



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

INTERPRETATIVE BULLETIN NO. 1, Series of 2008

To: 1. Pre-Need Corporations
 2. Pre-Need Actuaries
 3. Pre-Need Validators
 4. Pre-Need External Auditors

Re: Pre-Need Rule 31, as amended

Date: January 17, 2008

This Bulletin is issued by the Securities and Exchange Commission to guide pre-need corporations, pre-need actuaries/validators and pre-need external auditors in the implementation of Rule 31 (I)(A)(11-13), as amended, on Accounting Standards for Pre-Need Plans and Pre-Need Uniform Chart of Accounts.

1. Does the Pre-Need Reserve (PNR) cover the liabilities for education plan, life plan and pension plan?

Yes. The PNR (or the reserve for education plan, life plan and pension plan) represents the present value of future pre-need benefits less present value of future trust fund contributions. The PNR of the three (3) plan types should be maintained separately as they differ in the treatment of assumptions. The amount indicated as PNR shall be the same as that stated in the Actuarial Valuation/Validation Report (AVR) and Audited Financial Statements (AFS) with the required disclosures. The valuation/validation date of the AVR must coincide with the fiscal year ending of the AFS.

In the disclosure to the AVR and to the Notes to the AFS, the amount of PNR for each type of plan should be reported separately and accompanied by the actuarial assumptions and the basis for each assumption.

2. Can a discount rate lower than the SEC-approved hurdle rate per product model of the company be used in the computation of the PNR?

No. The company should compute the PNR using the SEC-approved hurdle rate per product model for Currently Being Paid Plans and Fully Paid Plans whose benefit payments are not due within the next five (5) years.

CERTIFIED XEROXED COPY
1 PAGE OF 7 PAGES
OFFICE OF THE COMMISSION SECRETARY
including exhibits. *fyd*

The company may also compute the present value of its liabilities using a lower discount rate other than the SEC-approved hurdle rate and the difference between the two computations shall be booked under the account "Other Reserves" in the AFS, per Pre-Need Rule 31.1 (A) (13), as amended.

For the AFS and AVR disclosure of the hurdle rates and other actuarial assumptions used in the computation of the PNR, the figures shall be specified for each individual subsidiary account of each type of plan, as illustrated below:

Sample A: For Currently Being Paid Pension Plans

Type of Pre-Need Product	PNR using Attainable Interest Rate		PNR Using the SEC-Approved Hurdle Rate Per Product Model				Computation of Reserves Using Other Interest Rate, if applicable	
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total	-	-	-	-	-	Pxxx	-	-
Product A	-	-	10	Sept. 15, 2004	SEC Order No. xxxxx	Pxxx	-	-
Product B	-	-	12	March 15, 2000	SEC Order No. xxxx	Pxxx	-	-

Sample B: For Currently Being Paid Pension Plans

Type of Pre-Need Product	PNR using Attainable Interest Rate		PNR Using the SEC-Approved Hurdle Rate Per Product Model				Computation of Reserves Using Other Interest Rate, if applicable	
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total	-	-	-	-	-	Pxxx	-	Pxxx
Product A	-	-	10	Sept. 15, 2004	SEC Order No. xxxxx	Pxxx	7	Pxxx
Product B	-	-	12	March 15, 2001	SEC Order No. xxxx	Pxxx	7	Pxxx

CERTIFIED XEROXED COPY
2 PAGE OF 9 PAGES
 OFFICE OF THE COMMISSION SECRETARY

fyd

Sample C: For Fully Paid Pension Plans

Maturity Period and Type of Pre-Need Product	PNR using Attainable Interest Rate		PNR Using the SEC-Approved Hurdle Rate Per Product Model			Computation of Reserves Using Other Interest Rate, if applicable		
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total		Pxxx				Pxxx		
Due for benefit payment within the next 5 years								
Product A	6	Pxxx	-	-	-	-	-	-
Not yet due for benefit payment within the next 5 years								
Product B	-	-	12	April 4, 1995	SEC Order No. xxxx	Pxxx	-	-

Sample D: Fully Paid Pension Plans:

	PNR using Attainable Interest Rate		PNR Using the SEC-Approved Hurdle Rate Per Product Model			Computation of Reserves Using Other Interest Rate, if applicable		
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total		Pxxx				Pxxx		Pxxx
Due for benefit payment within the next 5 years			-	-	-	-	6	Pxxx
Product A	6	Pxxx	-	-	-	-	-	-
Not yet due for benefit payment within the next 5 years								
Product B	-	-	12	April 4, 1995	SEC Order No. xxxx	Pxxx	6	Pxxx
Product C	-	-	10	July 15, 2000	SEC Order No. xxxx	Pxxx	6	Pxxx

CERTIFIED XEROXED COPY
3 PAGE OF 7 PAGES
 OFFICE OF THE COMMISSION SECRETARY

Jgd

3. What accounts, other than Insurance Premium Reserves, can be booked under "Other Reserves" in the Audited Financial Statements?

Under Pre-Need 31.1 (A)(13), as amended, or the account "Other Reserves," the company may, at its option and as a prudent measure, set up other provisions. Thus, the "Other Reserves" account may include the following items:

- 1) general administrative expense after the paying period;
- 2) paid-up capital reserves;
- 3) reserve for the difference in the PNR computation using a rate other than the SEC-approved hurdle rate; and
- 4) other reserves as may be allowed by the Commission.

4. How shall dividends payable to participating pre-need plan products that are declared out of the Trust Fund be classified in the Audited Financial Statements?

The dividends payable to participating pre-need plan products from the Trust Fund shall be classified under the account "Accrued Expenses and Other Liabilities," as provided for in Pre-Need Rule 31.1(A)(11), as amended. The amount of dividends and number of planholders per type of plan as of valuation/validation date must, however, be disclosed in the AVR and AFS.

5. What certificate should the actuary/validator submit if the SEC-approved hurdle rate is used?

The actuary/validator should use the Validation Certificate attached to this Bulletin as "Exhibit E," which shall form part of the Actuarial Validation Report.

However, if a rate other than the SEC-approved hurdle rate is used, the Valuation Certificate attached to this Bulletin as "Exhibit E-1" should be submitted by the actuary, which shall form part of the Actuarial Valuation Report.

6. How should the adjustment/impact of the transition from the old Actuarial Reserve Liabilities (ARL) to Pre-Need Reserves (PNR) under Pre-Need Rule 31, as amended, and PNUCA be treated in the financial statements? Should it be treated as a change in estimate or accounting policy that would require the adjustment of the current Statement of Income only, or the adjustment of the opening balance of the affected component of equity, respectively?

It is the position of the Commission that the amendment of the PNUCA on pre-need reserves is not a mere change in accounting estimate or assumption, but a

CERTIFIED XEROXED COPY
4 PAGE OF 7 PAGES
OFFICE OF THE COMMISSION SECRETARY

fyd

change in accounting policy¹. Pre-need products were initially considered as financial instruments that should be accounted for under PAS 39 (*Financial Instruments: Recognition and Measurement*) which provides for the accounting policy to be followed. After further deliberation and study, however, the Commission resolved to allow the use of a different accounting policy under PAS 37 (*Provisions*) due to the hybrid nature and peculiarity of pre-need products.

Since the amendment of the PNUCA on pre-need reserves is considered a change in accounting policy, the provisions of PAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), particularly paragraphs 19, 22², 23 and 24³, were used as guidance for the following interpretative issuances, which shall be considered as transitory provisions of the Rule:

- **The impact/adjustment resulting from the transition to the amended Pre-Need Rule 31 and the PNUCA shall be reflected in the opening balance of the retained earnings of the financial statements for the period ended December 31, 2007;**
- **The comparative accounts/amounts for the period ended December 31, 2006 shall not be adjusted and shall remain to be presented under the old rule and the PNUCA.**

This Bulletin shall apply to reports covering the period ended December 31, 2007 and the succeeding years unless subsequently repealed or modified.


Fe B. Barin
Chairperson

-
- ¹ Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements (par. 5, PAS 8)
 - ² Subject to paragraph 23, when a change in accounting policy is applied retrospectively in accordance with paragraph 19(a) or (b), the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.
 - ³ When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for the period.

CERTIFIED XEROXED COPY
5 PAGE OF 9 PAGES
OFFICE OF THE COMMISSION SECRETARY



Exhibit E – VALIDATION CERTIFICATE

I have undertaken the actuarial validation of the Pre-Need Reserves of the (specify whether education plan, life plan or pension plan) of (Name of Pre-Need Corporation) as of (fiscal year ending).

