Medium Entities.

In prescribing the applicable financial reporting framework for a particular class or sub-class of entities covered by this Rule, the Commission shall consider the pronouncements and interpretation of the following bodies:

- (a) The primary regulator of the entities concerned, e.g., the Bangko Sentral ng Pilipinas and Insurance Commission;
- (b) Philippine Financial Reporting Standards Council; or
- (c) International Accounting Standards Board.

In case of a conflict in the pronouncement or interpretation between any of the bodies listed above, the Commission shall have the authority subject only 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 this Rule.

- (iii) **Entity**, when use in this Rule, refers to a juridical person or a corporation registered under the Corporation Code.
- (iv) **Error** means an unintentional mistake in the financial statements which reduces or increases the consolidated total assets, total liabilities or income of the company by five percent (5%). It may involve:
 - (a) Mathematical or clerical mistakes in the underlying records and accounting data;
 - (b) Oversight or misinterpretation of facts; or
 - (c) Unintentional misapplication of accounting policies.
- (v) **Fraud** means an intentional act by one or more individuals among management, employees, or third parties that results in a misrepresentation of financial statements which reduces or increases the consolidated total assets, total liabilities or income of the company by five percent (5%). It may involve:
 - (a) Manipulation, falsification or alteration of records or documents;
 - (b) Misappropriation of assets;
 - (c) Suppression or omission of the effects of transactions from records or documents;
 - (d) Recording of transactions without substance;
 - (e) Intentional misapplication of accounting policies; or
 - (f) Omission of material information.
- (vi) **Gross negligence** means wanton or reckless disregard of the duty of due care in complying with Philippine Standards on Auditing.
- (vii) **Material information**, for purposes of this Rule, means information whose omission or misstatement could influence the economic decisions of its users.

(viii) **Significant subsidiary** means a subsidiary, including its subsidiaries, which meet any of the following conditions:

- (a) The corporation's and its other subsidiaries' investments in and advances to the subsidiary exceed ten percent (10%) of the total assets of the corporation and its subsidiaries consolidated as of the end of the most recently completed fiscal year (for a proposed business combination to be accounted for as a pooling of interests, this condition is also met when the number of common shares exchanged or to be exchanged by the corporation exceeds ten percent (10%) of its total common shares outstanding at the date the combination is initiated); or
- (b) The corporation's and its other subsidiaries' proportionate share of the total assets (after inter-company eliminations) of the subsidiary exceeds ten percent (10%) of the total assets of the corporation and its subsidiaries consolidated as of the end of the most recently completed fiscal year; or
- (c) The corporation's and its other subsidiaries' equity in the income from continuing operations before income taxes exceeds ten percent (10%) of such income of the corporation and its subsidiaries consolidated for the most recently completed fiscal year.

Computational note: For purposes of making the prescribed income test the following guidance shall be applied:

- [1] When a loss has been incurred by either the parent and its subsidiaries consolidated or the tested subsidiary, but not both, the equity in the income or loss of the tested subsidiary shall be excluded from the income of the corporation and its subsidiaries consolidated for purposes of the computation.
- [2] If income of the corporation and its subsidiaries consolidated for the most recent fiscal year is at least 10 percent lower than the average of the income for the last five (5) fiscal years, such average income shall be substituted for purposes of the computation. Any loss years shall be omitted for purposes of computing average income.
- [3] Where the test involves combined entities, as in the case of determining whether summarized financial data shall be presented, entities reporting losses shall not be aggregated with entities reporting income.

(ix) **Summarized financial information** referred to in this Rule shall mean the presentation of summarized financial information as to the assets, liabilities and results of operations of the entity for which the information is required. Summarized financial information shall include the following disclosures:

- (a) Current assets, noncurrent assets, current liabilities, noncurrent liabilities (for specialized industries in which classified balance sheets or statements of financial position are normally not presented, information shall be provided as to the nature and amount of the major components of assets and liabilities);

- (b) Net sales or gross revenues, gross profit (or, alternatively, costs and expenses applicable to net sales or gross revenues), income or loss from continuing operations and net income or loss (for specialized industries, other information may be substituted for sales and related costs and expenses if necessary for a more meaningful presentation).

2. GENERAL GUIDES TO FINANCIAL STATEMENTS PREPARATION

A. Financial Reporting Framework

The financial statements that shall be prepared and filed by entities covered by this Rule shall be in accordance with the financial reporting framework as prescribed under this section.

(i) LARGE AND/OR PUBLICLY-ACCOUNTABLE ENTITIES

- (a) For purposes of this Rule, large or publicly accountable entities are those that meet any of the following criteria:
 - (1) Total assets of more than P350 Million or total liabilities of more than P250 Million; or
 - (2) Are required to file financial statements under Part II of SRC Rule 68; or
 - (3) Are in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market; or
 - (4) Are holders of secondary licenses issued by regulatory agencies.
- (b) Large and/or publicly-accountable entities shall use as their financial reporting framework the **Philippine Financial Reporting Standards (“PFRS”)** as adopted by the Commission. However, a set of financial reporting framework other than the PFRS may be allowed by the Commission for certain sub-class (e.g., banks, insurance companies) of these entities upon consideration of the pronouncements or interpretations of any of the bodies listed in paragraph 1(B)(ii) above.

(ii) SMALL AND MEDIUM-SIZED ENTITIES

- (a) Small and medium-sized entities (SMEs) are those that meet all of the following criteria:
 - (1) Total assets of between P3M to P350 Million or total liabilities of between P3M to P250 Million. If the entity is a parent company, the said amounts shall be based on the consolidated figures;
 - (2) Are not required to file financial statements under Part II of SRC Rule 68;

- (3) Are not in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market; and
 - (4) Are not holders of secondary licenses issued by regulatory agencies.
- (b) SMEs shall use as their financial reporting framework the **Philippine Financial Reporting Standards for SMEs ("PFRS for SMEs")** as adopted by the Commission. However, the following SMEs shall be exempt from the mandatory adoption of the PFRS for SMEs and may instead apply, at their option, the PFRS:
- (1) An SME which is a subsidiary of a parent company reporting under the PFRS;
 - (2) An SME which is a subsidiary of a foreign parent company which will be moving towards International Financial Reporting Standards ("IFRS") pursuant to the foreign country's published convergence plan;
 - (3) An SME which is a subsidiary of a foreign parent company and has been applying the standards for a non-publicly accountable entity for local reporting purposes. It is considering moving to PFRS instead of the PFRS for SMEs in order to align its policies with the expected move to full IFRS by its foreign parent company pursuant to its country's published convergence plan;
 - (4) An SME, either as a significant joint venture or associate, is part of a group that is reporting under the PFRS;
 - (5) An SME which is a branch office or regional operating headquarter of a foreign company reporting under the IFRS;
 - (6) An SME which has a subsidiary that is mandated to report under the PFRS;
 - (7) An SME which has a short term projection that show that it will breach the quantitative thresholds set in the criteria for an SME. The breach is expected to be significant and continuing due to its long-term effect on the company's asset or liability size;
 - (8) An SME which has a concrete plan to conduct an initial public offering within the next two (2) years;
 - (9) An SME which has been preparing financial statements using PFRS and has decided to liquidate;
 - (10) Such other cases that the Commission may consider as valid exceptions from the mandatory adoption of PFRS for SMEs.
- (c) An SME availing of any of the above-mentioned grounds for exemption shall provide a discussion in its notes to financial

statements of the facts supporting its adoption of the PFRS instead of the PFRS for SMEs.

- (d) If an SME that uses the PFRS for SMEs in a current year breaches the floor or ceiling of the size criteria at the end of that current year, and the event that caused the change is considered "significant and continuing", the entity shall transition to the applicable financial reporting framework in the next accounting period. If the event is not considered "significant and continuing", the entity can continue to use the same financial reporting framework it currently uses.
- (e) The determination of what is "significant and continuing" shall be based on management's judgment taking into consideration relevant qualitative and quantitative factors. As a general rule, 20% or more of the consolidated total assets or total liabilities would be considered significant.

(iii) MICRO ENTITIES

- (a) Micro entities are those that meet all of the following criteria:
 - (1) Total assets and liabilities are below P3 Million;
 - (2) Are not required to file financial statements under Part II of SRC Rule 68;
 - (3) Are not in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market; and
 - (4) Are not holders of secondary licenses issued by regulatory agencies.
- (b) Micro entities have the option to use as their financial reporting framework either the income tax basis, accounting standards in effect as of December 31, 2004 or PFRS for SMEs, provided however, that the financial statements shall at least consist of the Statement of Management's Responsibility, Auditor's Report, Statement of Financial Position, Statement of Income and Notes to Financial Statements, all of which cover the two-year comparative periods, if applicable.
- (c) If an entity uses a basis of accounting other than the PFRS for SMEs in the preparation of its financial statements, its management shall assess the acceptability of such basis of accounting in the light of the nature of the entity and the objective of the financial statements, or the requirements of the law or regulators.

B. Responsibility for Financial Statements

- (i) The financial statements filed with the Commission are primarily the responsibility of the management of the reporting company and accordingly, the fairness of the representations made therein is an implicit and integral part of the management's responsibility. The Board of Directors, in discharging its responsibilities, reviews and approves the financial statements before these are submitted to the stockholders.

- (ii) The Statement of Management's Responsibility for Financial Statements that shall be attached to the financial statements shall read as follows:

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of (name of reporting company) is responsible for the preparation and fair presentation of the financial statements for the year (s) ended (date), in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors or Trustees reviews and approves the financial statements and submit the same to the stockholders or members.

(name of auditing firm), the independent auditors, appointed by the stockholders has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signature _____
Printed Name of the Chairman of the Board _____

Signature _____
Printed Name of Chief Executive Officer _____

Signature _____
Printed Name of Chief Financial Officer _____

Signed this ____ day of _____

- (iii) The Chairman of the Board, Chief Executive Officer and Chief Finance Officer shall all sign the Statement of Management's Responsibility (SMR) as prescribed by this Rule. If provided in the company's by-laws, persons holding equivalent position as that of the aforementioned signatories shall sign the statement. The failure of any of the prescribed signatories to sign the SMR constitutes a material deficiency in the financial statements.
- (iv) In case of branch offices or regional operating headquarters of foreign corporations, the SMR shall be signed by its local manager who is in charge of its operations within the Philippines. The second paragraph of the Statement may be deleted since the Philippine branch does not have any local Board of Directors or stockholders.
- (v) The independent auditor's responsibility for the financial statements required to be filed with the Commission is confined to the expression of his opinion on such statements which he has examined.
- (vi) In the audit of the company's financial statements, the management shall provide the external auditor with the following documents:

- (a) Complete set of financial statements as prescribed under the applicable financial reporting framework of the entity, and if applicable, schedules and reconciliation forming part of the financial statements required under the existing rules of the Commission;
 - (b) All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements. These include schedules, computations, projections, reconciliations, reports, analyses and other financial information;
 - (c) Any additional information that the auditor may request from management and when appropriate, from those tasked to perform governance.
- (vii) The management shall provide unrestricted access to records and personnel of the entity from whom the auditor deems it necessary to obtain audit evidence.
- (viii) The company shall neither allow nor require its independent auditor to prepare its financial statements and/or any of its supporting documents. The independent auditor's duty is to conduct an independent examination of the company's financial statements and supporting documents pursuant to the prescribed auditing standards and practices.
- (ix) To determine compliance by the company's management with its representations in the SMR, this section and other relevant provisions of this Rule, the Commission may examine the company's books, records, systems and controls pursuant to the guidelines set by the Commission.

