

**PRE-NEED RULE 31, AS AMENDED:**  
**ACCOUNTING STANDARDS FOR PRE-NEED PLANS AND**  
**PRE-NEED UNIFORM CHART OF ACCOUNTS (PNUCA)**

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- I. The following adopted accounting standards and chart of accounts shall be considered the Generally Accepted Accounting Principles (GAAP) for pre-need companies in the Philippines:

A. BALANCE SHEET

(1) **Cash and Cash Equivalents**

Cash includes cash on hand and in banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

This account should not be restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date. (PAS 1 par 57d).

(2) **Financial Assets**

The disclosure, recognition and measurements of financial assets of pre-need companies shall be in accordance with PAS 32 and 39.

(3) **Other Receivables**

This account shall be limited to the following:

- (a) Insurance Claims Receivables – claims from the insurer for the unpaid balance of installments arising from the demise or disability of an insured planholder;
- (b) Receivables from Trustee- these are advances made by the pre-need company to settle obligations to availing planholders, which are reimbursable by the trustee. This transaction shall be allowed only upon execution of a sworn affidavit signed by the President and another authorized officer of the company attesting to the validity of the benefit payments covered by the transaction and vesting upon the trustee the right to audit the records of the concerned planholders anytime.
- (c) Advances to Directors, Officers, Stockholders and related interests such as employees, agencies and agents.

*Each of the foregoing items shall be separately disclosed to the notes financial statements of the company.*

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(4) **Prepayments and Accrued Income**

This shall represent prepaid expenses, deposits and interest receivable pertaining to interest accrued arising from cash and cash equivalents, available for sale financial assets, and loans and receivables.

(5) **Inventories**

When applicable for life plans, inventories which consist of caskets, urns and memorial lots shall be carried at the lower of cost or net realizable value. All other requirements of PAS 2 shall be complied with respect to this account.

(6) **Trust Funds**

- (a) The net asset value in the trust fund shall be at least equal to the required Pre-need Reserves as determined by a qualified actuary using the method prescribed in this Rule.
- (b) All requirements under the rules and regulations as may be promulgated by the Commission on trust fund shall be complied with.
- (c) The recognition and measurement of the assets in the trust fund shall be in accordance with PAS 39 (Financial Instruments) and 40 (Investment Property) and other applicable standards, depending on the composition of the fund.
- (d) The component assets and liabilities of the trust fund shall be presented separately in the notes to financial statements.
- (e) *Impairment of Financial Assets*

The carrying value of all financial assets shall be reviewed for impairment whenever or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the termination of recoverable amount is a process of involving various assumptions and factors, including the financial condition of the counterparty, expect future cash flows, observable market prices and expected net selling prices.

In order to determine whether negative revaluations on investment securities correctly represent impairment, all investment securities for which the market has been significantly below cost price for a considerable period of time, shall be individually reviewed. A distinction shall be made between negative revaluations due to general market fluctuations and due to issuer specific developments. The impairment review shall focus on issuer specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the company's long-term investment strategy.

*Assets Carried at Amortized Cost*

For loans and receivables carried at amortized cost, the amount of the loss shall be measured as the difference between the financial asset's carrying

amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If a variable interest rate was used, the discounted rate for measuring the impairment loss is the current effective interest rate. Impairment loss is recorded in the statement of income.

The company shall assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset shall be included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized shall not be included in a collective assessment of impairment.

If in a subsequent period, the amount of impairment loss decreases can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed. Any subsequent reversal of an impairment loss shall be recognized in the statement of income, to the extent that the carrying value of the assets does not exceed its amortized cost at the reversal date.

#### *Available-for-Sale (AFS) Financial Assets*

For AFS financial assets, a significant prolonged decline in the fair value shall indicate impairment. For AFS financial assets, the impairment loss shall be the difference between its current fair value and its original cost. Impairment loss shall be transferred from equity to the statement of income. Reversals of impairment losses shall be reversed through the statement of income, to the extent that the initial impairment loss was transferred from equity to the statement of income. The reversal must be objectively supported by an increase in the fair value of the instrument after the impairment loss was recognized.

#### **(7) Property and Equipment**

These are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

The recognition, measurement, disclosure and other requirements for this account shall be in accordance with PAS 16.

#### **(8) Investment Properties**

These are corporate assets of the company that are held to earn rentals or for capital appreciation or both.

The recognition, measurement, disclosure and other requirements for this account shall be in accordance with PAS 40.

(9) **Intangible Assets**

- (a) These are identifiable non-monetary asset without physical substance which have future economic benefits.
- (b) The recognition, measurement, disclosure and other requirements for this account shall be in accordance with PAS 38.
- (c) *Impairment of Non-Monetary Assets*

The carrying values of assets (investment in real estate, property and equipment) shall be reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash generating units shall be written down to their recoverable amounts. The recoverable amount of an asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows shall be discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses shall be recognized in the statements of income.

