

BOARD OF ACCOUNTANCY

PRC RESOLUTION NO. 73 SERIES OF 2012, June 05, 2012

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WHEREAS, the Financial Reporting Standards Council has approved and submitted the hereunder pronouncements to the Board for approval:

- Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine;
- PIC Q and A 2011-01 Requirements for a Third Statement of Financial Position;
- PIC Q and A 2011-02 Common Control Business Combinations;
- PIC Q and A 2011-03 Accounting for Inter-company Loans;
- Mandatory Effective Date of PFRS 9 and Transition Disclosures (Amendments to PFRS 9 and PFRS 7);
- Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32); and
- Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7)

WHEREAS, after a study and review of the provisions of the above-stated pronouncements as adopted by the FRSC, the Board finds them to be well-taken and instructive for compliance by practicing Certified Public Accountants:

WHEREAS, the Board resolves, as it is hereby resolved, to adopt the above-stated pronouncements as part of the Philippine Accounting Standards;

RESOLVED, FURTHER, that this Resolution and the above-stated pronouncement shall take effect after fifteen (15) days following their publication in the Official Gazette or any newspaper of general circulation in the Philippines, whichever is earlier.

Done, in the City of Manila, Philippines this 5th day of June, 2012.

(Sgd.) EUGENE T. MATEO
Chairman

(Sgd.) RUFO R. MENDOZA
Vice Chairman

(Sgd.) LUIS A. CAÑETE
Member

(Sgd.) JOSE S. TAYAG, JR.
Member

(Vacant)
Member

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Member

(Vacant)

Member

Attested by:

(Sgd.) CARLOS G. ALMELOR

Secretary

Professional Regulatory Boards

Approved:

(Sgd.) TERESITA R. MANZALA

Chairperson

(Sgd.) ALFREDO Y. PO

Commissioner

(Sgd.) JENNIFER JARDIN-MANALILI

Commissioner

FRSC PREFACE TO PHILIPPINE INTERPRETATION IFRIC 20, STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE

- The Financial Reporting Standards Council (FRSC) has approved in November 2011, the adoption of IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, issued by the International Accounting Standards Board (IASB) in October 2011 as Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine.

- This Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs') and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

Effective date

- An entity shall apply this Interpretation for annual periods beginning on or after January 1, 2013 prospectively. Earlier application is permitted.

FRSC Members

(Sgd.) DAVID L. BALANGUE

Chairman

(Sgd.) JUNE CHERLY A. CABAL

(Sgd.) GREGORIO S. NAVARRO

(Sgd.) BLESILDA A. PESTANO

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IFRIC INTERPRETATION 20

STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE

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THE DOCUMENT LISTED BELOW IS NOT INCLUDED HEREIN. THIS MAY BE REFERRED TO IN THE IFRS HANDBOOK PUBLISHED BY THE IASB.

BASIS FOR CONCLUSIONS

References

- Conceptual Framework for Financial Reporting
- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 16 Property, Plant and Equipment
- IAS 38 Intangible Assets

Background

- In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to

gain access to mineral ore deposits. This waste removal activity is known as 'stripping'.

- During the development phase of the mine (before production begins), stripping costs are usually capitalised as part of the depreciable cost of building, developing and constructing the mine. Those capitalised costs are depreciated or amortised on a systematic basis, usually by using the units of production method, once production begins.

- A mining entity may continue to remove overburden and to incur stripping costs during the production phase of the mine.

- The material removed when stripping in the production phase will not necessarily be 100 per cent waste; often it will be a combination of ore and waste. The ratio of ore to waste can range from uneconomic low grade to profitable high grade. Removal of material with a low ratio of ore to waste may produce some usable material, which can be used to produce inventory. This removal might also provide access to deeper levels of material that have a higher ratio of ore to waste. There can therefore be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.

- This Interpretation considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

Scope

- This Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs').

Issues

- This Interpretation addresses the following issues:

- (a) recognition of production stripping costs as an asset;
- (b) initial measurement of the stripping activity asset; and
- (c) subsequent measurement of the stripping activity asset.

Consensus

Recognition of production stripping costs as an asset

- To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with the principles of IAS 2 Inventories. To the extent the benefit is improved access to ore, the entity shall recognise these costs as a non-current asset, if the criteria in paragraph 9 below are met. This Interpretation refers to the non-current asset as the 'stripping activity asset'.

- An entity shall recognise a stripping activity asset if, and only if all of the following are met:

- (a) It is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;

- (b) the entity can identify the component of the ore body for which access has been improved; and

(c) the costs relating to the stripping activity associated with that component can be measured reliably.

- The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. In other words, the stripping activity asset will be accounted for as part of an existing asset.

- The stripping activity asset's classification as a tangible or intangible asset is the same as the existing asset. In other words, the nature of this existing asset will determine whether the entity shall classify the stripping activity asset as tangible or intangible.

Initial measurement of the stripping activity asset

- The entity shall initially measure the stripping activity asset at cost, this being the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. Some incidental operations may take place at the same time as the production stripping activity, but which are not necessary for the production stripping activity to continue as planned. The costs associated with these incidental operations shall not be included in the cost of the stripping activity asset.

- When the costs of the stripping activity asset and the inventory produced are not separately identifiable, the entity shall allocate the production stripping costs between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure. This production measure shall be calculated for the identified component of the ore body, and shall be used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. Examples of such measures include:

(a)

cost of inventory produced compared with expected cost;

(b)

volume of waste extracted compared with expected volume, for a given volume of ore production; and

(c)

mineral content of the ore extracted compared with expected mineral content to be extracted, for a given quantity of ore produced.

Subsequent measurement of the stripping activity asset

- After initial recognition, the stripping activity asset shall be carried at either its cost or its revalued amount less depreciation or amortisation and less impairment losses, in the same way as the existing asset of which it is a part.

- The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.

- The expected useful life of the identified component of the ore body that is used to depreciate or amortise the stripping activity asset will differ from the expected useful life that is used to depreciate or amortise the mine itself and the related life-of-mine assets. The exception to this are those limited circumstances when the stripping

activity provides improved access to the whole of the remaining ore body. For example, this might occur towards the end of a mine's useful life when the identified component represents the final part of the ore body to be extracted.

Appendix A

Effective date and transition

This appendix is an integral part of the Interpretation and has the same authority as the other parts of the Interpretation.

A1

An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If any entity applies this Interpretation for an earlier period, it shall disclose that fact.

A2

An entity shall apply this Interpretation to production stripping costs incurred on or after the beginning of the earliest period presented.

A3

As at the beginning of the earliest period presented, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase ('predecessor stripping asset') shall be reclassified as a part of an existing asset to which the stripping activity related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated. Such balances shall be depreciated or amortised over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates.

A4

If there is no identifiable component of the ore body to which that predecessor stripping asset relates, it shall be recognised in opening retained earnings at the beginning of the earliest period presented.

Appendix B

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2013. If an entity applies this Interpretation for an earlier period these amendments shall be applied for that earlier period.

Amendments to IFRS 1 First-Adoption of International Financial Reporting Standards

B1

In Appendix D, paragraph D1 is amended as follows (new text is underlined and deleted text is struck through);

D1

An entity may elect to use one or more of the following exemptions:

(a)

share-based payment transactions (paragraphs D2 and D3);

(m)

financial assets or intangible assets accounted for in accordance with IFRIC 12 Service Concession Arrangements (paragraph D22);

(n)

borrowing costs (paragraph D23);

(o)

transfers of assets from customers (paragraph D24);

(p)

extinguishing financial liabilities with equity instruments (paragraph D25);

(q)

severe hyperinflation (paragraph D26-D30); and

(r)

joint arrangements (paragraph D31); and

(s)

stripping costs in the production phase of a surface mine (paragraph D32).