C. Form, Order and Terminology

- (i) This section shall be applicable to financial statements filed with the Commission for all corporations covered by this Rule.
- (ii) Financial statements shall be filed in such form and order, and shall use such generally accepted terminology as will best indicate their significance and character in the light of the provisions applicable thereto. The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further material information as is necessary to make the required statements, in the light of the circumstances under which they are made, not misleading.
- (iii) All money amounts required to be shown in financial statements may be expressed in whole currency units (e.g. pesos) or multiples thereof, as appropriate: provided, that when stated in other than whole currency units, an indication to that effect is inserted immediately beneath the caption of the statement or schedule, at the top of the money columns, or at an appropriate point in narrative material.

- (iv) Negative amounts shall be shown in a manner which clearly distinguishes the negative attribute. When determining methods of display, consideration shall be given to the limitations of reproduction and microfilming processes.
- (v) The chronological arrangement of data may be with the most recent date to the right or to the left. However, the ordering used shall be consistent in all financial statements, tabular data and footnote data in the document.
- (vi) The financial statements, other than the consolidated financial statements, shall have the stamped "received" by the Bureau of Internal Revenue (BIR) or its authorized banks, unless the BIR allows an alternative proof of submission for its authorized banks (e.g. bank slips) or prohibits acceptance of the financial statements in certain case (e.g., on-going examination).

D. Presentation for Receipt of the Audited Financial Statements

- (i) Financial statements required to be submitted by corporations shall be accompanied by an auditor's report issued by an independent auditor and presented in accordance with the requirements of this Rule. Failure to comply with any of the formal requirements under this Rule including the prescribed qualifications for independent auditors shall be considered a sufficient ground for the denial of the receipt of the financial statements or the imposition of appropriate penalties.
- (ii) The acceptance and receipt by the Commission of the financial statements shall be without prejudice to the fines that may be imposed for any material deficiency or misstatement that may be found upon evaluation of the specific contents thereof.

3. QUALIFICATIONS AND REPORTS OF INDEPENDENT AUDITORS

A. Examination of Financial Statements by Independent Auditors

- (i) Financial statements required to be submitted by corporations covered by this Rule shall be accompanied by an auditor's report issued by an independent auditor and presented in accordance with the requirements of this Rule. Failure to comply therewith shall subject the company with the penalties under paragraph 10 of this Rule and the Scale of Fines issued by the Commission.
- (ii) All registered corporations covered by this Rule shall have independent auditors who are duly registered with the Board of Accountancy (BOA) of the Professional Regulation Commission (PRC) in accordance with the rules and regulations of said professional regulatory bodies. A corporation with financial statements audited by an independent auditor who is not registered with the BOA shall be subject to appropriate fines.

B. Additional Requirements for Independent Auditors of Regulated Entities

(i) The following regulated entities shall have independent auditors accredited by the Commission under the appropriate category:

(a) Group A

- (1) Issuers of registered securities which have sold a class of securities pursuant to a registration under Section 12 of the Securities Regulation Code (SRC) except those issuers of registered timeshares, proprietary and non-proprietary membership certificates which are covered in Group B;
- (2) Issuers with a class of securities listed for trading in an Exchange;
- (3) Public companies or those which have total assets of at least Fifty million pesos (P50,000,000.00) or such other amount as the Commission shall prescribe, and having two hundred (200) or more holders each holding at least One hundred (100) shares of a class of its equity securities.

(b) Group B

- (1) Issuers of registered timeshares, proprietary and non-proprietary membership certificates;
- (2) Investment Houses;
- (3) Brokers and Dealers of securities;
- (4) Investment companies;
- (5) Government Securities Eligible Dealers (GSEDs);
- (6) Universal Banks Registered as Underwriters of Securities;
- (7) Investment Company Advisers;
- (8) Clearing Agency and Clearing Agency as Depository;
- (9) Stock and Securities Exchange/s;
- (10) Special Purpose Vehicles registered under the Special Purpose Vehicle Act of 2002 and its implementing rules;
- (11) Special Purpose Corporations registered under the Securitization Act of 2004 and its implementing rules;
- (12) Such other corporations which may be required by law to be supervised by the Commission.

(c) Group C

- (1) Financing Companies;
- (2) Lending Companies;
- (3) Transfer Agents.

(ii) For companies not included above but are mandated by other regulatory agencies to have an independent auditor accredited by the Commission, they are classified under **Group D**. It is understood however that such accreditation shall be accommodated by the Commission under this Rule on the condition that the Commission has been consulted on such requirement by the said agency and that it has agreed on the terms thereof through a Memorandum of Agreement.

(iii) Scope and Limitations of Accreditation

- (a) The independent auditors and auditing firms (if applicable) of companies under Groups A and B shall be both accredited by the Commission in accordance with this Rule.
- (b) For companies under Group C, the accreditation of the auditing firm shall be sufficient. However, an individual independent auditor shall be accredited by the Commission as such.
- (c) Financial statements filed with the Commission shall be the primary responsibility of the reporting company; hence, the fairness of the representations made therein is the company's responsibility. The independent auditor's responsibility for the financial statements required to be filed with the Commission shall be confined to the expression of his opinion, or lack thereof, on such statements which he has examined. Such opinion shall however, be supported by sufficient audit evidence.
- (d) The Commission shall not be liable for any liability or loss that may arise from the selection of the said accredited independent auditor and/or auditing firm engaged by a corporation for regular audit.
- (e) The accreditation of an independent auditor and/or auditing firm shall expire or be automatically delisted after three (3) years from the date of approval of the accreditation, unless an application for its renewal is filed not later than thirty (30) business days before its expiration;
- (f) Accreditation under Group A shall be considered a general accreditation which shall allow the independent auditor to also audit companies under Groups B, C and D. Independent auditors with Group B accreditation can likewise audit companies under Groups C and D. Accordingly, Group C accredited independent auditors are allowed to audit Group D companies.

(iv) Accreditation Requirements for Individual Independent Auditors or Signing Partners

- (a) General requirements
 - (1) The applicant shall be accredited with the BOA;
 - (2) At the time of application, the applicant shall have at least five (5) years experience in external audit. The audit experience shall have been acquired as an in-charge, manager or partner or its equivalent;
 - (3) The applicant shall have adequate policies and procedures related to the elements of a system of quality control provided for under Philippine Standard on Auditing No. 220 (Quality Control for an Audit of Financial Statements),

Philippine Standard on Quality Control No. 1 (Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, Other Assurance and Related Services Engagements), and their amendments. These shall be reflected in his Quality Assurance Manual;

(b) Specific Requirements

- (1) The applicant shall have sufficient knowledge on the regulatory requirements, operations and functions of companies under Group A, B or C for which he is applying for accreditation;
- (2) He shall have a total of 60 units of trainings and seminars on the following topics within the last 3 years: 15 units on Philippine Financial Reporting Standards, 15 units on Philippine Standards on Auditing, 18 units on Taxation, 8 units on Professional Ethics, and 4 units on relevant laws and recent issues affecting business or other areas relevant to the practice of accountancy. The said trainings shall have been approved by the Professional Regulation Commission CPE Council or the Commission. For renewal applications, the required CPE units shall be 90 units for the last 3 years. The additional units shall be on topics relevant to the companies under the category which the auditor is accredited, e.g., Securities Regulation Code, Financing Company Act.
- (3) The quality of audit work based on the evaluation of the financial statements of clients shall be acceptable. See **Annex "68-A"** of this Rule;
- (4) At the time of application, the applicant shall have the following track record:
 - (i) For Group A applicant, he shall have had a minimum of five (5) corporate clients with total assets of at least ₱50 million each, or such amount as may be prescribed by the Commission;
 - (ii) For Group B, he shall have had a minimum of three (3) corporate clients with total assets of at least ₱20 million each, or such amount as may be prescribed by the Commission;
 - (iii) For Group C, he shall have had a minimum of three (3) corporate clients with total assets of at least ₱5 million each, or such amount as may be prescribed by the Commission;
 - (iv) For Group D, he shall have had a minimum of one (1) corporate client with total assets of at least Five Million Pesos (P5,000,000.00) or such amount as may be prescribed by the Commission, or a minimum of five (5) corporate clients regardless of the amount of total assets each.

(c) Application documents

- (1) For the initial accreditation, a notarized application form (SEC Form ExA-001) shall be submitted by the applicant to the Commission, together with the prescribed supporting documents.
- (2) The accreditation may be renewed by filing a notarized renewal application form (SEC Form ExA-001-R) together with the prescribed supporting documents. In addition to the said documents, the applicant must show proof that he is engaged or had been engaged for the audit of a company under the category that he was previously accredited for and under which he is applying for renewal.

(iv) Accreditation Requirements for Auditing Firms

- (a) The auditing firm shall be accredited with the BOA;
- (b) At the time of application, it shall have at least one (1) signing independent auditor who is accredited under the same category as the firm is applying for;
- (c) It shall have adequate policies and procedures related to the elements of a system of quality control provided for under Philippine Standard on Auditing No. 220 (Quality Control for an Audit of Financial Statements), Philippine Standard on Quality Control No. 1 (Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, Other Assurance and Related Services Engagements), and their amendments. These shall be reflected in the Quality Assurance Manual of the firm.

For Groups A or B, the highest level of quality assurance procedures within the audit firm are required in order that matters like proper consultation policies, concurring reviews and independence monitoring are in place.

Each applicant for accreditation shall submit a certification on the number and qualifications of his or the firm's personnel or staff.

(d) Application documents

- (1) For initial accreditation, a notarized application form (SEC Form AuF-002) shall be signed by the managing partner of the auditing firm and shall be submitted to the Commission together with the prescribed supporting documents.
- (2) The accreditation may be renewed by filing a notarized renewal application form (SEC Form AuF-002-R) with the supporting documents.

