

RULES AND REGULATIONS IMPLEMENTING THE UNIFORM CHART OF ACCOUNTS FOR PRE-NEED PLAN COMPANIES

SEC, March 11, 1999

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Pursuant to Section 4 of the Revised Securities Act (RSA) of 1982 and RSA Rule 48-1: Rules and Regulations Covering Form and Content of Financial Statements, the following guidelines implementing the Uniform Chart of Accounts for Pre-Need Plan Companies are hereby adopted and promulgated.

OBJECTIVE

The basic purpose of financial accounting and financial statements is to provide quantitative financial information about a pre-need company. Specifically, the financial statements should provide reliable financial information about the economic resources and obligations of a pre-need company. This information aids in evaluating the company's ability to meet its commitments. The financial statements should also provide reliable information about the results of the company's profit-directed activities.

The financial accounting process is governed by generally accepted accounting principles, which determine the information that is included and how it is measured, journalized and presented in the financial statements.

The objective of this statement is to establish accounting and reporting standards for the financial statements of pre-need companies. Pre-need companies are the companies authorized by the Securities and Exchange Commission to sell pre-need plans.

SCOPE

This statement should be applied in accounting and reporting of pre-need companies of their operations and of the trust funds for each specific pre-need plan that the company is authorized to sell.

DESCRIPTION OF PRE-NEED PLANS

The primary purpose of pre-need plans as defined in the RSA, is to "provide for the payment and/or performance of future service(s) or monetary considerations at the time of actual need, the price for which is payable in cash or installment by planholders with or without interest and/or insurance coverage."

There are many types of pre-need plans. There are three major kinds classified in accordance with the benefits promised to be paid at the time of need.

- The Life Plan which provides cash or mortuary services upon, death of the planholder or his assignee.
- The Educational Plan which provides cash grants to the beneficiary of the plan or payments to the school for tuition fees and other education-related expenses of the beneficiary, for the duration of the course elected by the planholder.
- the Pension Plan which provides for the payment of cash benefit in one sum at a stated date, or periodic sums starting at a certain date, and for a fixed period and frequency as defined in the pre-need contract.

The price paid by the planholder for the pre-need plan is paid either in one sum at the issue date of the plan or

installments for a fixed period, usually between five (5) to ten (10) years. The installments may be annual, semi-annual, quarterly or monthly.

Because the price for a pre-need plan is paid long before the benefit or service to be rendered is due, the accounting for revenues, expenditures, assets, and liabilities for pre-need is similar to accounting for long duration contracts, like those of life insurance.

Pre-need contracts contain insurance benefits, usually to cover the risk of the inability to complete the installments of the pre-need price as a result of the death or total or permanent disability of the planholder. To further enhance the services provided under a pre-need plan, most pre-need contracts contain additional insurance covers for death due to natural causes, and accidental death. These insurance covers are provided by life insurance companies through the pre-need company. Because these benefits are obligations of the life insurance company to the planholder, and are described also in the pre-need contract, the premiums payable to the life insurance company and the insurance benefits payable to the beneficiary require attention when accounting for this transaction.

To guarantee the delivery of property or performance of services to the planholders, trust funds are set up for each type of plan, separate and distinct from the other assets of the pre-need company. Only benefit payments due the planholder or his beneficiary are allowed to be withdrawn from the trust funds. The trust funds must be established with a trust company, trustee bank or investment house under a trust agreement. These trust funds grow from the required deposits from collections of pre-need installments paid by planholders to the pre-need company, and from the income net of expenses derived from investments of the accumulated deposits. A minimum of 40% of the total completed installments of pre-need plans is required to be deposited into the trust fund.

However, at the end of each fiscal year, the trust fund is compared with the actuarial reserve liability computed by an actuary accredited by SEC, and hired by the pre-need company to calculate the actuarial reserve liabilities in all the pre-need plans. Any shortfall in the trust fund compared to actuarial reserve is required to be matched by an additional deposit to the trust fund by the company.

A grace period of 60 days is allowed within which a planholder can still pay his installment due. Inability of the planholder to pay within such period will render his plan lapsed, that is, without force and effect. However, he is given a period of two years to apply for reinstatement of his plan.-following certain requirements and procedures. These lapsed plans can potentially be reinstated as in-force plans, hence, are included among the plans for which actuarial reserve liabilities are set up to account for the inability of the company until the two year reinstatement period has expired.

In such case that the planholder decides to discontinue the plan, he can withdraw part of the installments he has already paid, called a termination value. There is a schedule of the minimum termination values based on percentages of installments paid, that a withdrawing planholder is entitled on the date he withdraws. The total amount of these termination values that may still be paid in the future, stays in the trust funds until the end of the two-year period from date of lapse.