B2

After paragraph D31 a heading and paragraph D32 are added:

Stripping costs in the production phase of a surface mine

D32

A first-time adopter may apply the transitional provisions set out in paragraphs A1 to A4 of IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. In that paragraph, reference to the effective date shall be interpreted as 1 January 2013 or the beginning of the first IFRS reporting period, whichever is later.

B3

After paragraph 39L paragraph 39M is added:

39M IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine added paragraph D32 and amended paragraph D1. An entity shall apply that amendment when it applies IFRIC 20.

PHILIPPINE INTERPRETATIONS

COMMITTEE (PIC)

QUESTIONS AND ANSWERS (Q & As)

Q & A No. 2011-01

PAS 1.10(f) — Requirements for a Third Statement of Financial Position

Issue 1

When should an entity present a third statement of financial position in accordance with Philippine Accounting Standard (PAS)

1. Presentation of Financial Statements, paragraph 10 (f)?

Background

PAS 1.10(f) requires a statement of financial position as at the beginning of the earliest comparative period when an entity:

- applies an accounting policy retrospectively,
- makes a retrospective restatement of items in its financial statements, or
- reclassifies items in its financial statements.

This means that in all cases above, any material adjustments to previously reported amounts and presentation give rise to the requirement for an additional statement of financial position.

PAS 1 provides no further clarification as to when an entity is required to present an additional statement of financial position.

Consensus

It will often be necessary to exercise judgment in determining whether a third statement of financial position is required to be presented. When applying judgment, it is necessary to consider whether the information set out in an additional statement of financial position would be material to users of the financial statements. PAS 1.31 states that "an entity need not provide a specific disclosure required by a PFRS if the information is not material."

PAS 1.7 defines the term "material" as follows: "Omissions or misstatements of items are material if they could individually, or collectively, influence the economic decisions that users make on the basis of financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

PAS 1 Basis for Conclusion paragraph 32 notes that "considering that financial statements from prior years are readily available for financial analysis, the Board (the International Accounting Standards Board) decided to require only two statements of financial position, except when the financial statements have been affected by:

- retrospective application of accounting policy,
- retrospective restatement of items in its financial statements, or
- when a reclassification has been made on the items of the financial statements.

This Basis for Conclusion paragraph seems to suggest that a third statement of financial position may be required when it provides additional information that was not included in prior year financial statements. Conversely, if there would be no changes to the information that was included in prior year financial statements, this may suggest that the information set out in the third statement of financial position would not be material to users of the financial statements.

For example, if the adoption of a new or amended Philippine Financial Reporting Standards (PFRS) requires retrospective restatement of comparative amounts included in the financial statements, and such change only affects the comparative amounts within the statement of comprehensive income or statement of cash flows, it is reasonable to conclude that such change is not material to the comparative statement of financial position. This is because there are no changes in the amounts included in the comparative statement of financial position, or the notes thereto. In this instance (i.e., where there is no effect on the comparative statement of financial position), there is no need to present a third statement of financial position. However, in such cases, an entity discloses in the notes to the financial statements that the retrospective restatement has no impact on the comparative statement of financial position.

Accordingly, in determining whether it is necessary to present a third statement of financial position, entities should consider the materiality of the information that would be contained in a third statement of financial position and whether this would affect economic decisions made by a user of the financial statements. In doing so,

it would be useful to take into consideration factors such as:

- the nature of the change and the alternative disclosures provided,
- whether the change in accounting policy actually affected the financial position at the beginning of the comparative period (if the accounting policy allows a prospective or limited retrospective application), and
- additionally, specific views from regulators that should be considered in this assessment.

Examples

- Circumstances requiring a third statement of financial position

In the following examples for an entity preparing financial statements for the year ended December 31, 2010, a third statement of financial position (as at January 1, 2009) is likely to be required.

- On adoption of PAS 23, Borrowing Costs (Revised 2007), an entity changes its accounting policy in respect of capitalizing borrowing costs. The entity opted to capitalize borrowing costs as of January 1, 2008 and apply PAS 23 to all qualifying assets for which the commencement date for capitalization is on or after January 1, 2008. The restatement has a material impact on the statement of financial position as of January 1, 2009.
- It has been determined that an entity has failed to recognize deferred tax assets in the previous years. In 2010, the entity restates its financial statements to take up and reflect the deferred tax assets in accordance with PAS 12, Income Taxes. The restatement has a material impact on the statement of financial position as of January 1, 2009.
- The entity has adopted the pooling of interests method for business combination under common control. Comparative period has been restated as if the entities have been combined since the earliest period presented. The restatement has a material impact on the statement of financial position as of January 1, 2009.
- Circumstances not requiring a third statement of financial position

In the following examples for an entity preparing financial statements for the year ended December 31, 2010, and assuming there are no other factors to the contrary, a third statement of financial position (as at January 1, 2009) is likely not to be required.

- An entity adopted PFRS 3, Business Combinations, (Revised) prospectively effective January 1, 2010.
- An entity adopts the March 2009 amendment to PFRS 7, Improving Disclosures about Financial Instruments: Disclosures. The amendments change the required disclosures for fair value measurement and liquidity risk and are effective for annual periods beginning on or after January 1, 2009 without the need for comparative information in the first year of application. Entities should provide the disclosures required under PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, regarding the impact of changes in accounting policies and other restatements. Further, PAS 1.41 sets out specific requirements when an entity has reclassified comparative amounts.

Issue 2

What is meant by a 'reclassification' in the context of PAS 1?

Consensus

It appears that the phrase "reclassifies items in its financial statements" is intended to capture the types of 'reclassification' described in PAS 1.41.

PAS 1.41 addresses changes in the presentation or classification of items (i.e., entity changing its policy for the

presentation or classification of a particular item), rather than reclassifications that are driven by the requirements of a Standard, the passage of time or a change in the nature or status of the items themselves. Therefore, it appears that the following prospective event-driven reclassifications, for example, were not intended to be captured by PAS 1.10(f), hence, will not trigger the presentation of a third statement of financial position:

- reclassification of an asset or liability from non-current to current under PAS 1 because of the passage of time;
- reclassification of a financial asset from the held-to-maturity to the available-for-sale category and vice versa in accordance with PAS 39, Financial Instruments: Recognition and Measurement;
- reclassification of cumulative gains or losses on an available-for-sale financial asset from equity to profit or loss as a reclassification adjustment on impairment or disposal of the asset;
- classification of an operation as discontinued with reclassification of the comparative period statement of comprehensive income;
- reclassification of a property from inventories to investment property on commencement of an operating lease to another party;
- a change in the analysis of expenses in profit or loss from 'by nature' to 'by function' and vice versa;
- reclassification from cash flow hedging reserve to profit or loss on the sale of a cash flow hedging instrument as the hedge item affects profit or loss; or,
- recognition in profit or loss of a foreign currency translation reserve on disposal of foreign operations.

Examples

The following are some examples of reclassifications that affect the minimum line items (PAS1.54) in the statement of financial position as of the beginning of the earliest period presented which require the presentation of the third statement of financial position:

- It has been determined that an entity has incorrectly presented investment property as part of property, plant and equipment. The entity restates its statements of financial position to show investment property as a separate line item in accordance with PAS 1. The restatement has a material impact on the statement of financial position as of the beginning of the earliest period presented.
- It has been determined that an entity has incorrectly presented its asset or liability as current or non-current. The entity restates its statements of financial position to correct the misclassification of the asset or liability in accordance with PAS 1. The restatement has a material impact on the statement of financial position as of the beginning of the earliest period presented.