(v) In addition to the above-stated accreditation requirements, the Commission may prescribe through subsequent issuance, other qualifications and supporting documents as it may consider necessary to provide higher assurance on the competence and independence of auditors accredited by the Commission.

(vi) **Mutual Recognition Policy**

(i) The mutual recognition policy covering auditors of Group C companies is subject to the BSP restriction that for banks and their subsidiary and affiliate banks; quasi-banks; trust entities; non-stock savings and loan associations (NSSLAs) and their subsidiaries and affiliates engaged in allied activities; and other financial institutions which, under special laws, are subject to the BSP's consolidated supervision, only one (1) independent auditor or auditing firm shall audit their individual and consolidated financial statements.

(ii) The existing mutual recognition policy between and among financial regulators is limited to compliance by applicants with the basic qualification and documentary requirements. Special requirements of each agency must still be observed by applicant-external auditors. This is without prejudice however, to any subsequent agreement between and among the Commission and other financial regulators to centralize into one unit all of their accreditation processes and requirements.

(vii) **Operational Requirements**

(a) An accredited auditing firm or independent auditor shall not engage in any of the following non-audit services for his statutory audit clients, unless the safeguards under the Code of Ethics for CPA's are undertaken by the firm or auditor to reduce the threat to its independence:

- (1) bookkeeping or other services related to the accounting records or financial statements of the audit client;
- (2) financial information systems design and implementation;
- (3) appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- (4) actuarial services;
- (5) internal audit outsourcing services;
- (6) management functions or human resources;
- (7) broker or dealer, investment adviser, or investment banking services;
- (8) legal services and other professional services unrelated to the audit; and
- (9) any other services that the Commission may declare as not permissible.

(b) The firm and/or independent auditor shall comply with the following:

- (1) Terms of its engagement letter and its undertakings;

- (2) Philippine Standards on Auditing and Practices and other issuances of the Auditing and Assurance Standards Council and/or the Commission;
 - (3) Code of Professional Ethics which includes independence rules;
 - (4) Applicable provisions of this Rule and other relevant regulations and circulars of the Commission; and
 - (5) Other pertinent laws, rules and regulations.
- (c) The written procedure for quality assurance and monitoring of professional ethics and independence from clients which shall be submitted with the application for accreditation shall be complied with. Any change or amendment thereto shall be reported to the Commission not less than ten (10) business days prior to its effectivity. If the Commission does not comment or object to the changes or amendment within ninety (90) business days from the date of submission, the change or amendment shall be considered duly noted and shall form part of the records of such accredited firm on file with the Commission.
- (d) In relation to an on-going investigation of a regulated entity, accredited independent auditors and firms shall, upon order of the Commission, present its working papers, audit evidence and other audit related records.

(viii) **Reportorial Requirements**

- (a) A regulated entity shall report to the Commission its action on a report of its independent auditor pertaining to any item enumerated under item (c) below hereof within five (5) business days from the date the report is submitted by the independent auditor. For companies under Group A, the report shall be in a SEC Form 17-C. For companies under Groups B to C, the report shall be in the form of a letter signed by the Chairman of the Board or Chairman of the Audit Committee. For companies under Group D, the report shall be submitted to the concerned regulatory agency, copy furnished the Commission's Office of the General Accountant.
- (b) In case the regulated entity fails to submit the report required above, the independent auditor shall, within thirty (30) business days from the submission of his findings to the entity, file a report (SEC Form Au-Rep) to the Commission.
- (c) The following findings shall be disclosed to the Commission:
- (1) Any material findings involving fraud or error;
 - (2) Losses or potential losses the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the company;

(3) Any finding to the effect that the consolidated assets of the company, on a going concern basis, are no longer adequate to cover the total claims of creditors;

(4) Material internal control weaknesses which may lead to financial reporting problems.

(d) The independent auditor shall submit his findings to the client-company's audit committee or Board of Directors. The adverse findings shall be discussed by the independent auditor with the said body in order to preserve the concerns of the supervisory authority and independent auditors regarding the confidentiality of the information.

(e) The independent auditor shall document management's explanation and/or corrective action taken regarding his adverse findings. The same shall be included in the report mentioned under item (b) above.

(f) The engagement contract between the company and the independent auditor shall contain a provision that the disclosure of information by the independent auditor to the Commission shall not constitute a breach of confidentiality nor shall it be a ground for civil, criminal or disciplinary proceedings against the independent auditor.

(ix) **Rotation of External Auditors**

The independent auditors or in the case of an audit firm, the signing partner, of the aforementioned regulated entities shall be rotated after every five (5) years of engagement. A **two-year cooling off period** shall be observed in the re-engagement of the same signing partner or individual auditor.

(x) In addition to the requirements in the preceding provisions, the Commission through subsequent issuance may prescribe other obligations of accredited external auditors as it may consider necessary to improve transparency, audit quality and independence of external auditors.

C. Independence of Auditors

The term independent auditor as used in the foregoing paragraph refers to an auditor who fully meets the requirements of independence as provided for in the Code of Ethics for Professional Accountants in the Philippines and in this Rule.

D. Engagement of Independent Auditors

(i) The company through its Board of Directors or Audit Committee, if applicable, shall conduct due diligence in confirming the personal identification and professional qualifications of the independent auditor whose services it will engage as independent auditor.

- (ii) Prior to engagement, the company shall require the independent auditor to present a copy of his/her professional license from the Professional Regulation Commission (PRC) and the Certificate of Accreditation issued to him/her by the Board of Accountancy (BOA) as sole independent auditor or to the auditing firm if he is a partner thereof.
- (iii) The company shall confirm the authenticity of the BOA Certificate of Accreditation by checking the latest list of accredited practitioners issued by the BOA.
- (iv) In addition to above, regulated entities shall observe the following procedures prior to the engagement of an independent auditor:
 - (a) The company shall require the presentation of the Commission's Certificate of Accreditation issued to the independent auditor and its auditing firm, if applicable. The level of accreditation (Group A to D) indicated in the said certificate shall be at least equivalent to the company's classification under this Rule;
 - (b) The authenticity of the said certificate shall be verified against the official list of accredited auditors and firms.
- (v) Preliminary meetings with the management and the exit conference shall be attended to personally by the independent auditor or by the handling partner or engagement manager, in case of a firm.
- (vi) A complete documentation of the foregoing requirements shall be retained by the company. The independent auditor's file with the company shall include a copy of his/her PRC license, BOA Accreditation Certificate, Commission's Certificate of Accreditation (if applicable), engagement contract and minutes of conference with the auditors, among others.

E. Audit Reports of Independent Auditors

- (i) The auditor's report shall: (A) be dated; (B) be signed by the certifying independent auditor; (C) identify the financial statements covered by the report; (D) state the signing accountant's License, Tax Identification and PTR numbers, and registration number with BOA including its expiration date; (E) state the complete mailing address of the client and the auditor; (F) in the case of an auditing firm, the certifying partner shall sign his own signature and shall indicate that he is signing for the firm, the name of which is printed the report.
- (ii) The auditor's report of a company mentioned under paragraph (B)(i) of this section shall likewise indicate the signing auditor/partner's accreditation number, category and expiration of accreditation. In case of an auditing firm, the same information with respect to the accreditation of the firm shall be indicated.
- (iii) The auditor's report shall state whether the examination was made in accordance with Philippine Standards on Auditing.

- (iv) The auditor's report shall state clearly the opinion of the independent auditor on the fairness of presentation in conformity with the prescribed financial reporting framework for the company.
- (v) Unless exempted under sub-paragraph (viii) below, the external auditor of a company which has incurred a capital deficiency, shall provide in the audit report an emphasis paragraph indicating the following information:
 - (a) The fact that the company has incurred a capital deficiency that raises an issue on its going concern status;
 - (b) A brief discussion of a concrete plan of the company to address the capital deficiency and reference to the note to financial statements that provides a complete disclosure of the said plan;
 - (c) A statement that the auditor conducted sufficient audit procedures to verify the validity of the aforementioned plan.
- (vi) In case the company fails to present to the external auditor a concrete plan or sufficient supporting documents to address the capital deficiency, the auditor shall provide an emphasis paragraph indicating that the company is no longer a going concern and should use liquidation basis in the preparation of its financial statements.
- (vii) The independent auditor shall likewise consider other instances, e.g., loss of major market/customers or ban of major product, which would raise an issue on going concern status of the company and that, shall require an emphasis paragraph in his report as required under sub-paragraph (v) above.
- (viii) The requirement under sub-paragraph (v) above shall not apply to a company that incurred a capital deficiency due to any of the following reasons:
 - (a) The entity is at pre-operating stage and has incurred capital deficiency due to higher pre-operating expenses than its initial capitalization. Projected financial statements indicate that it will generate net income once it starts commercial operations;
 - (b) Significant losses incurred in prior years but has generated positive results (net income) from operations over the current period due to developments in the business or regularization of its operation;
 - (c) An entity has incurred capital deficiency during the current period only due to a significant adjustment arising from the adoption of new financial reporting framework or occurrence of non-recurring transaction for the period;
 - (d) Such other cases which the Commission may consider as valid ground for considering the company as a going concern.

Any company covered by any of above exemptions shall provide in Note 1 of its audited financial statements a discussion on the reason for its capital deficiency and a concrete plan to address the same.

F. Supplemental Written Statement of Auditor

- (i) For stock corporations filing under Part I of this Rule (and therefore not covered by Part II), their independent auditors shall issue a supplemental written statement as prescribed under **Annex 68-B** of this Rule.
- (ii) Such statement may be incorporated in the report accompanying the Income Tax Return, which is required to be submitted with the BIR
- (iii) To support the above statement, the auditor may undertake the audit procedures he deems necessary, such as the following:
 - (a) Obtain a certification from the issuer's corporate secretary on the number of stockholders and their corresponding shareholdings; or
 - (b) Inspect the stock and transfer book and conduct the tests needed to validate their entries and balances.

4. OTHER DOCUMENTS TO BE FILED WITH THE FINANCIAL STATEMENTS

The following documents shall be filed with the annual audited financial statements and in the interim financial statements, if required herein:

A. Non-stock and non-profit organizations

A schedule showing the nature and amount of each items comprising the total receipts and disbursements according to sources and activities (e.g. pursuant to primary purpose or commercial activity);

B. Foundations

A sworn statement of the foundation's President and Treasurer on the following:

- (i) Specific sources of funds;
- (ii) Application of funds with the following information on activities accomplished, on-going and planned:
 - (a) Complete name, address and contact number of project officer-in-charge;
 - (b) Complete address and contact number of project office.
- (iii) As supporting documents to the above information, copies of the certifications from the Office of the Mayor or the Head of either the Department of Social Welfare and Development or Department of Health, on the existence of the subject program or activity in the locality on which it exercises jurisdiction.