PART 1 - CONTENTS OF FINANCIAL STATEMENTS

- For purposes of compliance with these rules, the basic contents of financial statements of a pre-need plan company shall consist of the following:
- Balance Sheet

- Statement of Income and Retained Earnings
 - Statement of Cash Flows
 - Notes to Financial Statements
 - Related Schedules like actuarial valuation report, trust fund statements, and other disclosures required under the SEC Circulars.
 - Financial Statements to be filed with the Commission shall be presented in comparative format, as of the end of each of the two most recent fiscal year periods; otherwise, the Auditor's Report shall include an explanation for presenting a single period statement.
 - A Pre-Need Plan Issuer or Company shall file financial statements in accordance with these Rules.
 - Balance Sheet - This shall indicate the various line items of assets, liabilities, and stockholder's equity as of given date, with certain additional disclosures on its face, or in the related accompanying explanation. (Balance Sheet Format is shown in Exhibit 1).
 - Statement of income and Retained Earnings - This is a combination of Income Statement and Statement of Retained Earnings. Income Statement summarizes business activities for a given period and reports net income or loss resulting from operations and from certain other defined activities. Statement of Retained Earnings simply reports undisturbed net income of past and current periods as a certain date with related changes appropriately shown herein. (Statement format is shown in Exhibit 11).
- A unique feature in the Income Statement is the information pertaining to Trust Fund Income during the year.
- Statement of Cash Flows - This Statement shows how the activities of the Company were financed and, how and/or where the financial resources were utilized during the reporting period.
 - Notes to Financial Statements - The Notes discusses significant accounting policies and changes in said policies, unusual or subsequent events that would be better understood with explanation, methods of valuation, financial arrangements, existence and amounts of dividends in arrears, etc.
 - Related Schedules.-In addition to the schedule showing trust fund operations for the year, the following schedules enumerated in Part IV (e) of the RSA Rule 48-1: Rules and Regulations Covering Form and Content of Financial Statements shall apply.
 - Schedule A - Marketable Securities - (Current Marketable Equity Securities and Other Short- Term Cash investment)
 - Schedule B - Amounts Receivables from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Affiliates)
 - Schedule C - Non-Current Marketable Equity Securities, Other Long-Term Investments in Stocks, and Other Investments
 - Schedule D - Indebtedness of Unconsolidated Subsidiaries and Affiliates.
 - Schedule E - Property and Equipment
 - Schedule F - Accumulated Depreciation
 - Schedule G - Intangible Assets and Other Assets

- Schedule H - Long-Term Debt
- Schedule I - Indebtedness to Affiliates and Related Parties
- Schedule J - Guarantees of Securities and Related Parties
- Schedule K - Capital Stock

PART II - CHART OF ACCOUNTS, BRIEF DESCRIPTION, AND THEIR FINANCIAL STATEMENTS PRESENTATION

A. These Rules supplement the definition and description of terms provided in RSA Rule 48-1: Rules and Regulation Covering Form and content of Financial Statements, particularly:

- Part I (b): Definition of Terms Used
- Part IV (b) (1) - (32): Balance Sheet -Form of Statement
- To certain applicable extent, Part IV (c) (1) - (15): Statements of Income and Retained Earnings - Form of Statement

b. These Rules also supplement Section 1 of the New Rules on the Registration and Sale of Pre-Need Plans and Similar Contracts and Investments.

c. it is emphasized, however, that Accounts described herein are the ones most commonly observed in the books of pre-need companies.

A. Balance Sheet Accounts

1. Current Assets

- Cash on Hand and in Banks - The caption "cash" or "cash on hand or in banks" includes currency or cash items on hand (such as cash items awaiting deposit and cash working funds) as well as peso or foreign currency deposit in banks which are unrestricted and immediately available for use in current operations. Foreign currency deposits shall be recorded at their respective foreign currency amounts and at their local currency equivalent at the applicable rate of exchange on transaction date. Notes to financial statements shall include disclosure of the amount of foreign currency in US\$ equivalent and peso equivalent at both historical or booking rate and at the applicable exchange rate at report date.

- Short-Term Investments - sometimes called Marketable Securities - This account should include only those securities which are readily marketable (i.e. such items which represent temporary investments of funds available for current operations and are intended to meet working capital requirements. This account usually includes current marketable equity securities (e.g. common-, preferred and other capital stock for which there is an active trading market) and other short-term cash investments such as investments in bonds, commercial papers, government obligations and certificates of deposits. Redeemable preferred shares and convertible debts, however, shall be treated as debt instruments and included in bonds, mortgages, notes and other similar debt instruments.

