



Republic of the Philippines  
Department of Finance  
**Securities and Exchange Commission**  
SEC Bldg. EDSA, Greenhills, Mandaluyong City



## **NOTICE**

Notice is hereby given that the Commission En Banc in its meeting of April 19, 2007, resolved to adopt the following revised requirements on reserving and liability recognition of pre-need companies covering their audited financial statements (AFS) for the period ended December 31, 2006:

- (a) The net asset value in the trust fund shall be equal to the required Pre-need Reserves computed pursuant to the method prescribed herein;
- (b) Pre-need Reserves (PNR) shall be set up for all pre-need benefits guaranteed and payable by the pre-need company as defined in the pre-need plan contracts;
- (c) In recognizing PNR, the general requirements of PAS 37 on provisioning and the specific methodology provided under this item shall be complied with by the company;
- (d) The amount recognized as a provision to cover the PNR shall be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision;
- (e) Since the effect of the time value of money for pre-need plans is material, the amount of provision shall be the present value of the funding expected to be required to settle the obligation with due consideration of the different probabilities, as follows:
  - (i) On Currently-Being-Paid Plans
    - (1) Provision for termination values applying the surrender rate experience of the company. The trend of surrender rate experience shall be disclosed in the company's notes to financial statements;
    - (2) Liability shall be set-up for the portion of currently-being-paid plans that will reach full payment, applying the full payment experience of the company. It shall be equivalent to the present value of future maturity benefits reduced by the present value of future trust fund contributions required per Product Model discounted at the approved hurdle rate per Product Model of the company.

(ii) On Lapsed Plans within the Allowable Reinstatement Period

Provision for termination values applying the reinstatement experience of the company. The trend of reinstatement experience shall be disclosed in the company's notes to financial statements;

(iii) Fully Paid Plans

(1) For those due for payment within the next five (5) years, the reserve shall be the present value of future maturity benefits discounted at the attainable rate, as determined and certified by the company's trustee using industry best practices and principles which shall indicated in such certification;

(2) For those not yet due for payment within the next five (5) years, the reserve shall be the present value of future maturity benefits discounted at the approved hurdle rate per Product Model of the company.

- (f) Future events that may affect the foregoing amounts shall be reflected in the amount of the provision for PNR where there is sufficient objective evidence that they will occur;
- (g) Any pre-need company which adopts the foregoing reserving method shall discuss in its notes to financial statements its concrete plan on the sourcing of funds to cover its committed augmentation of the difference between the hurdle and attainable rates, during the periods when it used hurdle rates in the computation of its reserving requirements;
- (h) The rates of surrender, cancellation, reinstatement, utilization, and inflation, when applied, must consider the actual experience of the company in the last three (3) years, or the industry, in the absence of a reliable company experience;
- (i) The computation of the foregoing assumptions shall be validated by the internal qualified actuary of the pre-need company. His or her validation report shall be provided to its external auditors for purposes of statutory audit of the financial statements of the company, and shall be submitted to the Commission as a separate report;
- (j) The probability of pre-termination on surrender of fully paid plans, shall be considered in determining the Pre-need Reserves of fully paid plans. A pre-termination experience on fully paid plans of 5% and below shall be considered insignificant. In such cases, derecognition of liability shall be recorded at pre-termination date;
- (k) The disclosure requirements under PAS 1 relative to methods and assumptions used to estimate the ARL including the sensitivity of the ARL amount, shall be complied with;

- (l) Any excess in the amount of the trust fund as a result of the revised reserving method shall neither be released from the fund nor be credited/off-set to future required contributions.

As a transition to the aforementioned revised requirements, the Commission likewise resolved the following:

- (a) For all pre-need companies which have already prepared and completed their 2006 AFS and AVR pursuant to the existing rules and regulations, they are given up to April 30, 2007, within which to submit said reports without penalty;
- (b) Those with trust fund deficiency as a result of the use of the old requirements, may submit not later than May 30, 2007, a separate financial presentation using the revised method for evaluation and appropriate consideration by the Commission;
- (c) Those which will adopt the revised requirements in their 2006 AFS shall inform the Commission in writing of such intention on or before April 30, 2007. Such companies are given up to May 30, 2007, within which to submit their 2006 AFS and the supporting validation report by their internal qualified actuaries.

The foregoing revised requirements on reserving and liability recognition of pre-need companies shall be effective unless further amended or superseded by a new rule by the Commission.

April 20, 2007, Mandaluyong City, Philippines.

(SGD.) **FE B. BARIN**  
Chairperson