C. Issuers of securities to the public, and stock corporations with unrestricted retained earnings in excess of 100% of paid-in capital stock

A Reconciliation of Retained Earnings Available for Dividend Declaration which shall present the prescribed adjustments as indicated in **Annex 68-C** of this Rule.

D. All secondary licensees of the Commission (financing companies, broker dealer of securities and underwriters) and public companies

A schedule showing financial soundness indicators in two comparative periods, as follows: (i) current/liquidity ratios; (ii) solvency ratios, debt-to-equity ratios; (iii) asset-to-equity ratios; (iv) interest rate coverage ratios; (v) profitability ratios; (vi) other relevant ratios as the Commission may consider necessary.

This schedule shall be submitted with the annual audited financial statements and if applicable, with the company's interim financial statements.

E. Financing companies

A schedule showing the following information two comparative periods: (i) ratio or percentage of total real estate investments to total assets; (ii) total receivables to total assets; (iii) total DOSRI receivables to net worth; (iv) amount of receivables from a single corporation to total receivables.

This schedule shall be submitted with the annual audited financial statements and if applicable, with the company's interim financial statements.

F. Mutual funds

A schedule showing the following information two comparative periods: (i) percentage of investment in a single enterprise to net asset value; (ii) total investment of the fund to the outstanding securities of an investee company; (iii) total investments in liquid or semi-liquid assets to total assets; (iv) total operating expenses to total net worth; (v) total asset to total borrowings.

This schedule shall be submitted with the annual audited financial statements and if applicable, with the company's interim financial statements.

G. Investment houses

Schedules showing the following information:

Details (per issue) of underwriting activities for the year

- (i) Name of the issuer-client;
- (ii) Nature of commitment;
- (iii) Amount of issue;
- (iv) Underwriting and other fees generated;
- (v) Basis of computation for each.

Transactions with DOSRI

- (i) Name of related party;
- (ii) Description of transaction;
- (iii) Total volume/amount of transaction for the year;
- (iv) Terms and conditions, such as maturity date, security, mode of payment;
- (v) If secured, carrying amount of asset used as collateral.

H. Listed companies and investment houses that are part of a conglomerate or group of companies

A map showing the relationships between and among the company and its ultimate parent company, middle parent, subsidiaries or co-subsidiaries, and associates.

I. Listed companies that recently offered securities to the public (either as initial or additional offering)

A schedule showing the following amounts:

- (i) Gross and net proceeds as disclosed in the final prospectus;
- (ii) Actual gross and net proceeds;
- (iii) Each expenditure item where the proceeds was used; and
- (iv) Balance of the proceeds as of end of reporting period.

This schedule shall be submitted with the annual audited financial statements and if applicable, with the company's interim financial statements.

J. Large and/or publicly-accountable entities

A schedule, in table format, showing in the first column a list of all the effective standards and interpretations under the PFRS as of year-end, and an indication opposite each in the second column on whether it is "Adopted", "Not adopted" or "Not applicable".

K. Such other schedules or components that the Commission may require through subsequent pronouncements.

5. COMPARATIVE FINANCIAL STATEMENTS

A. The financial statements to be filed with the Commission shall be presented in comparative form. The figures for the most recently ended fiscal year may be presented at the right portion immediately after the accounts name, followed by the figures for the last preceding year.

B. Balance Sheet or Statement of Financial Position

The audited balance sheets or statements of financial position shall be as of the end of each of the two most recently completed fiscal years.

C. Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity

If practicable, these statements shall be for each of the two most recent completed fiscal years or such shorter period as the company (including predecessors) has been in existence.

- D. An explanation through a note or otherwise shall be made explaining the reasons for filing a single-period statement, e.g. it is the first period of a new company.
- E. When financial statements are presented on a comparative basis for more than the periods required, the auditor's report need not extend to prior periods for which the financial statements are not required to be audited.
 - (i) If the financial statements of the prior year were not audited, such statements shall be marked prominently as "UNAUDITED." In addition, the auditor shall disclose this in an "other matter" paragraph in the auditor's report.
 - (ii) If the financial statements of a prior-period have been examined by another independent certified public accountant whose report is not presented, the statements shall be marked to disclose prominently that they are not being reported upon by the current auditor. If the auditor of the financial statements for such periods did not give an unqualified opinion on such statements, the auditor for the current year shall indicate in an "other matter" paragraph of his report (I) that the financial statements of the prior-period were examined by other auditors, (II) the date of their report (III) the type of opinion expressed by the predecessor auditor and (IV) the substantive reasons it was qualified.

PART II

ADDITIONAL REQUIREMENTS FOR ISSUERS OF SECURITIES TO THE PUBLIC

1. APPLICATION

In addition to those set forth under Part I of this Rule, this Part II (together with subsequent official pronouncements, interpretations and rulings on accounting and reporting matters, which may be issued by the Commission from time to time) provides for the special requirements on the financial statements required to be filed with the Commission by corporations which filed registration statements under Section 12 of the Code or which meet the following criteria with respect to the requirements to file reports:

- A. Issuer which has sold a class of their securities pursuant to a registration under Section 12 of the Code;
- B. Issuer with a class of securities listed for trading on an Exchange; and
- C. Issuer with assets of at least P50,000,000.00 or such other amount as the Commission shall prescribe and has two hundred (200) or more holders each holding at least one hundred (100) shares of a class of its equity securities as of the first day of the issuer's fiscal year.

2. AUDITOR'S OPINION ON FINANCIAL STATEMENTS

- A. Audited financial statements of companies covered by Part II of this Rule with an auditor's opinion other than unqualified because of deviation(s) from the required financial reporting framework or due to a scope limitation imposed by the company, shall be considered a violation of this Rule.
- B. For listed banks, a qualified opinion from their independent auditors shall not be considered a non-compliance with this Rule if the qualification pertains to a deviation from the financial reporting framework adopted by the Bangko Sentral ng Pilipinas as part of its prudential reporting requirements.
- C. The company shall, if warranted, after due notice and hearing, be subject to the applicable penalties and shall be required to submit its amended financial statements to address the modification or limitation.

3. RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Statement of Management's Responsibility of companies covered under Part II of this Rule shall, in addition to the requirements under paragraph (2)(B) of Part I, be signed under oath.

4. PERIODIC PRESENTATION

The periodic presentation and coverage of financial statements accompanying the registration statements (SEC Form 12-1), annual reports (SEC Form 17-A) and management reports attached to the information statements (SEC Form 20-IS) shall be made in accordance with the requirements of this section.

A. Registration Statements

(i) Consolidated Balance Sheets or Statement of Financial Position

- (a) If the registrant has been in existence for less than one fiscal year, there shall be filed an audited balance sheet or statement of financial position as of a date within 135 days of the date of filing the registration statement.
- (b) If a filing on SEC Form 12 -1 is made within one hundred five (105) days after the end of the most recently ended fiscal year, the filing shall include audited consolidated balance sheets or statements of financial position as of the end of each of the two (2) years prior to the most recently ended fiscal year and a separate interim balance sheet as of the end of the most recently ended fiscal year.
- (c) If a filing on SEC Form 12 -1 is made more than one hundred five (105) days but not more than one hundred thirty five (135) days after the end of the most recently ended fiscal year, the filing

shall include audited consolidated balance sheets or statements of financial position as of the end of each of the two most recently ended fiscal years.

- (d) If a filing on SEC Form 12 -1 is made more than one hundred thirty five (135) days but not more than two hundred twenty five (225) days after the end of the most recently ended fiscal year, the filing shall include audited consolidated balance sheets or statements of financial position as of the end of each of the two most recently ended fiscal years and a separate interim balance sheet or statement of financial position as of the end of the first fiscal quarter subsequent to the most recent fiscal year end.
- (e) If a filing on SEC Form 12 -1 is made more than two hundred twenty five (225) days but not more than three hundred fifteen (315) days after the end of the most recently ended fiscal year, the filing shall include audited consolidated balance sheets or statements of financial position as of the end of each of the two most recently ended fiscal years and a separate interim balance sheet or statement of financial position as of the end of the second fiscal quarter subsequent to the most recent fiscal year end.
- (f) If a filing on Form 12 -1 is made more than three hundred fifteen (315) days after the end of the most recently ended fiscal year, the filing shall include audited consolidated balance sheets or statements of financial position as of the end of each of the two most recently ended fiscal years and a separate interim balance sheet as of the end of the third fiscal quarter subsequent to the most recent fiscal year end.

(ii) Consolidated Statement of Comprehensive Income

- (a) There shall be filed for the registrant and its subsidiaries consolidated and its predecessors, audited statement of comprehensive Income in a comparative format for each of the three most recent completed fiscal years or such shorter period as the registrant (including predecessors) has been in existence.
- (b) In addition, statement of comprehensive Income shall be provided for any interim period between the latest audited balance sheet or statement of financial position and the date of the most recent interim balance sheet being filed, and for the corresponding period of the preceding year.

(iii) Consolidated Statement of Changes in Equity

- (a) There shall be filed for the registrant and its consolidated subsidiaries and its predecessors, audited statements of changes in equity in comparative format for each of the three most recent completed fiscal years or such shorter period as the registrant (including predecessors) has been in existence.
- (b) In addition, statements of changes in equity shall be provided for any interim period between the latest audited balance sheet or

statement of financial position and the date of the most recent interim balance sheet being filed, and for the corresponding period of the preceding year.

(iv) Consolidated Statement of Cash Flows

- (a) There shall be filed for the registrant and its subsidiaries consolidated and its predecessors, audited statements of cash flows in comparative format for each of the three most recent completed fiscal years or such shorter period as the registrant (including predecessors) has been in existence.
- (b) In addition, consolidated statement of cash flows shall be provided for any interim period between the latest audited balance sheet and the date of the most recent interim balance sheet being filed, and for the corresponding period of the preceding year.

(v) Interim Financial Statements

- (a) The interim financial statements mentioned in the preceding subparagraphs need not be audited. However, in case of an initial public offering of securities by a company, such interim financial statements shall be audited by an accredited independent auditor (Group A category) of the Commission, and shall be complete in details as in a full fiscal year financial report.
- (b) In lieu of the audited interim financial statements, the submission of reviewed interim financial statements shall be acceptable subject to the following conditions:
 - (1) The public offering shall be made in the Philippines and in other countries;
 - (2) Interim reviewed financial statements are allowed under the rules of the said foreign countries;
 - (3) The age requirement for financial statements under this Rule shall be complied with; and
 - (4) The submission of audited interim financial statements will not be practical due to time constraints.