I have relied on data submitted by (Name and Position of Responsible Person) and have conducted the tests necessary to satisfy myself on the reasonableness and integrity of such data.

I hereby certify that:

1. The actuarial assumptions used in this actuarial validation are based on the criteria provided for in SEC Pre-Need Rule 31, as amended;
2. The pre-need reserves for all benefits and guarantees therein are valued in accordance with the assumptions, and all insurance benefits included in the plan agreement are adequately covered under a separate insurance contract;
3. The pre-need reserves for (specify type of plan) aggregating to P_____ in this actuarial validation are in accordance with the above formulation and assumptions;
4. The insurance premium reserves for the cost of purchasing the insurance benefits after the payment period are also set up as additional liabilities of the corporation (if applicable). The amount of insurance premium reserves is P_____, which is booked by the corporation under "Other Reserves"; and
5. The dividends amounting to P_____ of the participating pre-need plan were computed based on the product model (if applicable).

I further certify that I compared the amount of pre-need reserves as of the date of validation to the amount of the Trust Fund Equity which reflects the following information:

The Trust Fund Equity based on the trustee's certification has a net balance of P_____ as of (fiscal year ending).

Case A. If the Trust Fund is sufficient:

The Trust Fund Equity, excluding the dividends of participating pre-need plan products, (if applicable) is sufficient to cover the pre-need reserves.

OR

Case B. If the Trust Fund is deficient:

The deficiency from the pre-need reserves amounting to P_____ should be in the Trust Fund within the time limit prescribed by SEC regulations.

This certificate forms part of the Actuarial Validation Report.

Name/Signature of Pre-Need Actuary/Validator
SEC Accreditation Number
Issued at _____ on _____

CERTIFIED XEROXED COPY
6 PAGE OF 7 PAGES
OFFICE OF THE COMMISSION SECRETARY

fyd

Exhibit E-1 – VALUATION CERTIFICATE
(As Modified)

I have undertaken the actuarial valuation of the (specify whether education plan, life plan or pension plan) of (Name of Pre-Need Corporation) as of (fiscal year ending).

I have relied on data submitted by (Name and Position of Responsible Person) and have conducted the tests necessary to satisfy myself on the reasonableness and integrity of such data.

I hereby certify that:

1. The actuarial assumptions and formulations used in this actuarial valuation are in accordance with generally accepted actuarial principles and practices;
2. The reserves for all benefits and guarantees therein are valued in accordance with the assumptions, and all insurance benefits included in the plan agreement are adequately covered under a separate insurance contract;
3. The reserves for (specify type of plan) computed using another interest rate aggregating to P_____ in this actuarial valuation are in accordance with the above actuarial formulations and assumptions;
4. The insurance premium reserves for the cost of purchasing the insurance benefits after the payment period are also set up as additional liabilities of the corporation (if applicable). The amount of insurance premium reserves is P_____, which is booked by the corporation under "Other Reserves";
5. The dividends amounting to P_____ of the participating pre-need plan are computed based on the product model (if applicable); and
6. I have computed the pre-need reserves amounting to P_____ based on the criteria provided for in SEC Pre-Need Rule 31, as amended. The difference in the computation is P_____, which is booked by the corporation under "Other Reserves".

I further certify that I compared the amount of pre-need reserves as of the date of valuation to the amount of the Trust Fund Equity which reflects the following information:

The Trust Fund Equity based on the trustee's certification has a net balance of P_____ as of (fiscal year ending).

Case A. If the Trust Fund is sufficient:

The Trust Fund Equity, excluding the dividends of participating pre-need plan products, (if applicable) is sufficient to cover the pre-need reserves.

OR

Case B. If the Trust Fund is deficient:

The deficiency from the pre-need reserves amounting to P_____ should be in the Trust Fund within the time limit prescribed by SEC regulations.

This certificate forms part of the Actuarial Valuation Report.

Name/Signature of Pre-Need Actuary
SEC Accreditation Number
Issued at _____ on _____

CERTIFIED XEROXED COPY
7 PAGE OF 7 PAGES
OFFICE OF THE COMMISSION SECRETARY

sgd