Based on the above situations, it is implied that a third statement of financial position shall be prepared when reclassification affects the minimum line items presented in the statements of financial position as enumerated in PAS 1.54

Issue 3

Which 'related notes' are required to be presented in respect of the third statement of financial position?

Consensus

PAS 1.39 clarifies that, when the requirements of PAS 1.10(f) are triggered, the entity should present at a minimum, three statements of financial position, two of each of the other statements, and related notes.

Although PAS 1 is not explicit, it appears that only those notes that may be described as supporting the statement of financial position are required to be presented, i.e., those disclosures required by PAS 1.77 to 80A.

In this regard, notes to financial statement shall also provide narrative descriptions or disaggregation of items presented in the three statements of financial position. Disclosure for all other statements shall be for two years only, except for public companies which are required to present three statements or comprehensive income, statements of changes in equity and statements of cash flows.

This conclusion is also consistent with the PAS1.7 requirement which states that notes provide narrative descriptions or disaggregations of items presented in statements of financial position, statements of comprehensive income and the statements of cash flows, and information about items that do not qualify for recognition in those statements.

In addition, preparers should have regard to the disclosure requirements of PAS 8 in respect of changes in accounting policies (see PAS 8.28 and 8.29) and corrections of errors (see PAS 8.49) and of PAS 1.41 in respect of reclassifications.

Effective Date

The consensus in this Q&A is effective from the date of approval by the FRSC.

* * * * *

Q&A approved by PIC: July 27, 2011

PIC Members

(Sgd.) DALISAY B. DUQUE
Chairman

(Sgd.) WILFREDO A. BALTAZAR

(Sgd.) JUDITH V. LOPEZ

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MA. ELENITA B. CABRERA/
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(Sgd.) WILSON P. TAN

(Sgd.) LYN I. JAVIER/REYNOLD E. AFABLE

(Sgd.) NORMITA L. VILLARUZ

Q&A approved by FRSC:_____

Q & A No. 2011-02

PFRS 3.2 — Common Control Business Combinations

Issue

How should business combinations involving entities under common control be accounted for, given that these are outside the scope of PFRS 3, Business Combinations?

Background

Business combinations involving entities under common control are excluded from the scope of PFRS 3, Business Combinations (PFRS 3.2 (c)). There are, however, no specific rules under existing PFRS which prescribe how common control combinations shall be accounted for. This Q&A seeks to provide guidance in accounting for common control combinations in order to minimize diversity in current accounting practices until further guidance is provided by the International Accounting Standards Board (IASB).

A business combination is a "common control combination" if the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory^[1]. This means that the same party or parties have the ultimate control over the combining entities or businesses both before and after the business combination.

Some examples of common control combinations include:

- combinations between subsidiaries of the same parent;
- the acquisition of a business between entities in the same group; and,
- the insertion of a new parent company at the top of a group.

Common control combinations are typically accounted for using the "pooling of interests method" and, in some cases where there is commercial substance to the transaction, using the "acquisition method" under PFRS 3.

Consensus

- PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, requires that in the absence of specific guidance in PFRS, management shall use its judgment in developing and applying an accounting policy that is relevant and reliable (PAS 8.10). The most relevant and reliable accounting policies for common control business combination would either be:

- the pooling of interests method^[2]; or
- the acquisition method in accordance with PFRS 3.
- The pooling of interests method is widely accepted in accounting for common control combinations. This method is prescribed under the US generally accepted accounting principles (GAAP) and permitted under the UK GAAP. The relevant guidance on pooling of interests method is provided under Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 805-50.
- Common control business combinations shall be accounted for using either the pooling of interests method or the acquisition method. However, where the acquisition method of accounting is selected, the transaction must have commercial substance from the perspective of the reporting entity.
- When evaluating whether the transaction has commercial substance, the following factors may be considered:

- the purpose of the transaction;
- the involvement of outside parties in the transaction, such as non-controlling interests or other third parties;
- whether or not the transaction is conducted at fair value;
- the existing activities of the entities involved in the transactions;
- whether or not the transaction is bringing entities together into a "reporting entity" that did not exist before;
- where a new company is established, whether it is undertaken as an integral part of an initial Public Offering (IPO) or spin-off or other change in control and significant ownership; and, the extent to which an acquiring entity's future cash flows are expected to change as a result of the business combination in which:
- the configuration (risk, timing, and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
- the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the combination; and
- the difference in item I and item ii above is significant relative to the fair value of the assets exchanged.
- Since the acquisition method results in a reassessment of the value of the net assets of one or more of the entities involved and/or the generation of goodwill, there must be commercial substance to the combination before it can be applied. PFRS contains limited circumstances when net assets may be restated to fair value and restricts the recognition of internally generated goodwill, and common control business combination cannot be used to circumvent this limitation by applying the acquisition method.
- The accounting policy for common control business combination shall be applied consistently for similar transactions.
- The following shall be disclosed in addition to required disclosures under applicable PAS/PFRS:
 - accounting policy applied for common control business combination and the rationale for applying that policy;
 - any significant/relevant details on the common control business combination;
 - if the pooling of interests method is applied, an entity shall likewise disclose how the methodology was applied; and,
 - if the acquisition method is used, an entity shall disclose the factors considered to support its conclusion that the transaction has commercial substance.

Effective Date

The consensus in this Q&A is effective for annual financial statements beginning on or after January 1, 2012. Earlier application is encouraged.

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Q&A approved by PIC: August 24, 2011

PIC Members

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Chairman

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Q&A approved by FRSC: _____

[1] Judgment is required to assess whether the common control is transitory or not. The conclusion that common control is transitory may lead to the inclusion of the business combination within the scope of PFRS 3 so that it shall be accounted for using the acquisition method.

[2] A related guidance on the application of pooling of interests method shall be covered by a separate PIC Q&A.

Q & A No. 2011-03

Accounting for Inter-company Loans[1]

Relevant PFRS

PAS 1, Presentation of Financial Statements

PAS 24, Related Party Disclosures

PAS 27, Consolidated and Separate
Financial Statements

PAS 28, Investments in Associates

PAS 32, Financial Instruments: Disclosure
and Presentation

PAS 39, Financial Instruments: Recognition
and Measurement

Issue

How should an interest free or below market rate loan between group companies be accounted for in the separate/stand-alone financial statements of the lender and the borrower?

- On initial recognition of the loan; and
- During the periods to repayment.

Background

Loans between related entities within a group (i.e., inter-company loans) may, in some cases, be subject to interest free or below-market rate of interest. It may also be made with no stated date for repayment.

Inter-company loans are within the scope of PAS 39, Financial Instruments: Recognition and Measurement. PAS 39.43 requires both the lender and the borrower to initially record the loan at fair value (plus directly attributable transaction costs for items that will not be measured at fair value subsequently).

Inter-company loans do not have an active market, hence, their fair values must be estimated. PAS 39.49 provides that the fair value of a financial liability with a demand feature is not less than the amount repayable on demand. On the other hand, PAS 39.AG64 clarifies that the appropriate way to estimate the fair value of a long-term loan or receivable that carries no interest is to determine the present value of future cash flows using the prevailing market rate of interest "for a similar instrument.

The fair value of inter-company loans at initial recognition may not necessarily be the same- as the loan amount, thus, a "difference" will arise. For loans between a parent and subsidiary, this difference, however, cannot be classified as outright income or loss in view that contributions from and distributions to "equity participants" do not meet the basic definition of income or expenses (paragraph 4.25, Framework for the Preparation and Presentation of Financial Statements).