The review by an independent auditor of the financial statements shall be in accordance with the applicable standards.

(vi) Age Requirement for Financial Statements

- (a) At the time a registration statement on SEC Form 12-1 is to become effective, the financial information therein shall be as of a date within 135 days from effective date or such longer period which the Commission may allow upon favorable consideration of a written request of the registrant. The factors that may be considered in granting the request include the time constraints and the significant circumstances surrounding the given proposed issue.
- (b) Except as required under sub-paragraph (v) above, the interim financial statements which are necessary to keep the registration statement current, need not be audited but shall comply with the

required form and contents under PAS 34 on Interim Financial Statements or any of its amendments.

B. Annual Reports (SEC Form 17-A)

- (i) There shall be filed consolidated audited balance sheets or statements of financial position (except if not applicable), in comparative format, as of the end of each of the two most recent completed fiscal years.
- (ii) The Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity shall be in comparative format for the three most recent completed fiscal years or such shorter period as the company (including predecessors) has been in existence.

C. Information Statements (SEC Form 20-IS)

- (i) There shall be filed consolidated audited balance sheets or statements of financial position (except if not applicable), in comparative format, as of the end of each of the two most recent completed fiscal years. If the meeting date is beyond one hundred thirty five (135) days from the company's fiscal year end, a separate interim unaudited balance sheet or statement of financial position as of the end of the most recent quarter with comparative figures as of the end of the preceding fiscal year shall likewise be filed.
- (ii) The Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity shall be in comparative format for the three most recent completed fiscal years or such shorter period as the company (including predecessors) has been in existence. If the meeting date is beyond one hundred thirty five (135) days from the company's fiscal year end, separate interim unaudited statements for the most recent quarter with comparative figures for period ending of the same quarter of the preceding year shall likewise be filed.

5. APPLICABILITY WITH OTHER REPORTS

The schedules provided under Annex 68-E (Schedules) are not required in management reports to be distributed to shareholders as part of the information statement.

6. ADDITIONAL DISCLOSURE REQUIREMENTS

A. Balance Sheet or Statement of Financial Position

In addition to the disclosures required under the PFRS and except as otherwise permitted by the Commission, the various line items and certain additional disclosures set forth in **Annex 68-D** if applicable, shall appear on the face of the balance sheets or related notes filed by the persons to whom this Rule pertains.

B. Statement of Comprehensive Income

In addition to the disclosures required under the PFRS and except as otherwise permitted by the Commission, the various line items and certain additional disclosures set forth in **Annex 68-D** if applicable, shall

appear on the face of the Statement of Comprehensive Income or related notes filed by the persons to whom this Rule pertains.

C. General Notes to Financial Statements

In addition to the disclosures required under the PFRS and except as otherwise permitted by the Commission, the various line items and certain additional disclosures set forth in **Annex 68-D** if applicable, shall appear on the face of the financial statements or related notes filed by the persons to whom this Rule pertains.

D. Schedules

Please see **Annex 68-E** for the required form and content.

7. INTERIM FINANCIAL STATEMENTS

The following additional instructions shall be applicable for purposes of preparing interim financial statements:

- A. If appropriate, the statement of comprehensive income shall show earnings per share and dividends declared per share applicable to common stock. The basis of the earnings per share computation shall be stated together with the number of shares used in the computation. For mutual funds or investment companies, the amount of Net Asset Value per Share (NAVPS) and the basis for its computation shall likewise be disclosed in the balance sheet or the notes to financial statements.
- B. If, during the most recent interim period presented, the registrant or any of its consolidated subsidiaries entered into a business combination treated for accounting purposes as a pooling of interests, the interim financial statements for both the current year and the preceding year shall reflect the combined results of the pooled businesses. Supplemental disclosure of the separate results of the combined entities for the periods prior to the combination shall be given, with appropriate explanations.
 - (i) Where a material business combination accounted for as a purchase has occurred during the current fiscal year, pro forma disclosure shall be made of the results of operations for the current year up to the date of the most recent interim balance sheet provided (and for the corresponding period in the preceding year) as though the companies had combined at the beginning of the period being reported on. This pro forma information shall, as minimum, show revenues, income before extraordinary items and the cumulative effect of accounting changes, including such income on a per share basis, and net income per share.
 - (ii) Where the registrant has disposed of any significant segment of its business, revenues and net income--total and per share--for all periods shall be disclosed.
 - (iii) In addition to meeting the reporting requirements specified by existing standards for accounting changes, the registrant shall state

the date of any material accounting change and the reasons for making it.

- (iv) Any material retroactive prior period adjustment made during any period covered by the interim financial statements shall be disclosed, together with the effect thereof upon net income--total and per share--of any prior period included and upon the balance of retained earnings. If results of operations for any period presented have been adjusted retroactively by such an item subsequent to the initial reporting of such period, similar disclosure of the effect of the change shall be made.
 - (v) Any unaudited interim financial statements furnished shall reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. A statement to that effect shall be included. Such adjustments shall include, for example, appropriate estimated provisions for bonus and profit sharing arrangements normally determined or settled at year-end. If all such adjustments are of a normal recurring nature, a statement to that effect shall be made; otherwise, there shall be furnished information describing in appropriate detail the nature and amount of any adjustments other than normal recurring adjustments entering into the determination of the results shown.
- C. Periods for which interim financial statements are to be provided in registration forms are stated in Paragraph 4 of Part II this Rule. For filings on Form 17-Q, financial statements shall be provided as set forth below:
- (i) An interim balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year. The balance sheet as of the end of the preceding fiscal year may be condensed to the same degree as the interim balance sheet provided. An interim balance sheet as of the end of the corresponding fiscal quarter of the preceding fiscal year need not be provided unless necessary for an understanding of the impact of seasonal fluctuations on the registrant's financial condition.
 - (ii) Interim statements of income shall be provided for the current interim period and cumulatively for the current financial year to date, with comparative Statement of Comprehensive Income for the comparable interim periods (current and year -to-date) of the immediately preceding financial year.
 - (iii) Statement showing changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year; and
 - (iv) Interim statements of cash flows shall be provided for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

- (v) For registrants whose business is highly seasonal, financial information for the twelve months ending on the interim reporting date and comparative information for the prior twelve-month period may be useful. They may provide interim statements of income and of cash flows for the twelve month period ended during the most recent quarterly period and for the corresponding preceding period in lieu of the year-to-date statements specified in (ii) and (iii) above.
- D. Filing of other interim financial information in certain cases - The Commission may, upon the informal written request of the registrant, and where consistent with the protection of investors, permit the omission of any of the interim financial information herein required or the filing in substitution therefor of appropriate information of comparable character. The Commission may also by informal written notice require the filing of other information in addition to, or in substitution for, the interim information herein required in any case where such information is necessary or appropriate for an adequate presentation of the financial condition of any person for which interim financial information is required, or whose financial information is otherwise necessary for the protection of investors.

8. PRO FORMA FINANCIAL INFORMATION AND FINANCIAL STATEMENTS OF BUSINESS ACQUIRED OR TO BE ACQUIRED

A. Applicability

- (i) This section prescribes the requirements in a report of an issuer or in a registration statement for the registration of securities for initial public offering or follow-on offering of corporations.
- (ii) In addition to the audited financial statements of business acquired, the pro forma financial information shall be submitted with the report or with the registration statement if any of the following transactions occurs after the date of the most recent balance sheet or during the interim period:
 - (a) Significant business combination accounted for as a purchase has occurred (for purposes of this Rule, the term "purchase" encompasses the purchase of an interest in a business accounted for by the equity method);
 - (b) Consummation of a significant business combination that has occurred or is probable;
 - (c) Securities being registered by the registrant are to be offered to the security holders of a significant business to be acquired or the proceeds from the offered securities will be applied directly or indirectly to the purchase of a specific significant business;
 - (d) The disposition of a significant portion of a business either by sale, abandonment or distribution to shareholders by means of a spin-off, split-up or split-off has occurred or is probable and such

disposition is not fully reflected in the financial statements of the registrant included in the filing;

- (e) Acquisition of one or more real estate operations or properties which in the aggregate are significant, or since the date of the most recent balance sheet filed has acquired or proposes to acquire one or more operations or properties which in the aggregate are significant.
 - (f) The registrant previously was a part of another entity and such presentation is necessary to reflect operations and financial position of the registrant as an autonomous entity; or
 - (g) Consummation of other events or transactions has occurred or is probable for which disclosure of pro forma financial information would be material to investors.
- (iii) If the acquisition is not significant but meets certain conditions specified in the definition of "significant subsidiary" under paragraph 1(B)(viii) of Part I of this Rule, the most recent audited financial statements of the business acquired shall be submitted with the report of the issuer:
- (a) If the aggregate impact of the individually insignificant businesses acquired since the date of the most recent audited balance sheet filed for the registrant exceeds twenty percent (20%), financial statements covering at least the substantial majority of the businesses acquired, combined if appropriate, shall be furnished. Such financial statements shall be for at least the most recent fiscal year and any interim periods.
 - (b) If any of the conditions exceeds ten percent (10%), but none exceed twenty percent (20%), financial statements shall be furnished for at least the most recent fiscal year and any interim periods.
 - (c) If any of the conditions exceeds twenty percent (20%) but none exceed forty percent (40%), financial statements shall be furnished for at least the two most recent fiscal years and interim periods.

Provided that, the foregoing percentages may be reduced or increased by the Commission as circumstances may warrant through appropriate issuances.

- (iv) A business combination or disposition of a business shall be considered significant if:
 - (a) A comparison of the most recent annual financial statements of the business acquired or to be acquired and the registrant's most recent annual consolidated financial statements filed at or prior to the date of acquisition indicates that the business would be a significant subsidiary pursuant to the definition specified in Paragraph 1(B)(viii) of Part I of this Rule.

- (b) The business to be disposed of meets the definition of a significant subsidiary in Paragraph 1 (b)(viii) of Part I of this Rule.
- (v) The requirement under paragraph (A)(ii) above shall not apply in those circumstances when, for purposes of a more meaningful presentation, a transaction consummated after the balance-sheet date is reflected in the historical financial statements.
- (vi) When consummation of more than one transaction has occurred or is probable during a fiscal year, the tests of significance in (iii) above shall be applied to the cumulative effect of those transactions. If the cumulative effect of the transactions is significant, pro forma financial information shall be presented.
- (vii) For purposes of this Rule, the term business shall be evaluated in light of the facts and circumstances involved and whether there is sufficient continuity of the acquired entity's operations prior to and after the transactions so that disclosure of prior financial information is material to an understanding of future operations. A presumption exists that a separate entity, a subsidiary, or a division is a business. However, a lesser component of an entity may also constitute a business. Among the facts and circumstances which shall be considered in evaluating whether an acquisition of a lesser component of an entity constitutes a business are the following:
 - (a) Whether the nature of the revenue-producing activity of the component will remain generally the same as before the transaction; or
 - (b) Whether any of the following attributes remain with the component after the transaction:
 - (1) Physical facilities.
 - (2) Employee base.
 - (3) Market distribution system.
 - (4) Sales force.
 - (5) Customer base.
 - (6) Operating rights.
 - (7) Production techniques, or
 - (8) Trade names.
- (viii) This Rule does not apply to transactions between a parent company and its wholly -owned subsidiary.

