This refers to your letter dated January 12, 2007 requesting clarification on Sections 2 to 4 of SEC Memorandum Circular No. 15, Series of 2006 which pertain to certain reportorial requirements applicable to a branch office of a foreign corporation.

Having reviewed your request, the Commission is of the opinion that a statement of Gross Philippine Billing, by itself, is insufficient to enable the Commission to assess the operation and condition of a foreign corporation's branch office in the Philippines.

Section 141 of the Corporation Code requires all corporations to file audited financial statements of their assets and liabilities with the Commission covering the preceding fiscal year and such other requirements as the Commission may require.

Meanwhile, Section 68 of the Securities Regulation Code empowers the Commission to prescribe, among others, the methods to be followed in the preparation of accounts, appraisal or valuation of assets and liabilities of an issuer of securities. This involves submission of the complete components of such financial statements.

Section 126 of the Corporation Code requires a branch office of a foreign corporation to deposit with the Commission securities with market value of at least P100,000.00 and an additional security deposit of 2% of the amount in excess of P5,000,000. The computation of this security deposit is based on the gross income of the branch within the Philippines. Furthermore, the computation of penalties for failure to comply with reportorial requirements is based on the Accumulated Income of a branch office.
From the foregoing it is clear that the filing with the SEC of an annual statement of Gross Philippine Billings of a branch office of a foreign corporation is insufficient compliance with the Commission's statutory requirements for a financial statement, considering that in the course of a fiscal year a foreign corporation's branch office may well have other sources of income besides the gross billings for its services.

It is therefore necessary that the branch office of the airline company which you referred to in your letter submit to the Commission its balance sheet and profit and loss statement or at least prepare a report on its assets and liabilities in the Philippines similar to Segment Reporting under Philippine Accounting Standard (PAS) No. 14. For quick reference of the requirements of PAS No. 14 we refer you to the attached summary of disclosures.

Please be guided accordingly.

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General Counsel