

**PHILIPPINE INTERPRETATIONS COMMITTEE (PIC)  
QUESTIONS AND ANSWERS (Q&As)**

**Q&A No. 2007-03**

**PAS 40.27 – Valuation of bank real and other properties acquired (ROPA)**

**Background**

The Bangko Sentral ng Pilipinas (BSP) prescribes, in its Circular No. 494, dated September 20, 2005, as amended, that properties acquired in settlement of loans be booked under the real and other properties acquired (ROPA) account, initially at the “carrying amount of the loan plus booked accrued interest less allowance for credit losses plus transaction costs incurred upon acquisition.” Subsequently, said properties shall be accounted for using the cost model.

The BSP deems that this accounting provides a more prudent approach than using fair value in the initial and subsequent measurement of the ROPA considering that the appraisal industry needs further strengthening and the property market in the Philippines is not yet as developed compared to more advanced economies.

Under paragraph 27 of PAS 40, *Investment Property*, the cost of an investment property acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable.

Under paragraph 30 of PAS 40, the investment property is measured subsequently either based on the fair value model or the cost model.

**Issue**

Is the BSP prescribed accounting for ROPA consistent with the provisions of applicable PAS; and, if so, can it be required for banks?

**Consensus**

Under PAS 40, the asset received in exchange for a loan receivable is measured at fair value unless the (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. Accordingly, under PAS 40, a bank can measure ROPA upon initial recognition at fair value provided the specified conditions are met. At subsequent measurement, the bank is allowed to choose either the fair value model or the cost model.

The reliability of fair values and, consequently, of the appraiser, is a matter that needs to be addressed by the BSP, possibly by the accreditation of appraisers similar to what the Securities and Exchange Commission (SEC) requires for appraisers.

Alternatively, the BSP need not consider fair values used in a bank’s general purpose financial statements for regulatory accounting purposes.

**Effective Date**

The consensus in this Q&A is effective from April 19, 2007, the date of approval by the FRSC. Earlier application is encouraged.

Date approved by PIC: February 21, 2007

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Date approved by FRSC: April 19, 2007