B. Pro forma Financial Information

(i) Objective

Pro forma financial information shall provide investors with information about the continuing impact of a particular transaction by showing how it might have affected historical financial statements if the transaction had been consummated at an earlier time. Such statements shall assist investors in analyzing the future prospects of the registrant because they illustrate the possible scope of the change in

the registrant's historical financial position and results of operations caused by the transaction.

(ii) Form and content

- (a) Pro forma financial information shall consist of a pro forma condensed balance sheet, pro forma condensed statements of income, cash flow statements, statements of changes in equity and accompanying explanatory notes. In certain circumstance (i.e., where a limited number of pro forma adjustments are required and those adjustments are easily understood), a narrative description of the pro forma effects of the transactions may be furnished in lieu of the statements described herein.
- (b) The pro forma financial information shall be accompanied by an introductory paragraph which briefly sets forth a description of (I) the transaction, (II) the entities involved, and (III) the periods for which the pro forma information is presented. In addition, an explanation of what the pro forma presentation shows shall be set forth.
- (c) The pro forma condensed financial information need only include major captions (i.e., the numbered captions) prescribed by the applicable paragraphs of this Regulation. Where any major balance sheet caption is less than 10 percent of total assets, the caption may be combined with others. When any major income statement caption is less than 15 percent of average net income of the registrant for the most recent three fiscal years, the caption may be combined with others. In calculating average net income, a loss year shall be excluded unless losses were incurred in each of the most recent three years, in which case the average loss shall be used for purposes of this test. Notwithstanding these tests, "minimal" amounts need not be shown separately.
- (d) Pro forma statements shall ordinarily be in columnar form showing condensed historical statements, pro forma adjustments, and the pro forma results.
- (e) The pro forma condensed Statement of Comprehensive Income shall disclose income (loss) from continuing operations before nonrecurring charges or credits directly attributable to the transaction. Material nonrecurring charges or credits and related tax effects which result directly from the transaction and which will be included in the income of the registrant within the 12 months succeeding the transaction shall be disclosed separately. It shall be clearly indicated that such charges or credits were not considered in the pro forma condensed Statement of Comprehensive Income. If the transaction for which pro forma financial information is presented relates to the disposition of a business, the pro forma results shall give effect to the disposition and be presented under an appropriate caption.
- (f) Pro forma adjustments related to the pro forma condensed Statement of Comprehensive Income shall be computed assuming the transaction was consummated at the beginning of

the fiscal year presented and shall include adjustments which give effect to events that are (I) directly attributable to the transaction, (II) expected to have a continuing impact on the registrant, and (III) factually supportable. Pro forma adjustments to the pro forma condensed balance sheet shall be computed assuming the transaction was consummated at the end of the most recent period for which a balance sheet is required by Paragraph 4 of this Rule and shall include adjustments which give effect to events that are directly attributable to the transaction and factually supportable regardless of whether they have a continuing impact or are nonrecurring. All adjustments shall be referenced to notes which clearly explain the assumptions involved.

- (g) Historical primary and fully diluted per share data based on continuing operations (or net income if the registrant does not report either discontinued operations, extraordinary items, or the cumulative effect of accounting changes) for the registrant, and primary and fully diluted pro forma per share data based on continuing operations before nonrecurring charges or credits directly attributable to the transaction shall be presented on the face of the pro forma condensed Statement of Comprehensive Income together with the number of shares used to compute the per share data. For transactions involving the issuance of securities, the number of shares used in the calculation of the pro forma per share data shall be based on the weighted average number of shares outstanding during the period adjusted to give effect to shares subsequently issued or assumed to be issued had the particular transaction or event taken place at the beginning of the period presented. If a convertible security is being issued in the transaction, consideration shall be given to the possible dilution of the pro forma per share data.
- (h) If the transaction is structured in such a manner that significantly different results may occur, additional pro forma presentations shall be made which give effect to the range of possible results.

* Instructions*

- (1) The historical statements of income used in the pro forma financial information shall not report operations of a segment that has been discontinued, extraordinary items, or the cumulative effects of accounting changes. If the historical statement of income includes such items, only the portion of the Statement of Comprehensive Income through "income from continuing operations" (or the appropriate modification thereof) shall be used in preparing pro forma results.
- (2) For a purchase transaction, pro forma adjustments for the Statement of Comprehensive Income shall include amortization of goodwill, depreciation and other adjustments based on the allocated purchase price of net assets acquired. In some transactions, such as in financial institution acquisitions, the purchase adjustments may include significant discounts of the historical cost of the acquired assets to their fair value at the acquisition date. When such adjustments will result in a significant effect on earnings (losses) in periods immediately subsequent to the acquisition which will be progressively eliminated over a relatively short period, the effect of

the purchase adjustments on reported results of operations for each of the next five years shall be disclosed in a note.

- (3) For a disposition transaction, the pro forma financial information shall begin with the historical financial statements of the existing entity and show the deletion of the business to be divested along with the pro forma adjustments necessary to arrive at the remainder of the existing entity. For example, pro forma adjustments would include adjustments of interest expense arising from revised debt structures and expenses which will be or have been incurred on behalf of the business to be divested such as advertising costs, executive salaries and other costs.
- (4) For entities which were previously a component of another entity, pro forma adjustments shall include adjustments similar in nature to those referred to in Instruction 3 above. Adjustments may also be necessary when charges for corporate overhead, interest, or income taxes have been allocated to the entity on a basis other than one deemed reasonable by management.
- (5) Adjustments to reflect the acquisition of real estate operations or properties for the pro forma Statement of Comprehensive Income shall include a depreciation charge based on the new accounting basis for the assets, interest financing on any additional or refinanced debt, and other appropriate adjustments that can be factually supported. See also Instruction 4 above.
- (6) When consummation of more than one transaction has occurred or is probable during a fiscal year, the pro forma financial information may be presented on a combined basis; however, in some circumstances (e.g. depending upon the combination of probable and consummated transactions, and the nature of the filing) it may be more useful to present the pro forma financial information on a disaggregated basis even though some or all of the transactions would not meet the tests of significance individually. For combination presentations, a note shall explain the various transactions and disclose the maximum variances in the pro forma financial information which would occur for any of the possible combinations. If the pro forma financial information is presented in a proxy or information statement for purposes of obtaining shareholder approval of one of the transactions, the effects of that transaction shall be clearly set forth.
- (7) Tax effect, if any, of pro forma adjustments normally shall be calculated at the statutory rate in effect during the periods for which pro forma condensed Statement of Comprehensive Income are presented and shall be reflected as a separate pro forma adjustment.

(iii) Periods to be presented

- (a) A pro forma condensed balance sheet as of the end of the most recent period for which a consolidated balance sheet of the registrant is required shall be filed unless the transaction is already reflected in such balance sheet.
- (b) Pro forma condensed statements of income shall be filed for only the most recent fiscal year and for the period from the most recent fiscal year end to the most recent interim date for which a balance sheet is required. A pro forma condensed Statement of Comprehensive Income may be filed for the corresponding interim period of the preceding fiscal year. A pro forma condensed Statement of Comprehensive Income shall not be filed when the

historical Statement of Comprehensive Income reflects the transaction for the entire period.

- (c) For a business combination accounted for as a pooling of interests, the pro forma Statement of Comprehensive Income (which are in effect a restatement of the historical Statement of Comprehensive Income as if the combination had been consummated) shall be filed for all periods for which historical Statement of Comprehensive Income of the registrant are required.
- (d) Pro forma condensed statements of income shall be presented using the registrant's fiscal year end. If the most recent fiscal year end of any other entity involved in the transaction differs from the registrant's most recent fiscal year end by more than 93 days, the other entity's Statement of Comprehensive Income shall be brought up to within 93 days of the registrant's most recent fiscal year end, if practicable. This updating shall be accomplished by adding subsequent interim period results to the most recent fiscal year-end information and deducting the comparable preceding year interim period results. Disclosure shall be made of the periods combined and of the sales and revenues and income for any periods which were excluded from or included more than once in the condensed pro forma Statement of Comprehensive Income.
- (e) Whenever unusual events enter into the determination of the results shown for the most recently completed fiscal year, the effect of such unusual events shall be disclosed and consideration shall be given to presenting a pro forma condensed Statement of Comprehensive Income for the most recent twelve-month period in addition to those required in sub-paragraph (d) above if the most recent twelve-month period is more representative of normal operations.
- (f) Pro forma information shall be prepared primarily by applying pro forma adjustments to historical financial information. Pro forma adjustments shall be based on management's assumptions and shall recognize all significant effects directly attributable to the transaction (or event).
- (g) Pro forma financial information shall be labeled as such to distinguish it from historical financial information. This presentation shall describe the transaction (or event) that is reflected in the pro forma financial information, the source of the historical financial information on which it is based, the significant assumptions used in developing the pro forma adjustments, and any significant uncertainties about those assumptions. The presentation also shall indicate that the pro forma financial information shall be read in conjunction with related historical financial information and that the pro forma financial information is not necessarily indicative of the results (such as financial position and results of operations, as applicable) that would have been attained had the transaction (or event) actually taken place earlier.

(iv) Attestation of Independent Auditor

The pro forma financial information that shall be submitted with the registration statement shall be accompanied by a report of an independent auditor accredited by the Commission under Group A category. The said auditor shall comply with the requirements provided under SEC Memorandum Circular No. 2, Series of 2008 (Guidelines for Reporting and Attestation on Pro Forma Financial Information) or any amendments thereto.

9. CONSOLIDATED FINANCIAL STATEMENTS

In addition to those required under the applicable financial reporting framework, the following requirements shall be complied with by companies covered by Part II of this Rule:

A. Disclosure about Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons

- (i) Summarized financial information (see definitions in paragraph 1(B)(ix) of Part I of this Rule) shall be furnished in the notes to the financial statements for each significant subsidiary not consolidated and for each 50 percent or less owned person. Notwithstanding the requirement for separate summarized financial information for each significant subsidiary, where summarized financial information of two or more majority-owned subsidiaries not consolidated are required, combined or consolidated summarized financial information of such subsidiaries may be filed subject to principles of inclusion and exclusion which clearly exhibit the financial position, cash flows and results of operations of the combined or consolidated group.

