Notice is hereby given that the Commission en Banc in its meeting on May 11, 2017, resolved to amend Financial Reporting Bulletin (FRB) No. 6, as Revised, dated 24 January 2013, the details of which are as follows:

<table>
<thead>
<tr>
<th>Bulletin No.</th>
<th>Date</th>
<th>Subject Matter</th>
<th>Clarification/Details</th>
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<tr>
<td>006, (As revised)</td>
<td>May 11, 2017</td>
<td>Deposit for Future Subscription</td>
<td>FRB No. 6 dated 24 January 2013 provides that:</td>
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<td>&quot;...an entity shall classify a contract to deliver its own equity instruments under equity as a separate account (e.g., Deposit for Future Stock Subscription) from “Outstanding Capital Stock” if and only if, all of the following elements are present as of end of the reporting period:</td>
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<td>1) The unissued authorized capital of the entity is insufficient to cover the amount of shares indicated in the contract;</td>
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<td>2) There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);</td>
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<td>3) There is stockholders' approval of said proposed increase; and</td>
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<td>4) The application for the approval of the proposed increase has been filed with the Commission.&quot; (emphasis supplied)</td>
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The Commission has received various requests from companies and auditing firms to revisit the existing FRB No. 6, particularly the elements for recognizing DFFS as an equity instrument. It is believed that with the recent adoption of “one-day processing” policy of applications to increase authorized capital stock (ACS), there is a need to update the guidelines to adhere with the changes in the policies and procedures of the Commission.

In view of the foregoing, the Commission in its meeting held on May 11, 2017 approved the amendment of the above-cited provision of the
FRB and be revised as follows:

"...an entity shall classify a contract to deliver its own equity instruments under equity as a separate account (e.g., Deposit for Future Stock Subscription) from "Outstanding Capital Stock" if and only if, all of the following elements are present as of end of the reporting period:

1) The unissued authorized capital of the entity is insufficient to cover the amount of shares indicated in the contract;
2) There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
3) There is stockholders' approval of said proposed increase; and
4) The application for the approval of the proposed increase has been presented for filing or has been filed with the Commission." (emphasis supplied)

To deter abuse of the Rule, it is expected that the approval of the application to increase ACS be obtained within one (1) year from the date the said application was presented to the Commission through its Company Registration and Monitoring Department.

Issued this May 15, 2017 at Pasay City, Philippines.

TERESITA J. HERBOSA
Chairperson
Deposit for Future Subscription

Section 22.3 of PFRS for SMEs and par. 11 of PAS 32, Financial Instruments: Presentation, defines an equity instrument as “any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.” The standards provide that “a contract that will be settled by the entity delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument.”

Under Section 36 of the Corporation Code of the Philippines (“Code”), a corporation has the power to issue or sell stocks to subscribers in accordance with the Code. The requirements for the issuance of shares are provided under Section 38 of the Code which provides, as follows:

“SEC. 38. Power to increase or decrease capital stock; incur, create or increase bonded indebtedness. — No corporation shall increase or decrease its capital stock or incur, create or increase any bonded indebtedness unless approved by a majority vote of the board of directors and, at a stockholders’ meeting duly called for the purpose, two-thirds (2/3) of the outstanding capital stock shall favor the increase or diminution of the capital stock, or the incurring, creating or increasing of any bonded indebtedness. Written notice of the proposed increase or diminution of the capital stock or of the incurring, creating, or increasing of any bonded indebtedness is to be considered, must be addressed to each stockholder at his place of residence as shown on the books of the corporation and deposited to the addressee in the post office with postage prepaid, or served personally.

A certificate in duplicate must be signed by a majority of the directors of the corporation and countersigned by the chairman and the secretary of the stockholders’ meeting, setting forth:

XXX XXX

Any increase or decrease in the capital stock or
the incurring, creating or increasing of any bonded indebtedness shall require prior approval of the Securities and Exchange Commission."

Considering the requirements of the Corporation Code on increase in authorized capital stock and PAS 32 or Section 22.3 of PFRS for SMEs defining an equity instrument as "any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities," it can be held that the contract or agreement between the corporation and its contracting party (i.e., a stockholder or an investor) must create a right in favor of that party to claim over the residual interest in the net assets of the corporation. Such right could only arise when there are Board of Directors' and stockholders' approvals and, most importantly, regulatory imprimatur over the increase in capital stock.

In view of the foregoing, an entity shall classify a contract to deliver its own equity instruments under equity as a separate account (e.g., Deposit for Stock Subscription) from "Outstanding Capital Stock" if and only if, all of the following elements are present as of end of the reporting period:

1) The unissued authorized capital of the entity is insufficient to cover the amount of shares indicated in the contract;
2) There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
3) There is stockholders' approval of said proposed increase; and
4) The application for the approval of the proposed increase has been presented for filing or has been filed with the Commission.

It is understood from the foregoing that there is a subscription agreement which, among other things, states that the corporation is not contractually obliged to return the consideration received and that the corporation is obliged to deliver a fixed number of its own shares of stock for a fixed amount of cash or property paid or to be paid by the contracting party. Thus, it is expected that the approval of the application to increase ACS be obtained within one (1) year from the date the said application was presented.
In its financial statements for the reporting period, the corporation shall disclose at a minimum the following information with respect to the subject transaction, among other things:

a) the value received and nature of such consideration (whether cash or noncash and if noncash, the basis of measurement);
b) the relationship with the contracting party (i.e., stockholder, investor, or other related party [indicate relationship]);
c) the treatment used in the recognition of the transaction (whether as an equity or a liability) and the reason for such recognition;
d) if the transaction has been recognized as an equity, the fact that the corporation has met all the conditions required for such recognition as at the end of the reporting period (disclose relevant dates of presentation for filing, filing and approvals);
e) information about the increase in the authorized capital stock (i.e., old and new authorized capital stock, number of shares, par value per share, etc.); and
f) if the approval is obtained subsequently before the issuance of the financial statements, the date of the Commission’s approval.

All companies that adopted either PFRS for SMEs or the full PFRS as their financial reporting framework should have observed the strict definition of equity instruments under Section 22.3 or PAS 32 that have been effective since 01 January 2010 and 01 January 2005, respectively.