Paragraph 11 of PAS 32, Financial Instruments: Disclosure and Presentation, includes the following definitions:

"A financial liability is any liability that is:

a) a contractual obligation:

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or ..."

"An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities."

PAS 32.15 further clarifies that the substance of a financial instrument, rather than its legal form, governs its classification on the entity's balance sheet. In this regard, PAS 32.17 provides that "... Although the holder of an equity instrument may be entitled to receive a pro rata share of any dividends or other distributions of equity, the issuer does not have a contractual obligation to make such distributions because it cannot be required to deliver cash or another financial asset to another party." A related guidance paragraph 29 of PAS 28, Investments in Associates, provides that "... an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate. Such items may include...

long-term receivables or loans but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans...."

Consensus

- The treatment of the different types of inter-company loans in the books of the parent company and subsidiaries are summarized as follows:

- a. Loans by a parent to a subsidiary which is payable on demand

Accounting treatment by parent/lender.

Initial Recognition

The parent shall record the loan on initial recognition at the amount to be repaid by the subsidiary.

Current/Non-Current Classification

Generally, the loan shall be classified as current asset. If, however, the parent has no intention in demanding repayment in the near term, it would classify the receivable as non-current in accordance with PAS 1, Presentation of Financial Statements (paragraph 66(c)).

Subsequent Measurement

The parent shall record the loan at the amount repayable by the subsidiary.

Accounting treatment by the subsidiary/ borrower:

Initial Recognition

The subsidiary shall record the loan liability on initial recognition at the amount repayable.

Current/Non-Current

The loan liability shall be classified as current.

Classification

Subsequent Measurement

The subsidiary shall record the loan liability at the amount repayable.

b. Fixed term loan made by a parent to a subsidiary

Accounting treatment by parent/lender:

Initial Recognition

Fixed term loans (e.g., 3-year loan) shall be recognized initially at fair value. The "difference" between the loan amount and its fair value shall be recorded as an investment, i.e., as a component of the overall investment in subsidiary. The fair value of the loan is estimated by discounting the future loan repayments using a rate based on the rate that the subsidiary would pay to an unrelated lender for a loan with similar conditions (amount term security, etc.).

Current/Non-Current Classification

Loans which meet the current classification under PAS 1.66, e.g., those that are expected to be collected within 12 months after the balance sheet date shall be classified as current, otherwise, as non-current.

Subsequent Measurement

Subsequently, the loan shall be measured at amortized cost, using the effective interest method. This involves the unwinding of the "difference" (i.e., discount) such that, at repayment date, the carrying value of the loan equals the amount to be repaid by the subsidiary. The unwinding of the "difference" shall be reported as interest income.

Estimates of repayments should be evaluated in future periods and revised if necessary. The effect of change in estimate is accounted for in accordance with PAS 39, AG8, i.e., the adjustment is recognized in profit and loss as income or expense, except when the financial asset is reclassified in accordance with paragraphs 50B, 50D or 50E of PAS 39, in which case the change in estimates shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the asset.

Accounting treatment by subsidiary/ borrower:

Initial Recognition

On initial recognition, the loans payable shall be recognized at fair value. The "difference" between the loan amount and the fair value shall be recorded as a component of equity of the subsidiary (i.e., equity contribution by the parent) if it meets the definition of an equity under PAS 32.

Current/Non-Current Classification

Loans which meet the criteria for current classification under PAS 1.69, e.g., those repayable within 12 months after the balance sheet date shall be classified as current, otherwise, as non-current.

Subsequent Measurement

Subsequently, the loan shall be measured at amortized cost, using the effective interest method. This involves the unwinding of the "difference" (i.e., discount) such that, at repayment date, the carrying value of the loan equals the amount to be repaid. The unwinding of the "difference" shall be reported as interest expense.

Estimates of repayments should be evaluated in future periods and revised if necessary. The effect of change in estimate is treated as an adjustment to the carrying amount of the loan with a corresponding credit/ charged to profit or loss (PAS39.AG8.)

c. Loans from parent to subsidiary with no stated date for repayment

Accounting treatment by parent/ lender:

Initial Recognition

-

If the loan is expected to be payable on demand by the parent, item 1.a shall apply.

-

If the loan is expected to be repaid within a certain period of time (e.g., 3 years), the accounting shall be based on management's best estimate of future cash flows and initial recognition shall follow the same approach for fixed term loans as provided in Item 1.b.

Current/Non-Classification

-

If the loan is expected to be payable on demand by the parent, Item 1.a shall apply.

-

If the loan is expected to be repaid within a certain period of time, the classification of the loan would be the same as provided in Item 1.b.

Subsequent Measurement

-

If the loan is expected to be payable on demand by the parent, the parent shall subsequently measure the loan at the amount repayable by the subsidiary.

-

If the loan expected to be repaid within a certain period of time, the subsequent measurement of the loan would be the same as provided in item 1.b.

Accounting treatment by subsidiary/ borrower:

Initial Recognition

-

If the loan expected to be payable on demand by the parent, the guidance in item 1.a shall apply.

-

If the loan is expected to be repaid within a certain period of time (e.g., 3 years), the accounting shall be based on management's best estimate of future cash flows and initial recognition shall follow the same approach for fixed term loans as provided in item 1.b.

Classification

-

If the loan is expected to be payable on demand by the parent, the classification under Item 1.a shall apply.

-

If the loan is expected to be repaid within a certain a certain period of time, the classification of the loan would be the same as provided in item 1.b.

Subsequent Measurement

-

If the loan is expected to be payable on demand by the parent, the subsidiary shall subsequently measure the loan at the amount to be repaid.

-

If the loan is expected to be repaid within a certain period of time, the subsequent measurement of the loan would be the same as provided in item 1.b.

d. Loans between fellow subsidaires

Accounting treatment by the lending subsidiary:

Initial Recognition

The loan shall be recorded at fair value on initial recognition. The initial "difference" between the loan amount and its fair value should usually be recorded in profit or loss (i.e., loss). In some circumstances, however, when it is clear that the transfer of value from the lending subsidiary to the borrowing subsidiary has been made under the instruction from the parent, the acceptable alternative treatment is for the initial "difference" to be treated as a distribution, hence, is recorded as a debit to equity (e.g., Retained Earnings).

Current/Non-Current Classification

Loans which meet the current classification under PAS 1.66, e.g., those that are expected to be collected within 12 months after the balance sheet date shall be classified as current, otherwise, as non-current.

Subsequent Measurement

Subsequently, the loan shall be measured at amortized cost using the effective interest method. This involves the unwinding of the "difference" (i.e., discount) such that, at repayment date, the carrying value of the loan equals the amount to be repaid by the borrower. The unwinding of the "difference" shall be reported as interest income.

Accounting treatment by the borrowing subsidiary:

Initial Recognition

The loan shall be recorded at fair value on initial recognition. Any initial difference between loan amount and its fair value should usually be recorded in profit or loss (i.e., gain).

In some circumstances, however, when it is clear that the transfer of value from the lending subsidiary to the borrowing subsidiary has been made under the instruction from the parent, the acceptable alternative treatment is for any gain to be recorded as a credit to equity (i.e., treated as a capital contribution).

Current/Non-Current Classification

Loans which meet the criteria for current classification under PAS 1.69, e.g., those repayable within 12 months after the balance sheet date shall be classified as current, otherwise, as non-current.