Similarly, where summarized financial information of two or more 50 percent or less owned persons are required, combined or consolidated summarized financial information of such persons may be filed subject to the same principles of inclusion or exclusion referred to above.

- (ii) Summarized financial information shall be furnished in the aggregate for (A) subsidiaries not consolidated and (B) 50 percent or less owned persons, not reported upon pursuant to (A) hereof. If in the aggregate, either subsidiary not consolidated or 50 percent or less owned persons would not constitute a significant subsidiary, it may be stated that such groupings would not constitute a significant subsidiary and summarized financial information is not required.

- B. A company covered by Part II of this Rule which has a significant foreign subsidiary or subsidiaries shall submit to the Commission copies of the financial statements of said subsidiaries.

- C. A parent company covered by Part II of this Rule shall submit consolidated audited financial statements accompanied by its separate audited financial statements which must be stamped received by the BIR or its authorized banks, unless the BIR allows an alternative proof of submission for its authorized banks (e.g., bank slips) or prohibits acceptance of the financial statements in certain cases, e.g., on-going examination.

10. PENALTIES

A. Penalties

- (i) All financial statements submitted to this Commission by entities covered by this Rule shall adhere strictly to the provisions hereof.
- (ii) Penalties, as may be prescribed by the Commission, shall be imposed on the erring company due to any of the following violations:
- (a) Material misrepresentation in the financial statements;
 - (b) Any material misstatement resulting from material deviation from the applicable financial reporting framework, such as:
 - (1) Failure to adopt the prescribed financial reporting framework or any accounting standard resulting in a material misstatement;
 - (2) Failure to disclose required information and other relevant or material information;
 - (3) Failure to submit any basic component of the financial statements, and
 - (4) Failure to present the required comparative figures.
 - (c) Failure to submit financial statements audited by a qualified independent certified public accountant;
 - (d) Failure to submit a complete Statement of Management's Responsibility;
 - (e) Failure to comply with any other requirements under Parts I or II of this Rule.
- (iii) The penalties imposable on an erring company for the violation of this Rule shall be in addition to the fine imposable due to late or incomplete filing of other parts of any report to which the financial statements are required to be attached.
- (iv) Penalties, as may be prescribed by the Commission, shall be imposed on the independent auditor or auditing firm, as the case may be, due to any of the following violations:
- (a) Failure to submit any of the reports required under paragraph 3B(vii) and 3F of Part I this Rule;
 - (b) Any material misrepresentation in the following information or documents:
 - (1) Application for accreditation;

- (2) Certifications submitted with the application;
 - (3) Any of the reports required under paragraph 3B(vii), 3E and 3F of Part I of this Rule;
-
- (v) Refusal for no valid reason, upon lawful order of the Commission, to submit requested documents in connection with an ongoing investigation. The independent auditor shall, however, been made aware of such investigation.
 - (vi) Gross negligence in the conduct of the audit or failure to comply with any of the Philippine Standards on Auditing and such other issuances of the Auditing and Assurance Standards Council and the Commission;
 - (vii) Issuance of an unqualified opinion which is not supported by full compliance by the auditee with the applicable financial reporting framework due to a material deficiency or misstatement in the financial statements;
 - (viii) Conduct of an audit despite the lack or eventual loss of independence as provided for under the Code of Professional Ethics for CPAs;
 - (ix) Conduct of any of the non-audit services for his statutory audit clients, if he has not undertaken the safeguards to reduce the threat to his independence;
 - (x) Failure to obtain from the Commission an accreditation appropriate to company-client's category under this Rule prior to engagement or during the period of audit and signing of the auditor's report.

B. Test of Materiality

The materiality of the deficiency, misrepresentation or misstatement shall be based on the tests set by the Commission in SEC Memorandum Circular No. 8, Series of 2009 (Scale of Fines for Non-Compliance with the Financial Reporting Requirements of the Commission) or any amendments thereto.

C. Re-issuance of the Financial Statements

- (i) For financial statements that may be found by the Commission to be deficient and/or misstated, it shall make a determination whether such misstatement or incompleteness is significantly material—that would necessitate the re-issuance of such financial statements.
- (ii) Corporations covered by Part II of this Rule shall not re-issue their audited financial statements without prior request from and approval by the Commission.

- (iii) An amendment or re-issuance of the financial statements shall not exonerate the company from the penalty that may be assessed by the Commission due to the material deficiency or misstatement of the original financial statements.

11. REPEALING CLAUSE

All other rules and regulations, circulars, or memoranda or any part thereof, in conflict with or contrary to this Rule or any portion hereof, are hereby repealed or modified accordingly.

12. EFFECTIVITY

Unless otherwise specified, SRC Rule 68, as amended, shall become effective for audited financial statements covering periods ending December 31, 2011 and onwards, and for interim financial statements starting the first quarter of 2012, and thereafter.

October 20, 2011, Mandaluyong City, Philippines.

TERESITA J. HERBOSA
Chairperson

MA. JUANITA E. CUETO
Commissioner

RAUL J. PALABRICA
Commissioner

MANUEL HUBERTO B. GAITE
Commissioner

ELADIO M. JALA
Commissioner

QUALITY OF AUDIT WORK OF APPLICANT-INDEPENDENT AUDITORS

1. GROUP A or B APPLICATIONS

- A. The latest audited financial statements (AFS) of the top two (2) clients of the applicant based on total assets including that of his/her large regulated entities, shall be reviewed.
- B. For Group A or B applications, the audit work of applicant shall be acceptable only if there is no material disclosure deficiency or material misstatement in the AFS of each of the applicant's clients. The number of minor disclosure deficiencies therein shall not exceed two (2) items. The level of deficiencies acceptable for Group B accreditation shall also be minor disclosure deficiencies that do not exceed five (5) items.
- C. In case the number of minor disclosure deficiencies exceeds the limit or there is a material deficiency or misstatement in the financial statements of the top two (2) clients or regulated entities, the applicant shall be recommended only for conditional Group A or B accreditation, or Group C, depending on the level of deficiency or misstatement. The probationary accreditation shall be subject to the following conditions:
 - (i) In case of renewal applications and the findings on the clients' AFS include material deficiency or misstatement, the applicant-independent auditor shall be assessed a penalty;
 - (ii) The probationary accreditation shall be effective for a period of four (4) months only from date of grant;
 - (iii) A copy of the top two (2) clients' AFS signed by the independent auditor during the said period shall be submitted to the Commission at least fifteen (15) business days before the lapse of the 4-month period;
 - (iv) The final approval of the accreditation, which shall be effective for three (3) years, shall not be granted unless the said AFS and such other clients' latest financial statements as the Commission may review, fully comply with the effective accounting standards and SRC Rule 68.
- D. The list of findings on the clients' AFS resulting from the foregoing procedures shall be referred to the operating department of the Commission which monitors the compliance by the said company-clients for imposition of appropriate penalties under existing rules.
- E. In case of repeated material findings despite previous grant of conditional accreditation, it shall be a sufficient ground for the denial of the application and disqualification from future accreditation.

2. GROUP C or D APPLICATIONS

- A. The latest AFS of the top two (2) clients of the applicant based on total assets shall be reviewed.
- B. An application for accreditation under Group C or D shall be denied if upon evaluation, the AFS of top (2) clients show that there are material deficiencies or misstatements therein as follows:
 - (i) Any of the basic components of the financial statements as prescribed by the applicable financial reporting framework, or any of the following required document is not presented:
 - (a) Supplemental Written Statement of Auditor (for stock corporations not covered by Part II of this Rule);
 - (b) Reconciliation of Retained Earnings Available for Dividend Declaration (if applicable).
 - (ii) The auditor's report does not substantially comply with the Philippine Standards on Auditing, SRC Rule 68 and other relevant regulations;
 - (iii) The notes to financial statements are substantially incomplete due to the absence of more than five (5) disclosure items on significant accounts;
 - (iv) More than three (3) accounting policies on significant accounts, as defined under paragraph III of SEC Memorandum Circular No. 8, Series of 2009, or any of its amendments, are not in accordance with the applicable financial reporting framework, or there are material misstatements involving the said accounts.

A combination of more than one (1) material finding under items (iii) and (iv) even if below the limit per each category, would constitute a ground for denial.

- 3. The foregoing level of quality of audit work may be changed by the Commission as circumstances may warrant through appropriate issuances.
 - i. The materiality of a deficiency, misrepresentation or misstatement shall be determined based on the tests set by the Commission in SEC Memorandum Circular No. 8, Series of 2009 (Scale of Fines for Violation of the Financial Reporting Requirements of the Commission) or any amendments thereto.
 - ii. As a remedy on the denial of application due to any of the foregoing deficiencies, the applicant may be granted, upon request, a conditional accreditation subject to the following conditions:
 - A. In case of renewal application for Group C category and the findings on the clients' AFS include material deficiency or misstatement, the applicant-independent auditor shall be assessed a penalty based on Section 12 of the Circular;

- B. The conditional accreditation shall be effective for a period of four (4) months only from date of grant;
 - C. A copy of the largest clients' AFS signed during the said period shall be submitted to the Commission at least fifteen (15) business days before the lapse of the 4-month period;
 - D. The final approval of the accreditation, which shall be effective for three (3) years, shall not be granted unless the said AFS are compliant with the effective accounting standards and SRC Rule 68.
- iii. The list of findings on the clients' AFS resulting from the foregoing procedures shall be referred to the operating department of the Commission which monitors the compliance by the said company-clients for imposition of appropriate penalties under existing rules.

ANNEX 68-B

SUPPLEMENTAL WRITTEN STATEMENT OF AUDITOR

To the Stockholders and the Board of Directors
Name of Company
Address

I/We have examined the financial statements of (name of company) for the year ended _____, on which I have rendered the attached report dated _____.

In compliance with SRC Rule 68, I/We are stating that the said company has a total number of _____ stockholders owning one hundred (100) or more shares each.