(10) **Insurance Premium Fund**

This represents corporate assets that are restricted to cover the payment of insurance premiums after the paying period of the pre-need plan. This shall be equal to the amount computed for the Insurance Premium Reserves under paragraph (13) of this Rule.

(11) **Accrued expenses and other liabilities**

This account may include the following items which are due to be settled within twelve months after the balance sheet date:

- (a) Accrued insurance expense;
- (b) Accrued expense on salaries and others;
- (c) Withholding taxes payable.

(12) **Pre-need Reserves**

- (a) 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;
- (b) In recognizing PNR for educational and pension plans, the general requirements of PAS 37 on provisioning and the specific methodology provided below shall be complied with by the company. For life plans, the requirements of PFRS 4 (Insurance Contracts) shall be complied with by the company;

- (c) 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;
- (d) 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.
- Currently-Being-Paid Plans pertain to accounts that are up-to-date in payment and include in-force plans as defined in the contract provision, i.e., plans within the 60-day grace period.*
- (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 be 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;
- (e) 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;
- (f) 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;

- (g) The computation of the foregoing assumptions shall be validated by a 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;
- (h) 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 PNR including the sensitivity of the PNR amount, shall be complied with;
- (l) Any excess in the amount of the trust fund as a result of the initial adoption of the revised reserving method shall neither be released from the fund nor be credited/off-set to future required contributions;
- (j) Individual subsidiary accounts for education plans and for pension plans must be maintained (e.g. [1] "Pre-Need Reserves-Education Plans"; [2] "Pre-Need Reserves-Pension Plans").

**(13) Other Reserves**

The company shall set-up other provisions in accordance with PAS 37 to cover its obligations such as *Insurance Premium Reserve*.

Unless the Commission shall so specifically require, a company may at its option set up other provisions as a prudent measure.

**(14) Pension Liability**

This represents the obligation of the company pertaining to its employee benefits, which shall be accounted for under PAS 19.

**(15) Income Tax Payable**

The presentation and recognition of this account shall be in accordance with PAS 12.

*The foregoing items of assets and liabilities shall be presented in the Balance Sheet in the order of liquidity and shall be classified between current and non-current, in accordance with PAS 1.*

**(16) Stockholders' Equity**

This section includes the following items:

- (a) Outstanding capital stock;
- (b) Additional Paid-In capital;
- (c) Deposit for Future Subscription (if any);
- (d) Revaluation reserve for available-for-sale financial assets;
- (e) Retained earnings. *See restrictions under paragraph (D)(2) & (3) of this Rule.*

The foregoing breakdown may instead be presented on the face of the Statement of Changes in Equity.

## B. STATEMENT OF INCOME

### (17) Revenues

- (a) *Premium Revenue* – Premiums from sale of pre-need plans shall be recognized as earned when collected. When premiums are recognized as income, the related cost of contracts shall be computed, with the result that benefits and expenses are matched with such revenue.

- (b) *Trust Fund Income* – Income generated by the trust fund shall be included in the Investment in Trust Fund account under the assets section of the Balance Sheet.

The amount of the trust fund income shall be disclosed in the notes to financial statements. The portion of the retained earnings representing the trust fund income shall be automatically restricted to payments of benefits of plan holders and such other related payments as allowed under the Pre-Need Rules.

- (c) *Investment Income* – Interest income shall be recognized in the statement of income as it accrues, taking into account the effective yield of the asset or liability or an applicable floating rate. Interest income and expense includes the amortization of any discount or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Investment income shall likewise include dividends, which are included on the date the shares become quoted ex dividend.

- (d) *Realized Gains or Losses Recorded in the Statement of Income*

Realized gains or losses on the sale of available for sale financial assets are calculated as the difference between the net sales proceeds and the carrying value. This is recognized in the Statements of Income when the sales transaction occurred.

- (e) *Other Income* – this may include service fee and loading income, surcharge and amendment fees and miscellaneous income.

**(18) Cost of Contracts Issued**

This account pertains to:

- a) The increase in PNR as at the current year as compared to the provision for the same period of the previous year. If there is a decrease in the PNR as a result from new information or new developments, the amount shall be deducted from the Cost of Contracts Issued of the current period. In case of material prior period errors, the requirements of PAS 8 shall be complied with by the pre-need company.
- b) Amount of trust fund contribution for the year;
- c) Documentary stamp tax and SEC registration fees.

The foregoing items shall be presented separately on the face of the Income Statement.