Subsequent Measurement

Subsequently, the loan shall be measured at amortized cost, using the effective interest method. This involves the unwinding of the "difference" (i.e., discount) such that, at repayment date, the carrying value of the loan equals the amount to be repaid by the borrower. The unwinding of the "difference" shall be reported as interest expense.

e. Loans from subsidiary to parent

Accounting treatment by the subsidiary/lender

Initial Recognition

The loan shall be recorded at fair value on initial recognition. Any initial difference between the loan amount and its fair value shall be treated as a distribution by the subsidiary to the parent, hence, shall be recorded as a debit to equity (e.g., Retained Earnings).

Current/Non-Current Classification

Loans which meet the criteria for current classification under PAS 1.66, e.g., those repayable within 12 months after the balance sheet date shall be classified as current, otherwise, as non-current.

Subsequent Measurement

Subsequently, the loan shall be measured at amortized cost, using the effective interest method. This involves the unwinding of the "difference" (i.e., discount) such that, at repayment date, the carrying value of the loan equals

the amount to be repaid by the parent. The unwinding of the "difference" shall be reported as interest income.

Accounting treatment by parent/ borrower

Initial Recognition

The loan shall be recorded at fair value on initial recognition. Any initial "difference" between loan amount and its fair value shall be recorded as income.

Current/Non-Current Classification

Loans which meet the criteria for current classification under PAS 1.69, e.g., those repayable within 12 months after the balance sheet date shall be classified as current, otherwise, as non-current.

Subsequent Measurement

Subsequently, the loan shall be measured at amortized cost, using the effective interest method. This involves the unwinding of the "difference" (i.e., discount) such that, at repayment date, the carrying value of the loan equals the amount to be repaid by the parent. The unwinding of the "difference" shall be reported as interest expense.

- Impairment. Since inter-company loans are under the scope of PAS 39, it is necessary for the lender to assess whether there is an objective evidence that the loan is impaired. If all or part of the loan is, in substance, part of the parent's net investment the total investment should be assessed for impairment.

- Disclosure. Inter-company loans meet the definition of related party transactions under paragraph 9 of PAS 24, Related Party Disclosures. The disclosure requirements in PAS 24.12-22 must be complied with to enable users of the financial statements to determine the effect of inter-company loans on the company.

It should be emphasized that the above guidance in this Q and A is applicable only in the preparation of separate/stand-alone financial statements. On consolidation, inter-company loans will be eliminated, including any discount or premium (and the effect of unwinding thereof) arising from the initial difference between the fair value of the loan and the loan amount.

Effective Date

The consensus in this Q and A is effective for annual financial statements beginning on or after January 1, 2012. Earlier application is encouraged.

* * * * *

Q and A approved by PIC: September 21, 2011

PIC Members

(Sgd.) DALISAY B. DUQUE

Chairman

(Sgd.) WILFREDO A. BALTAZAR

(Sgd.) JUDITH V. LOPEZ
(Sgd.) ROSARIO S. BERNALDO
(Sgd.) MA. CONCEPCION Y. LUPISAN
(Sgd.) SHARON G. DAYOAN
(Sgd.) RUFO R. MENDOZA
(Sgd.) MA. GRACIA F. CASALS-DIAZ
(Sgd.) RUBY R. SEBALLE
(Sgd.) EDMUND GO
(Sgd.) WILSON P. TAN
(Sgd.) LYN I. JAVIER/REYNOLD E. AFABLE
(Sgd.) NORMITA L. VILLARUZ

[1] This PIC Q&A is issued without prejudice to the rules/regulations governing transactions with related parties that are issued by relevant supervisory authorities (such as the Bangko Sentral ng Pilipinas).

Q&A approved by FRSC: _____

Financial Reporting Standards Council

Mandatory Effective Date of PFRS 9

Transition Disclosures

Amendments to PFRS 9 and PFRS 7

PFRSC PREFACE TO MANDATORY EFFECTIVE DATE OF PFRS 9 AND TRANSITION DISCLOSURES (AMENDMENTS TO PFRS 9 AND PFRS 7)

The Financial Reporting Standards Council (FRSC) has approved on December 28, 2011, the adoption of Amendments to IFRS 9 and IFRS 7, Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued by the International Accounting Standards Board (IASB), as Amendments to PFRS 9, Financial Instruments and PFRS 7, Financial Instruments: Disclosures.

Mandatory Effective Date of PFRS 9 and Transition Disclosures (Amendments to PFRS 9 and PFRS 7) amended the effective date of PFRS 9 so that PFRS 9 is required to be applied for annual periods beginning on or after January 1, 2015. Earlier application is permitted. The amendments also modified the relief from restating prior periods. Further, PFRS 7 was amended to require additional disclosures on Transition from PAS 39, Financial Instruments: Recognition and Measurement to PFRS 9.

* * * * *

FRSC Members

(Sgd.) DAVID L. BALANGUE

Chairman

(Sgd.) JUNE CHERYL A. CABAL-REVILLA

(Sgd.) GREGORIO S. NAVARRO

(Sgd.) BLESILDA A. PESTAÑO

(Sgd.) ESTER F. LEDESMA

(Sgd.) MA. GRACIA F. CASALS-DIAZ

(Sgd.) VICTOR O. MACHACON

(Sgd.) MA. DOLORES B. YUVIENCO

IASB MANDATORY EFFECTIVE
DATE OF IFRS 9
AND TRANSITION DISCLOSURES
(AMENDMENTS TO IFRS 9 AND IFRS 7)

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AMENDMENTS TO IFRS 9 FINANCIAL
INSTRUMENTS (2009) AND IFRS 9
FINANCIAL INSTRUMENTS (2010)

AMENDMENTS TO IFRS 7

FINANCIAL DISCLOSURES INSTRUMENTS:

THE DOCUMENTS LISTED BELOW ARE NOT INCLUDED HEREIN. THESE MAY BE REFERRED TO
IN THE IFRS HANDBOOK PUBLISHED BY THE IASB.

APPROVAL BY THE BOARD OF MANDATORY EFFECTIVE DATE OF IFRS 9 AND TRANSITION
DISCLOSURES (AMENDMENTS TO IFRS 9 (2009), IFRS 9 (2010) AND IFRS 7) AS ISSUED IN
DECEMBER 2011

AMENDMENTS TO THE IMPLEMENTATION GUIDANCE OF IFRS 9

FINANCIAL INSTRUMENTS (2010)

AMENDMENTS TO THE BASES FOR CONCLUSIONS OF IFRS 9 FINANCIAL INSTRUMENTS (2009) AND
IFRS 9 FINANCIAL INSTRUMENTS (2010)

DISSENTING OPINION OF PATRICIA MCCONNELL

Amendments to IFRS 9 Financial Instruments (2009) and IFRS 9 Financial Instruments (2010)

In the introduction, paragraph IN11 of IFRS 9 (2010) [IN16 of IFRS 9 (2009)] is added.

Effective date and transition

IN11

Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7), issued in December 2011, amended the effective date of IFRS 9 (2009) and IFRS 9 (2010) so that IFRS 9 is required to be applied for annual periods beginning on or after 1 January 2015. Early application is

permitted. The amendments also modified the relief from restating prior periods. The Board has published amendments to IFRS 7 to require additional disclosures on transition from IAS 39 to IFRS 9. Entities that initially apply IFRS 9 in periods:

(a)

beginning before 1 January 2012 need not restate prior periods and are not required to provide the disclosures set out in paragraphs 44S-44W of IFRS 7;

(b)

beginning on or after 1 January 2012 and before 1 January 2013 must elect either to provide the disclosures set out in paragraphs 44S-44W of IFRS 7 or to restate prior periods; and

(c)

beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S-44W of IFRS 7. The entity need not restate prior periods.