The purpose served by the investments is the controlling factor for its proper financial statements presentation. Investments in securities that are marketable are not normally classified among current assets if these are acquired for purposes of control, affiliation or for some continuing business advantage. Securities which are readily marketable may be held for several years and still be properly classified as short-term investments if management intends to sell them for working capital purposes whenever the need arises.

Marketable equity securities shall be carried at the lower of its aggregate cost or market value, determined at

balance sheet date., the amount by which aggregate cost of the portfolio exceeds market value shall be accounted for as the valuation allowance.

Other short-term investments, on the other hand, should be reported at cost adjusted for any loss on price decline of the investments. The allowance for decline in value should be disclosed.

C. Other Receivables - This is a major account comprised of the following subsidiary accounts:

- Insurance Claims Receivables - This refers to company
- claims for the insurer for the unpaid balance of installments arising from the demise or disability of an insured planholder. (insurance claim arising from the loss or damage to company properties or equipment are carried under "Other Insurance Claims" accounts, a subsidiary to "Other Receivables").
- Accounts Receivable - Rendered Service - This refers to receivables from planholders representing the unpaid balance of the gross price of an assigned plan already serviced.
- Receivables from Trust Fund - This account represents advances by the company for plan benefits paid to planholders that are chargeable to the trust fund. This amount must be deducted from the trust fund.
- Advances to DOSRI - This represents cash advances extended by the company to its Directors, Officers, Stockholders and Related Interests such as employees, agencies and agents,
- If significant in amount, other receivables should be segregated by type, otherwise, they may be grouped in one figure captioned as accounts Receivable- Others, or another equivalent title.

d. Inventories - When applicable, inventories which consists of caskets, urns and memorial lots are carried at cost.

e. Other Current Assets - This represents other items not readily and properly classified in any one of the preceding asset captions or items not sufficiently material to warrant a separate action. If it is in excess of 5% of total current assets, it must be stated separately.

2. Trust Fund - Trust Fund refers to the net asset value in a trust set up in a duly licensed trustee for providing for the cost of the benefits or services to be rendered. The pre-need company deposits the prescribed portion of the amount paid by the planholder. At all times, the net asset value in the trust fund should not be less than the Actuarial Reserve Liabilities (ARL) as determined by an actuary accredited by SEC.

The Trust Fund shall be invested only in assets defined in the SEC Circular. Assets in the trust fund shall be valued based on the SEC Rules and the provisions of SFAS No. 10 "Summary of Generally Accepted Accounting Principles on Investments," and Exposure Draft (ED) No. 30.

The compositions of the trust fund and its movements during the periods presented should be disclosed in the Notes to Financial Statements, including relevant investment policies adopted by the trust company, bank or investment house administering the fund.

No part of the income from Trust Fund can be used to pay dividends to stockholders.

Where there is an ambiguity between the amount of trust fund equity reported by the trustee as against amount shown in the Balance sheet, a reconciliation of the conflicting figures detailing the cause or causes thereof, shall be shown in the Notes to Financial Statements.

3. Installment Contracts Receivables (ICR) – This represents outstanding account balances arising from sales of pre-need plans on the installment basis. Installment contracts receivables include the outstanding unpaid installments of lapsed but reinstatable plans or plans in default for not more than two years. Plans lapsed for more

than two years may be cancelled by the company. Cancelled plans are taken off the books and the outstanding balances of cancelled plans and of surrendered plans are deducted from the installment contracts receivables account. (The number and total amount of contract price of plans lapsed for a period of two years or less, and the number and total amount of contract price of lapsed plans reinstated during the year should be disclosed in the Notes to Financial Statements.)

4. Other Investments

Investments that are not readily marketable and are not intended to meet working capital requirements are classified under this account.

Investments in securities of affiliates and related parties should be shown separately from other long-term investments in stocks. Investments in common stocks of subsidiaries and affiliated companies should be accounted for based on SFAs No. 10 and ED No. 30.

5. Property and Equipment

This account shall include all tangible assets that are used in the conduct of the business and are not intended for sale in the ordinary course of business; and with estimated useful lives exceeding one year.

Property and Equipment are generally carried at cost less allowance for depreciation. In case of revaluation, SFAs No. 12 should be applied.

Leasehold improvements are included under this caption if material in amount and if the terms of the lease extend over a long period of time; otherwise, the amount may be shown among deferred charges or other assets. They should be amortized over the remaining term of the lease (including renewal periods if it is probable that a renewal option will be exercised) or the life of the property whichever is shorter.

