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AMENDMENTS OF SRC RULE 68

SEC NOTICE, February 20, 2003

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Notice is hereby given that the Commission, in its meeting of February 20, 2003, resolved to approve the amendments of SRC RULE 68 in accordance with the following objectives:

1. Clarification of the applicability of the Rules

> "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 all corporations that file with the Commission audited financial statements that are prepared and presented in conformity with the generally accepted accounting principles in the Philippines, except those whose paid-up capital is less than P50,000.00.
>
> ii. Financial statement of branch offices of foreign corporations licensed to operate in the Philippines by the Commission shall likewise comply with the requirements of this Rule.

2. Inclusion of the changes brought about by the Statement of Financial Accounting Standards (SFASs)/International Accounting Standards (IASs) that took effect beginning January 1, 2002.

The following definitions are provided under section 1(b):

> "Control, for purposes of preparation of consolidated financial statements, is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of the voting power of an enterprise unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists even when the parent owns one half or less of the voting power of an enterprise when there is:
>
> A. Power over more than one half of the voting rights by virtue of an agreement with other investors;
>
> B. Power to govern the financial and operating policies of the enterprise under a statute or an agreement;
>
> C. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
>
> D. Power to cast the majority of votes at meetings of the board of directors or equivalent governing body.
>
> Parent is an enterprise that has one or more subsidiaries.
>
> Related parties exists when one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.
>
> Significant influence is the participation in the financial and operating policy decisions of an enterprise, but not in control of those policies. Significant influence may be exercised in one or more of the following ways:
>
> A. Representation on the board of directors or equivalent governing body of the investee;

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B. Participation in policy making processes;
C. Material intercompany transactions;
D. Interchange of managerial personnel; or
E. Dependence on technical information.

Significant influence may be gained by share ownership, statute or agreement.

Subsidiary is an enterprise that is controlled by another enterprise (known as the parent)

3. Simplification of the provisions by incorporating by reference the contents of the SFASs/IASs

a. Amendments of Section 2 on the General Guides to Financial Statements Preparation:

"a. In addition to the provisions in this Rule and those that will be subsequently issued or announced by the Commission, financial statements to be filed with the Commission shall be in accordance with the following Statements of Financial Accounting Standards (SFAS)/International Accounting Standards (IAS) and related Interpretations adopted by the Commission and the Accounting Standards Council (ASC):

Effective 2002

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Framework for the Preparation and Presentation of Financial Statements

SFAS 1

IAS 01

Presentation of Financial Statements (revised 2000)

SFAS 4

IAS 02

Inventories (revised 2000)

SFAS 7

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Contingencies and Subsequent Events

SFAS 8

-

Accounting for Effects of Changes in Foreign Exchange Rates

SFAS 9

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Summary of Generally Accepted Accounting Principles on Intangible Assets

SFAS 10

-

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Summary of Generally Accepted Accounting Principles on Investment

SFAS 13

-

IAS 08 Net Income or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

SFAS 18

-

Summary of Generally Accepted Accounting Principles on Stockholders' Equity

SFAS 19

-

Summary of Generally Accepted Accounting Principles on Banking Industry

SFAS 19A

-

Accounting for Investments in Debt and Marketable Securities of Banks (an amendment of SFAS 19)

SFAS 20

-

Accounting for Business Combinations

SFAS 22

IAS 07

Cash Flow Statements (revised 2000)

SFAS 23

-

Accounting for Income Taxes

SFAS 24

-

Retirement Benefit Costs

SFAS 25

IAS 23

Borrowing Costs

SFAS 26

IAS 11

Construction Contracts

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SFAS 27

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Accounting and Reporting for the Nonlife Insurance Industry

SFAS 28

IAS 18

Revenue

SFAS 29

IAS 33

Earnings Per Share

SFAS 30

IAS 34

Interim Financial Reporting

SFAS 31

IAS 14

Segment Reporting

Based on new format

SFAS 16 IAS 16 Property, Plant and Equipment

SFAS 24 IAS 24 Related Party Disclosures

SFAS 27 IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries

SFAS 28 IAS 28 Accounting for Investments in Associates

SFAS 31 IAS 31 Financial Reporting of Interests in Joint ventures

SFAS 35 IAS 35 Discounting Operations

SFAS 36 IAS 36 Impairment of Assets

i. SFAS Nos. 16, 24, 27, 28, 31, 35 and 36 above shall be effective for the period beginning January 1, 2002.

ii. SFAS Nos. 29 (Earnings per Share), 30 (Interim Financial Reporting) and 31 (Segment Reporting) shall only be applicable to companies covered by SRC Rule 68.1.

iii. The following SFAS have been approved by the ASC and are effective beginning January 1, 2003. The Commission encourages earlier application of these standards.