Paragraphs 8.1.1 and 8.2.12 of IFRS 9 (2009) are amended (deleted text is struck through and new text is underlined).

8.1

Effective date

8.1.1

An entity shall apply this IFRS for annual periods beginning on or after 1 January 2015. Earlier application is permitted. If an entity applies this IFRS in its financial statements for a period beginning before 1 January 2015, it shall disclose that fact and at the same time apply the amendments in Appendix C.

8.2

Transition

8.2.12

Despite the requirement in paragraph 8.2.1, an entity that adopts this IFRS for reporting periods;

(a)

beginning before 1 January 2012 need not restate prior periods-and is not required to provide the disclosures set out in paragraphs 44S-44W of IFRS 7:

(b)

beginning on or after 1 January 2012 and before 1 January 2013 shall elect either to provide the disclosures set out in paragraphs 44S-44W of IFRS 7 or to restate prior periods: and

(c)

beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S-44W of IFRS 7. The entity need not restate prior periods.

If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.

Paragraphs 7.1.1, 7.2.10, 7.2.14 and 7.3.2 of IFRS 9 (2010) are amended (deleted text is struck through and new text is underlined).

7.1

Effective date

7.1.1

An entity shall apply this IFRS for annual periods beginning on or after 1 January 2015. Earlier application is permitted. However, if an entity elects to apply this IFRS early and has not already applied IFRS 9 issued in 2009, it must apply all of the requirements in this IFRS at the same time (but see also paragraphs 7.3.2). If an entity applies this IFRS in its financial statements for a period beginning before 1 January 2013, it shall disclose that

fact and at the same time apply the amendments in Appendix C.

7.2

Transition

7.2.10

If it is impracticable (as defined in IAS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58-65 and AG84-AG93 of IAS 39, the entity shall treat the fair value of the financial asset or financial liability at the end of each comparative period presented as its amortised cost if the entity restates prior periods. In those circumstances, If it is impracticable (as defined in IAS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58-65 and AG84-AG93 of IAS 39, the fair value of the financial asset or financial liability at the date of initial application shall be treated as the new amortised cost of that financial asset or financial liability at the date of initial application of this IFRS.

7.2.14

Despite the requirements in paragraph 7.2.1, an entity that adopts the classification and measurement requirements of this IFRS for reporting periods;

(a)

beginning before 1 January 2012 need not restate prior periods-and is not required to provide the disclosures set out in paragraphs 44S-44W of IFRS 7:

(b)

beginning on or after 1 January 2012 and before 1 January 2013 shall elect either to provide the disclosures set out in paragraphs 44S-44W of IFRS 7 or to restate prior periods: and

(c)

beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S-44W of IFRS 7. The

entity need not restate prior periods.

If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.

7.3

Withdrawal of IFRIC 9 and IFRS 9 (2009)

7.3.2

This IFRS supersedes IFRS 9 issued in 2009. However, for annual periods beginning before 1 January 2016, an entity may elect to apply IFRS 9 issued in 2009 instead of applying this IFRS.

Amendments to IFRS 7 Financial Instruments:

Disclosures

Paragraph 441 of IFRS 7 is amended.

441

When an entity first applies IFRS 9, it shall disclose for each class of financial assets and financial liabilities at the date of initial application:

(a)

the original measurement category and carrying amount determined in accordance with IAS 39;

(b)

the new measurement category and carrying amount determined in accordance with IFRS 9;

(c)

the amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that IFRS 9 requires an entity to reclassify and those that an entity elects to reclassify.

An entity, shall present these quantitative disclosures in tabular format unless another format is more appropriate.

Paragraph 44S-44W of IFRS 7 are added.

44S

When an entity first applies the classification and measurement requirements of IFRS 9, it shall present the disclosures set out in paragraphs 44T-44W of this IFRS if it elects to, or is required to, provide these disclosures in accordance with IFRS 9 (see paragraph 8.2.12 of IFRS 9 (2009) and paragraph 7.2.14 of IFRS 9 (2010)).

44T

If required by paragraph 44S, at the date of initial application of IFRS 9 an entity shall disclose the changes in the classifications of financial assets and financial liabilities, showing separately:

(a)

the changes in the carrying amounts on the basis of their measurement categories in accordance with IAS 39 (ie not resulting from a change in measurement attribute on transition to IFRS 9); and

(b)

the changes in the carrying amounts arising from a change in measurement attribute on transition to IFRS 9.

The disclosures in this paragraph need not be made after the annual period in which IFRS 9 is initially applied.

44U

In the reporting period in which IFRS 9 is initially applied, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to IFRS 9;

(a)

the fair value of the financial assets or financial liabilities at the end of the reporting period;

(b)

the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified;

(c)

the effective interest rate determined on the date of reclassification; and

(d)

the interest income or expense recognised.

If an entity treats the fair value of a financial asset or a financial liability as its amortised cost at the date of initial application (see paragraph 8.2.10 of IFRS 9 (2009) and paragraph 7.2.10 of IFRS 9 (2010)), the disclosures in (c) and (d) of this paragraph shall be made for each reporting period following reclassification until derecognition. Otherwise, the disclosures in this paragraph need not be made after the reporting period containing the date of initial application.

44V

If an entity presents the disclosures set out in paragraphs 44S-44U at the date of initial application of IFRS 9, those disclosures, and the disclosures in paragraph 28 of IAS 8 during the reporting period containing the date of initial application, must permit reconciliation between:

(a)

the measurement categories in accordance with IAS 39 and IFRS 9; and

(b)

the line items presented in the statements of financial position.

44W

If an entity presents the disclosures set out in paragraphs 44S-44U at the date of initial application of IFRS 9, those disclosures, and the disclosures in paragraph 25 of this IFRS at the date of initial application, must permit reconciliation between:

(a)

of the measurement categories presented in accordance with IAS 39 and IFRS 9; and

(b)

the class of financial instrument at the date of initial application.

Offsetting Financial Assets and Financial Liabilities

Amendments to PAS 32

FRSC PREFACE TO OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (AMENDMENTS TO PAS 32)

- The Financial Reporting Standard Council (FRSC) has approved on December 28, 2011, the adoption of Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities, issued by the International Accounting Standards Board (IASB), as Amendments to PAS 32, Financial Instruments: Presentation.
- Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32) provides additional application guidance for offsetting in accordance with PAS 32. The amendments clarify the meaning of currently has a legally enforceable right of set-off and that some gross settlement systems may be considered equivalent to net settlement.
- Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32) deleted paragraph AG38 and added paragraphs AG38A-AG38F, An entity shall apply those amendments for annual periods beginning on or after January 1, 2014 retrospectively. Earlier application is permitted.

* * * * *

FRSC Members

(Sgd.) DAVID L. BALANGUE
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(Sgd.) GREGORIO S. NAVARRO

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IASB OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (AMENDMENTS TO IAS 32)

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AMENDMENTS TO IAS 32 FINANCIAL INSTRUMENTS: PRESENTATION

THE DOCUMENTS LISTED BELOW ARE NOT INCLUDED HEREIN. THESE MAY BE REFERRED TO
IN THE IFRS HANDBOOK PUBLISHED BY THE IASB

APPROVAL BY THE BOARD OF OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES
(AMENDMENTS TO IAS 32) ISSUED IN DECEMBER 2011

AMENDMENTS TO THE BASIS FOR CONCLUSIONS ON

IAS 32 FINANCIAL INSTRUMENTS: PRESENTATION

International Financial Reporting Standard

Offsetting Financial Assets and
Financial Liabilities
(Amendments to IAS 32)

Amendments to
IAS 32 Financial Instruments: Presentation

Effective date and transition

Paragraph 97L is added.