**(19) Other Direct costs and expenses**

This account includes the following which shall be presented separately in the notes to financial statements:

- (a) Basic commissions;
- (b) Other commission such as overrides, bonuses;
- (c) Insurance;
- (d) Other expenses that constitute direct cost of contracts issued.

Individual subsidiary accounts for education plans and for pension plans must be maintained (e.g. [1] "Cost of Contracts issued-Education Plans"; [2] "Cost of Contracts issued-Pension Plans")

**(20) General and administrative expenses**

This represents the following expenses:

- (a) Salaries, wages and employee benefits;
- (b) Rent, light and water;
- (c) Taxes and licenses;
- (d) Advertising and promotions;
- (e) Electronic data processing
- (f) Professional fee;
- (g) Training;
- (h) Repairs and maintenance;
- (i) Postage, telephone and telegraph;
- (j) Depreciation and amortization;
- (k) Transportation and travel;
- (l) Office Supplies;
- (m) Miscellaneous.

*The company shall disclose in the notes of its financial statements any effort or cost-saving measures to control its expenses in order to ensure delivery of promised services/benefits to plan holders.*

(21) **Provision for Income Tax**

**C. CASH FLOW STATEMENT**

The requirements of PAS 17 on Cash Flow Statements shall be complied with.

**D. STATEMENT OF CHANGES IN EQUITY**

- (22) The presentation requirements of PAS 1 (paragraphs 96 to 101) on Statement of Changes in Equity shall be complied with.
- (23) The amount of restricted/appropriated and unrestricted/unappropriated retained earnings shall be separately presented in this Statement. However, no appropriation of the retained earnings shall be made by the company unless the same is approved by the Commission or allowed in the Pre-Need Rules.
- (24) The portion of the retained earnings representing the trust fund income shall be automatically restricted to payments of benefits of plan holders and such related payments as allowed under the Pre-Need Rules.

**E. NOTES TO THE FINANCIAL STATEMENTS**

The presentation and disclosure requirements of the PAS mentioned in items above and the following accounting standards shall be complied with by pre-need companies (if applicable):

- (25) PFRS 2 on Share Based Payment
- (26) PFRS 3 on Business Combination;
- (27) PFRS 4 on Insurance Contracts;
- (28) PFRS 5 on Non-Current Assets Held for Sale and Discontinued Operation;
- (29) PAS 8 on Accounting Policies, Changes in Accounting Estimates and Errors;
- (30) PAS 10 on Events after the Balance Sheet Date;
- (31) PAS 17 on Leases;
- (32) PAS 21 on The Effects of Changes in Foreign Exchange Rates;
- (33) PAS 24 on Related Party Disclosures;
- (34) PAS 27 on Consolidated Financial Statements;
- (35) PAS 28 on Investment in Associates;
- (36) PAS 31 on Interest in Joint Ventures;
- (37) PAS 23 on Borrowing Cost.

*The notes to financial statements shall likewise disclose the impact of the transition from the old reserving method to the revised requirements provided in this Rule.*

**F. INTERIM FINANCIAL REPORTING**

- (38) The Balance Sheet, Income Statement, Cash Flow Statement and Statement of Changes in Equity shall contain the complete accounts as in annual financial report. They shall not be presented in condensed form. All the applicable accounts in this revised PNUCA shall be reflected in the interim financial reports;
- (39) All other requirements of PAS 34 on Interim Financial Reporting shall be complied with by the company, e.g., inclusion of selected explanatory notes, same accounting policies as annual.

**II. SANCTION**

Failure to comply with any of the requirement of this Rule shall subject the company with the penalties provided in the Consolidated Scale of Fines (SEC Memorandum Circular No. 6, Series of 2005) or any amendment thereto.

**III. REPEALING CLAUSE**

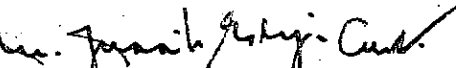
All other rules and regulations, circulars, or memoranda or any part thereof, in conflict with or contrary to these Rules or any portion hereof, are hereby repealed or modified accordingly.

**IV. EFFECTIVITY**

Except on the revised reserving method and the accounting for liability arising from education and pension plans which the Commission earlier resolved for optional adoption by pre-need companies in their audited financial statements as of December 31, 2006, this amended Rule shall become effective for interim financial statements covering periods ended June 30, 2007 and onwards, and for audited financial statements for the period ended December 31, 2007, and thereafter.


May 16, 2007, Mandaluyong City, Philippines.

  
**F. B. BARIN**  
Chairperson

  
**MA. JUANITA E. CUETO**  
Commissioner

  
**RAUL J. PALABRICA**  
Commissioner

  
**JESUS E. G. MARTINEZ**  
Commissioner

  
**THADDEUS E. VENTURANZA**  
Commissioner