6. Deferred Charges and Other Assets

This account is a major non-current asset grouping in the Balance Sheet which absorbs subsidiary account balances amounting to less than 5% of Total Assets. If more than 5%, each subsidiary account shall be presented separately under this grouping.

All sales compensations (commissions, overrides and the like) cannot be deferred because the generally higher rates of sales compensation in the first year are offset by the lower actuarial reserve requirement in the first year, and lower minimum trust fund deposit requirements in the first two years.

Example of asset accounts under this classification include, but not limited to, the following:

- Pre-Operating Expenses - This represents actual expenses incurred in establishing a pre-need company, or in opening a branch office thereof. The cost may include legal fees, promotional fees, incorporation fees, etc. the combined amount of which, is amortized normally over a period of five (5) years.
- Other Assets - This represents other items not readily and properly classified in any one of the preceding asset captions or items not sufficiently material to warrant a separate caption. If it is in excess of 5% of total assets, it must be stated separately.

7. Current Liabilities

- Accounts Payable and Accrued Expenses - This is a major grouping current liabilities in the Balance Sheet which shall include, but is not limited to, the following:
- Taxes Payable - This represents value added tax, documentary stamp tax and other taxes payable by the pre-need

company to the government in accordance with RA 8424.

- Insurance Premium Payable - This includes liabilities for unpaid premiums on group insurance of company's personnel and non-life insurance premiums for company's property and equipment, etc.
- Other Current Liabilities - The following accounts may be stated separately if material in amount:
 - Dividends declared and not paid at balance sheet date
 - Acceptances payable
 - Liabilities under trust receipts
 - Portion of long-term debt due within one year
 - Any other current liability in excess of 5% of total current liabilities.

8. Actuarial Reserve Liabilities (ARL)

Actuarial Reserve Liabilities represent the accrued net liabilities of the pre-need company to its planholders, as determined and certified by an actuary accredited by the SEC in accordance with generally accepted actuarial principles and practices together with the standards and guidelines set by the SEC; or, in their absence, the actuarial standards and guidelines of the Actuarial Society of the Philippines, or, in their absence, the international actuarial principles and standards. The actuarial reserve of any plan should not be less than the corresponding termination or surrender value of the plan.

9. Benefits Payable

This account includes amounts payable to planholders and beneficiaries, in the course of settlement, and incurred but not reported claims on the pre-need contract such as due but unpaid matured benefits, surrender benefits and annuity payments.

10. Planholder's Deposit

- Planholder's Deposit-Insurance Premium – Amount collected from the planholder for the payment of planholder's insurance premiums to the insurer.
- Planholder's Deposit -Others - This represents amount received from the planholder for any of the following:
 - Payment with application for a new plan not yet issued,
 - Excess fractional payments of a regular installment, and
 - Payment received with application for the reinstatement of lapsed plan, within two years from date of lapse, with pending approval.

11 Estimated Benefit Provision in ICR -

This account represents provision for benefits and other related expenses in the outstanding Installment Contracts Receivable (ICR) of all plans sold on installment basis, as prescribed by the actuary in the actuarial pricing study approved by SEC. This account plus Unrealized Gross Income (UGI) in ICR shall be at all times equal to ICR.

13. Counselor's Bond Reserve

This account represents the aggregate amount of deductions from salesmen and agents' commissions, bonuses, and other cash incentives to accumulate a reserve. Upon separation of a salesman or agent from the company, his

accountability will be charged to his accumulated bond reserves.

14. Other Liabilities

This represents other items not properly classified in any one of the preceding liability captions or items not sufficiently material to warrant a separate caption. If it is in excess of 5% of total liabilities, it must be stated separately.

15. Stockholder's Equity

This is a major section of the Balance Sheet which consists of , but is not limited to, the following prime accounts:

- Authorized Capital Stock

- Subscribed Capital Stock

- Paid-up Capital Stock

- Additional Paid-in capital

- Retained Earnings

- i) Unappropriated

- ii) Appropriated - (shall be specified as to purpose)

Retained earnings can not be declared as dividends without prior approval from SEC.

B. Statement of Income and Retained Earnings

1. Income

a. Realized Gross Income

This account represents estimated gross income from collections of plan contracts. If ICR has been set up, the amount of realized gross income is determined by applying the estimated gross income rate used in setting up the UGI, to the actual collections.

This account is presented in the income statement as the major source of revenue of pre-need companies.

b. Other Operating Income

Under this grouping, the following subsidiary accounts shall be separately presented:

- Handling Fee

This represents handling charges associated with installment payments other than annual basis or spot-cash sales.