97L

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32), issued in December 2011, deleted paragraph AQ38 and added paragraphs AG38A-AG38F. An entity shall apply those amendments for annual periods beginning on after 1 January 2014. An entity shall apply those amendments retrospectively. Earlier

application is permitted. If an entity applies those amendments from an earlier date, it shall disclose that fact and shall also make the disclosures required by Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) issued in December 2011.

Application Guidance

Immediately after the heading 'Offsetting a financial assets and a financial liability (paragraphs 42-50)', paragraph AG38 is deleted. Headings and paragraphs AG38A-AG38F are added.

Criterion that an entity 'currently has a legally enforceable right to set off the recognized amounts' (paragraph 42(a))

AG38A

A right of set-off may be currently available or it may be contingent on a future event (for example, the right may be triggered or exercisable only on the occurrence of some future event, such as the default, insolvency or bankruptcy of one of the counterparties). Even if the right of set-off is not contingent on a future event, it may only be legally enforceable in the normal course of business, or in the event of default, or in the event of insolvency or bankruptcy, of one or all of the counterparties.

AG38B

To meet the criterion in paragraph 42(a), an entity must currently have a legally enforceable right of set-off. This means that the right of set-off:

(a)

must not be contingent on a future event; and

(b)

must be legally enforceable in all of the following circumstances:

(i)

the normal course of business;

(ii)

the event of default; and

(iii)

the event of insolvency or bankruptcy of the entity and all of the counterparties.

AG38C

The nature and extent of the right of set-off, including any conditions attached to its exercise and whether it would remain in the event of default or insolvency or bankruptcy, may vary from one legal jurisdiction to another. Consequently, it cannot be assumed that the right of set-off is automatically available outside of the normal course of business. For example, the bankruptcy or insolvency laws of a jurisdiction may prohibit, or restrict, the right of set-off in the event of bankruptcy or insolvency in some circumstances.

AG38D

The laws applicable to the relationships between the parties (for example, contractual provisions, the laws governing the contract, or the default, insolvency or bankruptcy laws applicable to the parties) need to be considered to ascertain whether the right of set-off enforceable in the normal course of business, in an event of default, and in the event of insolvency or bankruptcy, of the entity and all of the counterparties (as specified in paragraph AG38B(b)).

Criterion that an entity 'intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously' (paragraph 42(b))

AG38E

To meet the criterion in paragraph 42(b) an entity must intend either to settle on a net basis or to realize the asset and settle the liability simultaneously. Although the entity may have a right to settle net, it may still realize the asset and settle the liability separately.

AG38F

If an entity can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion in paragraph 42(b). This will occur if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle. For example, a gross settlement system that has all of the following characteristics would meet the net settlement criterion in paragraph 42(b):

(a)

financial assets and financial liabilities eligible for set-off are submitted at the same point in time for processing;

(b)

once the financial assets and financial liabilities are submitted for processing, the parties are committed to fulfil the settlement obligation;

(c)

there is no potential for the cash flows arising from the assets and liabilities to change once they have been submitted for processing (unless the processing fails—see (d) below);

(d)

assets and liabilities that are collateralized with securities will be settled on a securities transfer or similar system (for example, delivery versus payment), so that if the transfer of securities fails, the processing of the related receivable or payable for which the securities are collateral will also fail (and vice versa);

(e)

any transactions that fail, as outlined in (d), will be re-entered for processing until they are settled;

(f)

settlement is carried out through the same settlement institution (for example, a settlement bank, a central bank or a central securities depository); and

(g)

an intraday credit facility is in place that will provide sufficient overdraft amounts to enable the processing of payments at the settlement date for each of the parties, and it is virtually certain that the intraday credit facility will be honoured if called upon.

Disclosures—Offsetting Financial
Assets and Financial Liabilities

Amendments to PFRS 7

FRSC PREFACE TO DISCLOSURES-OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES
(AMENDMENTS TO PFRS 7)

- The Financial Reporting Standards Council (FRSC) has approved on December 28, 2011, the adoption of Amendments to IFRS 7, Disclosures—Offsetting Financial Assets and Financial Liabilities, issued by the International Accounting Standards Board (IASB), as Amendments to PFRS 7, Financial Instruments: Disclosures.
- Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7) amended the required disclosures to include information that will enable users to evaluate the effect or potential effect of netting arrangements on an entity's financial position.
- Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7) added paragraphs IN9, 13A-13F and B40-B53. An entity shall apply those amendments for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. An entity shall provide the disclosures required by those amendments retrospectively.

* * * * *

FRSC Members

(Sgd.) DAVID L. BALANGUE
Chairman

(Sgd.) JUNE CHERLY A. CABAL-REVILLA

(Sgd.) GREGORIO S. NAVARRO

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IASB DISCLOSURES—OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES
(AMENDMENTS TO IFRS 7)

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AMENDMENTS TO IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

APPENDIX

AMENDMENT TO IAS 32 FINANCIAL INSTRUMENTS: PRESENTATION

THE DOCUMENTS LISTED BELOW ARE NOT INCLUDED HEREIN. THESE MAY BE REFERRED TO IN THE IFRS HANDBOOK PUBLISHED BY THE IASB.

APPROVAL BY THE BOARD OF DISCLOSURES—OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (AMENDMENTS TO IFRS 7)

ISSUED IN DECEMBER 2011

AMENDMENTS TO THE BASIS FOR CONCLUSIONS ON IFRS 7

AMENDMENTS TO GUIDANCE ON IMPLEMENTING IFRS 7

Disclosures—Offsetting Financial
Assets and Financial Liabilities
(Amendment to IFRS 7)

Amendments to IFRS 7 Financial Instruments: Disclosures

In the Introduction, paragraph IN9 is added.

IN9

Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7), issued in December 2011, amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities, on the entity financial position.

After paragraph 13, a heading and paragraphs 13A—13F are added.

Offsetting financial assets and
financial liabilities

13A

The disclosures in paragraphs 13B-13E supplement the other disclosure requirements of this IFRS and are required for all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with paragraph 42 of IAS 32.

13B

An entity shall disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. This includes the effect or potential effect of rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities that are within the scope of paragraph 13A.

13C

To meet the objective in paragraph 13B; an entity shall disclose, at the end of the reporting period, the following quantitative information separately for recognised financial assets and recognised financial liabilities that are within the scope of paragraph 13A:

(a)

the gross amounts of those recognised financial assets and recognised financial liabilities;

(b)

the amounts that are set off in accordance with the criteria in paragraph 42 of IAS 32 when determining the net amounts presented in the statement of financial position;

(c)

the net amounts presented in the statement of financial position;

(d)

the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b), including:

(i)

amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 42 of IAS 32; and

(ii)

amounts related to financial collateral (including cash collateral); and

(e)

the net amount after deducting the amounts in (d) from the amounting in (c) above.

The information required by this paragraph shall be presented in a tabular format, separately for financial assets and financial liabilities, unless another format is more appropriate.

13D

The total amount disclosed in accordance with paragraph 13C(d) for an instrument shall be limited to the amount in paragraph 13C(c) for that instrument.

13E

An entity shall include a description in the disclosures of the rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities subject to enforceable master netting arrangements and similar agreements that are disclosed in accordance with paragraph 13C(d), including the nature of those rights.

13F

If the information required by paragraphs 13B-13E is disclosed in more than one note to the financial statements, an entity shall cross-refer between those notes.

Effective date and transition

Paragraph 44R is added.

44R

Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7), issued in December 2011, added paragraphs IN9, 13A-13F and B40-B53. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. An entity shall provide the disclosures required by those amendments retrospectively.

