

YEAR 2000 STATEMENT

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WHEREAS, the Commission on 06 October 1998 has issued Memorandum Circular No. 9, Series of 1998 re: Year 2000 ("Y2K") Compliance. In furtherance therewith, the Commission finds it urgently necessary to sustain the efforts of the pre-need companies to become Y2K ready before the turn of the century and likewise maintain the planholders' trust and confidence in the Philippine economy;

WHEREAS, business entities are required to disclose material (forward-looking) information that will virtually affect investment decision. Planholders should be informed of the company's Y2K status through the eyes of the management;

WHEREAS, pursuant to R.A. 8747 otherwise known as the "Philippine Year 2000 Disclosure and Readiness Act," the Commission, in accordance with its mandate to protect public interest and the investing public, shall assist the Presidential Commission on Year 2000 Compliance in its awareness drive; and

WHEREAS, it is imperative to address the apprehensions among planholders on Y2K issues, namely: a) the planholders' risks involved, b) projected company's operational losses, c) contingent liabilities or civil damages, and d) business as a going concern.

In view thereof, pre-need companies are hereby required to submit its Year 2000 Statement to this Commission in the following form and contents:

1. Form. — The statement shall be in a form of Management Discussion and Analysis (MD&A).

2. Contents. — The MD & A shall contain the following:

a) State of readiness. — The pre-need company should describe the Year 2000 issues in sufficient detail to allow planholders to fully understand the challenges that it faces. The company shall discuss its internal Y2K readiness such as its own software and hardware including non-IT systems typically to include embedded technology such as microcontrollers; where it is in the process of becoming ready for year 2000 (progress by phase, including time table for completion of each phase), and the Y2K readiness of its suppliers and clientele. Further discussion shall also include any owned or leased machinery and equipment it utilizes with embedded microchips.

b) The costs incurred to address Year 2000 issues. — The company must disclose material historical and estimated costs of remediation. This includes costs directly related to fixing Year 2000 issues, such as modifying software and hiring Year 2000 solution providers. In most case, the replacement cost of a non-compliant IT system should be disclosed as an estimated Year 2000 cost. This is true even if the company had planned to replace the system and merely accelerated the replacement date. The company need not include the replacement cost as a Year 2000 estimated cost if it did not accelerate the replacement due to Year 2000 issues.

c) The risks of Year 2000 issue. — The company must include a reasonable description of its most reasonably likely worst case Year 2000 scenarios. The essence of this topic is whether the consequences of a known event, trend, or uncertainty are likely to have a material effect on the company's results of operations, liquidity, and

financial condition. If the company does not know the answer, this uncertainty must be disclosed, as well as the efforts made to analyze the uncertainty and how the company intends to handle this uncertainty. For example, the company must disclose estimated material lost revenue due to Year 2000 issues, if known.

d) The contingency plans. — The company must describe how it is preparing to handle the most reasonably likely worst case Year 2000 scenarios. This information will help planholders; evaluate the company's Year 2000 exposure by answering the important question — "What will the company do if it is not ready?" Under this category of information, the company must describe its contingency plans. In this case, if there is no contingency plan adopted yet, such should be disclosed or that it intends to create one, and the timetable for doing so.

Such plans should cover alternative business sites, energy sources, and the means whereby the entity could continue its business. The plans should focus principally on mission-critical business operations, and the ability of the regulated entity to transfer customer accounts to firms that can provide the same or equivalent services. Contingency and continuity plans should detail the circumstances and dates for implementation. Testing and validation of contingency and continuity plans should also be considered.

e) Other suggested disclosures if applicable:

i) As of the end of each reporting period, disclose how much of the total estimated Year 2000 project costs have already been incurred.

ii) Identify the source of funds for Year 2000 costs, including the percentage of the IT budget used for remediation. This allows planholder to determine whether Year 2000 funds will be deducted from the company's income.

iii) Explain if other IT projects have been deferred due to the Year 2000 efforts, and the effects of this delay on financial condition and results of operations.

iv) Describe the use of any independent verification and validation processes to assure the reliability of their risk and cost estimates. The use of independent verification may be particularly important in the testing phase.

v) Use of chart to provide Year 2000 disclosure. The chart may help planholders track a company's progress over time, as it is updated, and make peer comparisons based on the same data. In addition, a chart can reduce lengthy Year 2000 disclosure that otherwise may overwhelm other disclosure.

vi) Include a breakdown of the costs, such as disclosure of costs to repair software problems, and costs to replace problem systems and equipment.

All securities broker/dealers, transfer agents, investment houses, and investment company managers/advisers are required to provide a copy of their Year 2000 Statement to their existing clients on or before 20 September 1999 and to any prospective clients between this date and 01 January 2000.

Likewise, all member brokers, transfer agents, investment houses, and investment company managers/advisers are likewise required to submit the Y2K Statement to the PSE, PASTRA, IHAP and ICAP, respectively. A contract unit/person shall be assigned by the respective association for whom members can address their concerns. The PSE/PASTRA/IHAP/ICAP, in turn, are hereby required to examine the year 2000 Statements submitted by their members and to advise this Commission and any member whose preparedness is found to be inadequate. Likewise, the PSE/PASTRA/IHAP/ICAP shall submit a report to the Commission on the overall compliance of its members by 30 November 1999.

The Year 2000 statement shall be signed by the President or the Chairman of the Board and must be notarized.

The Year 2000 Statement Report as of August 31, 1999 shall be submitted on or before September 20, 1999 while

the Year 2000 Statement Report as of October 31, 1999 shall be submitted on or before November 20, 1999.

3. Exemptions. — Any pre-need company who wishes to apply for exemption shall file a written request for exemption from this circular with the Commission indicating the reason/s therefor within ten (10) days from the effectivity of this circular. The Commission, upon its own discretion may grant or deny such request.

4. Penalty. — Late filing or non-compliance hereof shall be a ground for the imposition of a penalty of fine in the amount of fifty thousand (P50,000.00) pesos as basic penalty; and additional five hundred (P500.00) pesos for everyday of delay in filing thereof, without prejudice to other sanctions against the company and its officers as may be allowed by existing laws, rules and regulations.

5. Effectivity. — This circular shall take effect immediately.

Adopted: 02 Sept. 1999

(SGD.) DANILO L. CONCEPCION.

Associate Commissioner

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