SFAS 8A

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Deferral of Foreign Exchange Differences

SFAS 10 IAS 10

Events after the Balance Sheet Date

SFAS 20 IAS 20

Accounting for Government Grants and Disclosures for Government Assistance

SFAS 22 IAS 22

Business Combinations

SFAS 37 IAS 37

Provisions, Contingent Liabilities and Contingent Assets

SFAS 38 IAS 38

Intangible Assets

b. Deletion of the following:

Annex 68-J (General Notes to Financial Statements)
Annex 68-K (Balance Sheet)
Annex 68-L (Income Statement)
Annex 68-M (Cash Flow Statement)
Annex 68.1-JJ (General Notes to Financial Statements)
Annex 68.1-MM (Cash Flow Statement)
Schedule E (Property, Plant and Equipment)
Schedule F (Accumulated Depreciation)

Section on Consolidated Financial Statement (included in SFAS 27) Determination on Current Assets and Current Liabilities (included in SFAS 1)

4. Disclosure of the following in December 2002 Financial Statements:

a. the nature and remaining undepreciated balance as of December 31, 2002 of foreign exchange losses capitalized as part of property, plant and equipment;

b. the unamortized balance as of December 31, 2002 of deferred losses arising from long term foreign exchange liabilities;

c. the nature and amount of intangible assets (e.g. pre-operating expenses) as of December 31, 2002 expected to be written off as a result of applying SFAS/IAS 38.

5. Additional requirements on the Statement of Management’s Responsibility of companies covered by Rule 68.1

a. The Statement of Management’s Responsibility to be submitted by companies covered by Rule 68.1 shall

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contain the following:

"The management of (name of reporting company) is responsible for all information and representations contained in the financial statements for the year(s) ended (date). The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

(name of auditing firm), the independent auditors and appointed by the stockholders, has examined the financial statements of the company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

Signed under oath by the following:

Chairman of the Board
Chief Executive Officer
Chief Financial Officer"

b. Signatory on the Statement submitted by branch offices of foreign corporations covered by Rule 68

"iii. In case of branch offices of foreign corporations, the above Statement shall be signed by its local manager who is in charge of its operations within the Philippines."

6. imposition of appropriate sanctions on any officer or director of a company covered by SRC Rule 68.1 who causes untrue or misleading information in the financial statements or materially incomplete financial reports.

The following provisions are added to section 6 (Penalties, Repealing Clause and Effectivity) of the Rule:

"iii. Any officer or director of a company covered by SRC Rule 68.1 who causes the disclosure of untrue or misleading information in the financial statements or the submission of a materially incomplete financial report of said entity, shall after due notice and hearing, be subject to a basic penalty of One Hundred Thousand Pesos (P100,000.00) plus a daily fine of Five Hundred Pesos (P500.00) until the information is corrected or completed. The same shall be without prejudice to the filing of appropriate criminal charges against the said person.

iv. The penalty under subparagraph (iii) hereof shall likewise be imposed on any officer or director of a company covered by SRC Rule 68.1 or any person acting under the direction of said officer or director or acting on his own, who fraudulently influences, coerces, manipulates or misleads the external auditor of such company or any other person(s) on whom such auditor relies, for the purpose of rendering the financial statement materially misleading."

7. Requirement on auditors' opinion on financial statements

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A new section is SRC Rule 68.1 is proposed to read as follows:

> "2. AUDITOR'S OPINION ON FINANCIAL STATEMENTS
>
> a. Under SEC Resolution No. 22, Series of 2003, the Commission discourages the submission of audited financial statements for companies covered by this Rule accompanied by an auditor's opinion which is other than unqualified. It is understood that the Commission retains the right to obtain clarification about the reason(s) for such opinion.
>
> b. Audited financial statements for periods beginning January 1, 2003 and thereafter, for companies covered by this Rule with auditor's opinion which is other than unqualified as a result of departure(s) from generally accepted accounting principles in the Philippines shall be deemed NOT FILED and appropriate sanctions shall be imposed thereon.

8. Distinction of periodic presentation of financial reports of companies covered by SRC Rule 68.1

Section 3 of SRC Rule 68.1 is amended to indicate separate requirements on periodic presentation of financial statements required to be submitted with the following filings:

a. Registration Statements;
b. Annual Report (SEC Form 17-A);
c. Information or Proxy Statements (SEC Form 17-IS/20).

The foregoing shall become effective for audited financial statements covering periods beginning January 1, 2002 and for interim financial statements starting the first quarter of 2003. All prior period financial data/inform shall be presented or restated to conform with the provisions of the amended Rule and the aforementioned new accounting standards for comparability.

The complete copy of SRC Rule 68, as amended, is available at the Commission's official website at www.sec.gov.ph.

Adopted: 20 Feb. 2003

For the Commission:

(SGD.) LILIA R. BAUTISTA
Chairperson

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