After paragraph B39, headings and paragraphs B40-B53 are added.

Offsetting financial assets and financial liabilities (paragraphs 13-A-13F)

Scope (paragraph 13A)

B40

The disclosures in paragraphs 13B-13E are required for all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. In addition, financial instruments are within the scope of the disclosure requirements in paragraphs 13B-13E if they are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with paragraph 42 of IAS 32.

B41

The similar agreements referred to in paragraphs 13A and B40 include derivative clearing agreements, global master purchase agreements, global master securities lending agreements, and any related rights to financial collateral. The similar financial instruments and transactions referred to in paragraph B40 include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities borrowing, and securities lending agreements. Examples of financial instruments that are not within the scope of paragraph 13A are loans and customer deposits at the same institution (unless they are set off in B44 the statement of financial position), and financial instruments that are subject only to a collateral agreement.

Disclosure of quantitative information for recognised financial assets and recognised financial liabilities within the scope of paragraph 13A (paragraph 13C)

B42

Financial instruments disclosed in accordance with paragraph 13C may be subject to different measurement requirements (for example, a payable related to a repurchase agreement may be measured at amortised cost, while a derivative will be measured at fair value). An entity shall include instruments at their recognised amounts and describe any resulting measurement differences in the related disclosures.

Disclosure of the gross amounts of recognised financial assets and recognised financial liabilities within the scope of paragraph 13A (paragraph 13C(a))

B43

The amounts required by paragraph 13C(a) relate to recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amounts required by paragraph 13C(a) also relate to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement irrespective of whether they meet the offsetting criteria. However, the disclosures required by paragraph 13C(a) do not relate to B45 any amounts recognised as a result of collateral agreements that do not meet the offsetting criteria in

paragraph 42 of IAS 32. Instead, such amounts are required to be disclosed in accordance with paragraph 13C(d).

Disclosure on the amounts that are set off in accordance with the criteria in paragraph 42 of IAS 32 (paragraph 13C(b))

B44

Paragraph 13C(b) requires that entities disclose the amounts set off in accordance with paragraph 42 of IAS 32 when determining the net amounts presented in the statement of financial position. The amount of both the recognised financial assets and the recognised financial liabilities that are subject to set-off under the same arrangement will be disclosed in both the financial asset and financial liability disclosures. However, the amounts disclosed (in, for example, a table) are limited to the amounts that are subject to set-off. For example, an entity may have a recognised derivative asset and a recognised derivative liability that meet the offsetting criteria in paragraph 42 of IAS 32. If the gross amount of the derivative asset is larger than the gross amount of the derivative liability, the financial asset disclosure table will include the entire amount of the derivative asset (in accordance with paragraph 13C(a) and the entire amount of the derivative liability (in accordance with paragraph 13C(b)). However, while the financial liability disclosure table will include the entire amount of the derivative liability (in accordance with paragraph 13C(a)), it will only include the amount of the derivative asset (in accordance with paragraph 13C(b)) that is equal to the amount of the derivative liability.

Disclosure of the net amounts presented in the statement of financial position (paragraph 13C(c))

B45

If an entity has instruments that meet the scope of these disclosures (as specified in paragraph 13A), but that do not meet the offsetting criteria in paragraph 42 of IAS 32, the amounts required to be disclosed by paragraph 13C(c) would equal the amounts required to be disclosed by paragraph 13C(a).

B46

The amounts required to be disclosed by paragraph 13C(c) must be reconciled to the individual line item amounts presented in the statement of financial position. For example, if an entity determines that the aggregation or disaggregation of individual financial statement line item amounts provides more relevant information, it must reconcile the aggregated or disaggregated amount disclosed in paragraph 13C(c) back to the individual line item amounts presented in the statement of financial position.

Disclosure of the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(d)

B47

Paragraph 13C(d) requires that entities disclose amounts that are subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b). Paragraph 13C(d)(i) refers to amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 42 of IAS 32 (for example, current rights of set-off that do not meet the criterion in paragraph 42(b) of IAS 32, or conditional rights of set-off that are enforceable and exercisable only in the event of default, or in the event of insolvency or bankruptcy of any of the counterparties).

B48

Paragraph 13C(d)(ii) refers to amounts related to financial collateral, including cash collateral, both received and pledged. An entity shall disclose the fair value of those financial instruments that have been pledged or received as collateral. The amounts disclosed in accordance with paragraph 13C(d)(ii) should related to the actual collateral received or pledged and not to any resulting payables or receivables recognised to return or receive back such collateral.

Limits on the amounts disclosed in paragraph 13C(d) (paragraph 13D)

B49

When disclosing amounts in accordance with paragraph 13C(d), an entity must take into account the effects of over-collateralisation by financial instrument. To do so, the entity must first deduct the amounts disclosed in accordance with paragraph 13C(d)(i) from the amount disclosed in accordance with paragraph 13C(c). The entity shall then limit the amounts disclosed in accordance with paragraph 13C(d)(ii) to the remaining amount in paragraph 13C(c) for the related financial instrument. However, if rights to collateral can be enforced across financial instruments, such rights can be included in the disclosure provided in accordance with paragraph 13D.

Description of the rights of set-off subject to enforceable master netting arrangements and similar agreements (paragraph 13E)

B50

An entity shall describe the types of rights of set-off and similar arrangements disclosed in accordance with paragraph 13C(d), including the nature of those rights. For example, an entity shall describe its conditional rights. For instruments subject to rights of set-off that are not contingent on a future event but that do not meet the remaining criteria in paragraph 42 of IAS 32, the entity shall describe the reason(s) why the criteria are not met. For any financial collateral received or pledged, the entity shall describe the terms of the collateral agreement (for example, when the collateral is restricted).

Disclosure by type of financial instrument or by counterparty

B51

The quantitative disclosures required by paragraph 13C(a)-(e) may be grouped by type of financial instrument or transaction (for example, derivatives, repurchase and reverse repurchase agreements or securities borrowing and securities lending agreements).

B52

Alternatively, an entity may group the quantitative disclosures required by paragraph 13C(a)-(c) by type of financial instrument, and the quantitative disclosures required by paragraph 13C(c)-(e) by counterparty. If an entity provides the required information by counterparty, the entity is not required to identify the counterparties by name. However, designation of counterparties (Counterparty A, Counterparty B, Counterparty C, etc) shall remain consistent from year to year for the years presented to maintain comparability. Qualitative disclosures shall be considered so that further information can be given about types of counterparties. When disclosure of the amounts in paragraph 13C(c)-(e) is provided by counterparty, amounts that are individually significant in terms of total counterparty amounts shall be separately disclosed and the remaining individually insignificant counterparty amounts shall be aggregated into one line item.

Other;

B53

The specific disclosures required by paragraphs 13C-13E are minimum requirements. To meet the objective in paragraph 13B an entity may need to supplement them with additional (qualitative) disclosures, depending on the terms of the enforceable master netting arrangements and related agreements, including the nature of the rights of set-off, and their effect or potential effect on the entity's financial position.

Appendix

Amendment to

IAS 32 Financial Instruments: Presentation

Paragraph 43 is amended (new text is underlined).

43

This standard requires the presentation of financial assets and financial liabilities on a net basis when doing so reflects an entity's expected future cash flows from settling two or more separate financial instruments. When an entity has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial asset or financial liability. In other circumstances, financial assets and financial liabilities are presented separately from each other consistently with their characteristics as resources or obligations of the entity. An entity shall disclose the information required in paragraphs 13B-13E of IFRS 7 for recognised financial that are within the scope of paragraph 13A of IFRS 7.

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