For the firm: (if signing for the firm)

Signature of the Independent auditor
BOA No.
PRC License No.
SEC Accreditation (if any)
PTR No., issue date and place

Date

ANNEX 68-C

**RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION**

As of _____

Name of Company

Address

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning	xxx	
Add: Net income actually earned/realized during the period		
Net income during the period closed to Retained Earnings	<u>xxx</u>	
Less: Non-actual/unrealized income net of tax	xxx	
Equity in net income of associate/joint venture	xxx	
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents) Unrealized actuarial gain	xxx	
Fair value adjustment (M2M gains)	xxx	
Fair value adjustment of Investment Property resulting to gain	xxx	
Adjustment due to deviation from PFRS/GAAP-gain	xxx	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	<u>xxx</u>	
Sub-total	<u>xxx</u>	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	xxx	
Adjustment due to deviation from PFRS/GAAP – loss	xxx	
Loss on fair value adjustment of investment property (after tax)	<u>xxx</u>	
	<u>xxx</u>	
Net income actually earned during the period		xxx
Add(Less):		
Dividend declarations during the period	(xxx)	
Appropriations of Retained Earnings during the period	(xxx)	
Reversals of appropriations	xxx	
Effects of prior period adjustments	xxx	
Treasury shares	<u>(xxx)</u>	
		<u>xxx</u>
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND		<u>xxx</u>

Notes:

(1) Figures shall be based on functional currency financial statements of the parent company;

(2) If there are material adjustments in prior years to retained earnings, the said adjustments should be reflected in this sheet

Additional Disclosures in the Notes to Financial Statements

In addition to the requirements under the applicable PFRS, corporations covered by Part II of this Rule shall comply with the disclosure requirements of this Annex.

1. BALANCE SHEET

A registrant shall disclose, either on the face of the balance sheet or in the notes to the financial statements, further sub-classifications of the line items presented in accordance with this Annex and in a manner appropriate to the registrant's operations and the nature and function of amount involved.

A. Trade and Other Receivables

- (i) State separately receivable from:
 - (a) customers (trade);
 - (b) related parties;
 - (c) other than trade debtors such as loans or advances to officers and employees;
- (ii) Disclose the amount of balances, volume during the period and specific terms of the receivables from each related party which are eliminated during consolidation.
- (iii) If significant in amount, other receivables shall be segregated by type, otherwise, they may be grouped in one figure captioned as Accounts Receivables-Others, or other equivalent title.

B. Inventories. Disclose any unusual purchase commitments and accrued net losses, if any, on such commitments. Losses which are expected to arise from firm and uncancellable commitments for the future purchase of inventory items shall, if material, be recognized in the accounts and separately disclosed in the Statement of Comprehensive Income.

C. Other Current Assets. State separately any amounts in excess of five per cent (5%) of total current assets. The remaining items may be shown in one amount.

D. Indebtedness of or Advances to Unconsolidated Subsidiaries and Related parties. Show separately under this caption non-current advances to unconsolidated subsidiaries and related parties.

E. Other Assets. State separately any item which is in excess of 5% of total non-current assets.

F. Trade and Other Payables

- (i) The following payables shall be stated separately in the notes to financial statements:
 - (a) Trade Payables;
 - (b) Payables to related parties;

- (c) Advances from Directors, officers, employees and principal stockholders and related parties of the company or its related parties (exclude from this item amounts for purchases subject to usual trade terms, for ordinary travel expenses, and for other items arising in the ordinary course of business).
 - (ii) Disclose the amount of balances, volume during the period and specific terms of the payables to each related party which are eliminated during consolidation.
 - (iii) Accruals (Show separately significant accruals for payrolls, taxes other than income taxes, interest, and any other material items);
 - (iv) The following information shall also be disclosed:
 - (a) Any current liability guaranteed by others;
 - (b) Assets pledged against secured liabilities.
- G. **Other Current Liabilities.** If material, state separately in amount the following in the notes to financial statements:
- (i) Dividends declared and not paid at end of the reporting period
 - Acceptances payable
 - (ii) Liabilities under trust receipts
 - (iii) Portion of long-term debt due within one year
 - (iv) Deferred Income
 - (v) Any other current liability in excess of 5% of total current liabilities
- H. **Other Long-Term Liabilities.** State separately, in the balance sheet or in a note thereto, any item not properly classified in one of the preceding liability captions (Such as deferred income taxes and other long-term deferred credits) which is in excess of 5 percent of total long-term liabilities.
- I. **Capital Stock.** Provide a summarize discussion of the company's track record of registration of securities under the Securities Regulation Code (formerly Revises Securities Act) by indicating the number of shares registered, issue/offer price, date of approval or date when the registration statement covering such securities was rendered effective by the Commission, and the number of holders of such securities as of year end.

2. STATEMENT OF COMPREHENSIVE INCOME

A. Revenues

State separately on the face of the Statement of Comprehensive Income revenues from each of the following:

- (i) Revenue from sale of goods;
- (ii) Revenue from rendering of services;
- (iii) Share of the profit or loss of associates and joint ventures accounted for using the equity method;
- (iv) Other Income.

B. Costs

State separately on the face of the Statement of Comprehensive Income costs as follows:

- (i) Cost of Sales;
- (ii) Cost of rendering services;
- (iii) Operating Expenses;
- (iv) Other expenses.

C. Finance Costs

State separately in the notes to financial statements the amount of interest expense and amortization of debt discount and expenses for each of the following:

- (i) Short-term promissory notes;
- (ii) Long-term promissory notes;
- (iii) Bonds, mortgages and other similar long-term debt;
- (iv) Amortization of debt discount, expense or premium;
- (v) Other interest.

D. Other Income

- (i) State separately in a note to financial statements, the items and nature of each material other income including a disclosure on whether or not it is a result of a related party transaction;
- (ii) Gain (loss) on Sale of Asset – State separately gain or loss from sale of each class of asset;
- (iii) Miscellaneous Income - State separately any material amounts of miscellaneous income indicating clearly the nature of the transactions out of which the items arose.

E. Other Expenses. State separately expenditures with material amount or that which constitutes 5% or more of the total revenue of the registrant.

F. Specific disclosures on the face of the statement or in the notes

- (i) Net Asset Value Per Share (NAVPS), in case of mutual funds or investment companies.

Annex 68-E SCHEDULES

This Annex prescribes the disclosure requirements including the form and content of the schedules required by paragraph 6, Part II of SRC Rule 68.

1. Except as expressly provided otherwise, the schedules specified below shall be filed as of the latest balance sheet date.
2. The independent auditor's report shall cover the schedules accompanying the financial statements filed.
3. In a registration statement filed on SEC Form 12-1, the Schedules need not be included in Part I - Information Required in Prospectus, but may be included in Part II - Information Not Required in Prospectus.

4. INSTRUCTIONS

Schedule A. Financial Assets (e.g., Loans and Receivables, Fair Value Through Profit or Loss, Held to Maturity Investments, Available for Sale Securities). This schedule shall be filed in support of the caption of each class of "Financial Assets" if the greater of the aggregate cost or the aggregate market value of FVPL as of the end of reporting period constitute 5% per cent or more of total current assets.

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties).

This schedule shall be filed with respect to each person among the directors, officers, employees, and principal stockholders (other than related parties) from whom an aggregate indebtedness of more than P100,000 or one per cent of total assets, whichever is less, is owed. For the purposes of this schedule, exclude in the determination of the amount of indebtedness all amounts receivable from such persons for purchases subject to usual terms, for ordinary travel and expense advances and for other such items arising in the ordinary course of business.

Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements

This schedule shall be filed with respect to each related party (e.g., subsidiary) the balances of receivable from which are eliminated during the consolidation of the financial statements.

Schedule D. Intangible Assets - Other Assets – This schedule shall be filed in support of the caption Intangible Assets in the balance sheet

Schedule E. Long-Term Debt - This schedule shall be filed in support of the caption Long-Term Debt in the balance sheet.

Schedule F. Indebtedness to Related Parties - This schedule shall be filed to list the total of all non current Indebtedness to Related Parties included in the balance sheet. This schedule may be omitted if:

- (i) The total Indebtedness to Related Parties included in such balance sheet does not exceed five per cent of total assets as shown in the related balance sheet at either the beginning or end of the period; or
- (ii) There have been no changes in the information required to be filed from that last previously reported.

Schedule G. Guarantees of Securities of Other Issuers. - This schedule shall be filed with respect to any guarantees of securities of other issuing entities by the issuer for which the statement is filed.

Schedule H. Capital Stock - This schedule shall be filed in support of caption Capital Stock in the balance sheet.

5. FORM AND CONTENTS

Schedule A. Financial Assets

Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Valued based on market quotation at end of reporting period (iii)	Income received and accrued
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- (i) Each issue shall be stated separately, except that reasonable grouping, without enumeration may be made of (a) securities issued or guaranteed by the Philippine Government or its agencies and (b) securities issued by others for which the amounts in the aggregate are not more than two percent of total assets.
- (ii) State the basis of determining the amounts shown in the column. This column shall be totaled to correspond to the respective balance sheet caption or captions.
- (iii) This column may be omitted if all amounts that would be shown are the same as those in the immediately preceding column.

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties)

Deductions							
Name and Designation of debtor (i)	Balance at beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period

- (i) Show separately accounts receivables and notes receivable. In case of notes receivable, indicate pertinent information such as the due date, interest rate, terms of repayment and collateral, if any.
- (ii) If collection was other than in cash, explain.
- (iii) Give reasons for write off.

Schedule C. Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements

Deductions

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected (i)	Amounts written off (ii)	Current	Not Current	Balance at end of period
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- (i) If collection was other than in cash, explain.
- (ii) Give reasons for write off.

Schedule D. Intangible Assets - Other Assets

Description (i)	Beginning balance	Additions at cost (ii)	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions) (iii)	Ending balance
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- (i) The information required shall be grouped into (a) intangibles shown under the caption intangible assets and (b) deferrals shown under the caption Other Assets in the related balance sheet. Show by major classifications-
- (ii) For each change representing anything other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.
- (iii) If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

Schedule E. Long Term Debt

Title of Issue and type of obligation (i)	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)
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- (i) Include in this column each type of obligation authorized.
- (ii) This column is to be totaled to correspond to the related balance sheet caption.
- (iii) Include in this column details as to interest rates, amounts or number of periodic installments, and maturity dates.

Schedule F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)

Name of related party (i)	Balance at beginning of period	Balance at end of period (ii)
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- (i) The related parties named shall be grouped as in Schedule D. The information called for shall be stated separately for any persons whose investments were shown separately in such related schedule.
- (ii) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

Schedule G. Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (i)	Amount owned by person for which statement is filed	Nature of guarantee (ii)
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- (i) Indicate in a note any significant changes since the date of the last balance sheet filed. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.
- (ii) There must be a brief statement of the nature of the guarantee, such as "Guarantee of principal and interest", "Guarantee of Interest", or "Guarantee of dividends". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

Schedule H. Capital Stock

Title of Issue (i)	Number of Shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties (ii)	Directors, officers and employees	Others (iii)
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- (i) Include in this column each type of issue authorized.
- (ii) Related parties referred to include persons for which separate financial statements are filed and those included in consolidated financial statements, other than the issuer of the particular security.
- (iii) Indicate in a note any significant changes since the date of the last balance sheet filed.