- New Issue Fee

This is normally a one time charge to new pianholders to cover underwriting and processing service of the application, which can be a fixed amount or as a percentage of the contract price.

- Amendment Fee

This represents a fixed amount or percentage of the contract price charged to pianholders who apply for amendment of their in-force plans to cover processing fee for lost contracts.

- Reinstatement Fee

This represents a fixed charge to planholders on past-due installment payments of lapsed plans, and is different and separate from reinstatement fee.

c. Other Income

Under this grouping, the following subsidiary accounts are separately presented:

- Trust Fund Income

This account represents all income generated by the trust fund.

- Commission Income

This pertains to commission/referral fees received by the company.

- Investment/Interest Income

This account refers to the amount of interest from securities of affiliates and unconsolidated subsidiaries, marketable securities and other securities held by the company other than trust fund income.

d. Realized Capital Gains

This represents gain or loss on disposal of securities. Gains are net of losses and losses are net of gains. Disclose the method followed in determining cost of securities sold.

e. Miscellaneous Income

This refers to any material amount of miscellaneous income net of deductions.

2. Operating Expenses

a. Plan Benefits

This pertains to benefits to planholders and/or beneficiary/ies, paid and accrued, such as, maturity, termination benefit, etc.; except benefits paid from insurance coverages.

b. Increase (Decrease) in Actuarial Reserve Liabilities

This account is equal to the actuarial reserve as determined by an actuary accredited by the SEC as at the end of the current year minus the sum of the reserve as of end of previous year and any additional actuarial reserve liabilities credited during the year from installments of plan price collected less realized gross income, and any increase in the reserve on account of change in valuation basis, if any such change occurred during the year.

c. Direct/Acquisition Costs

This is a major grouping of costs and expenses accounts immediately related to sales of pre-need plans, and of acquiring the same. The following subsidiary accounts shall be presented separately under this grouping.

- Commissions, Bonuses, and Incentives

This represents compensation paid to sales personnel for the production of new business, and for servicing existing business pursuant to a formal "Commission Agreement." This compensation must not exceed the limit set by the SEC. All sales compensations must be expensed as they are incurred.

- Collection Fees and Bonuses

This covers incentives granted for collection of non-commissionable installment accounts by authorized agents.

This account may be presented separately from the account "Commissions, Bonuses, and Incentives", or as part thereof, depending upon the materiality of the amount. Collection fees and bonuses must not exceed the limit set by the SEC.

- Taxes

This pertains to the taxes paid by the pre-need company except income tax.

- Prizes and Awards

This account includes cost of prizes, awards and incidental expenses incurred in giving out prizes and awards, and other benefits granted to sales personnel for outstanding achievement in selling pre-need plans.

- SEC Registration Fee

This pertains to the registration/filing fee paid to SEC.

d. General and Administrative Expenses

Expenses not included in the foregoing are classified as "General and Administrative" or "Management and Operating Expenses" detailed on the face of the Statement of Income and Retained Earnings, or in a separate listing schedule, or in the related "Notes to Financial Statement."

PART III - ADDITIONAL DISCLOSURES

- Where additional explanation of data are expected of the account in the Financial Statements, reference to the related "Notes to Financial Statements" shall be indicated after the account. In the balance sheet, trust funds account shall reflect a notation "Schedule No. ____" for additional explanation how the trust fund equity has been arrived at.

- Due to the high expectation of USERS. of the financial statements, information pertaining to TOTAL COLLECTIONS FOR THE YEAR shall be shown or disclosed in the Income Statement, or in the accompanying "NOTES to Financial Statements."

TOTAL COLLECTIONS FOR THE YEAR shall mean Gross Collections from payments of the Contract Price of Pre-need Plans.

PART IV - PENALTIES AND EFFECTIVITY

A. Penalties

1. Financial Statements submitted to this Commission must adhere strictly to the provisions herein set forth. Any Financial Statement filed not in accordance with these Rules shall be considered as not having been filed, and the corresponding penalties imposed by the Commission shall be computed from the due date until the filing of the corrected financial statements.

2. When there is proof of deliberate or willful violation of these Rules, the Certified Public Accountant who issued a clean opinion on the financial statements shall be suspended or barred from practicing before this Commission for such period of time as it may be deemed necessary or adequate.

B. Repealing Clause

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

C. Effectivity

The implementation of these Rules shall be required for financial statements of pre-need companies with fiscal years that start in any month of the calendar year 1999.

These Rules shall take effect fifteen (15) days after publication in a newspaper of general circulation in the Philippines or in the Official Gazette.

Adopted: 11 March 1999

(SGD.) PERFECTO R. YASAY, JR.

Chairman

Securities and Exchange Commission

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