

March 22, 2019

SEC CLARIFIES MANNER OF PREPARATION AND FILING OF AFS UNDER THE REVISED CORPORATION CODE

The Securities and Exchange Commission (SEC) has issued a Notice clarifying the manner of preparation and submission of Audited Financial Statements (AFS) in accordance with the Revised Corporation Code of the Philippines.

The Reportorial Requirement of the Corporations is provided in Section 177 of the Revised Corporation Code which took effect on February 23, 2019.

Section 177 requires that every corporation, domestic or foreign, doing business in the Philippines, must submit to the Commission annual financial statements audited by an independent certified public accountant. If the total assets or total liabilities of the corporation are less than Six hundred thousand pesos (P600,000.00), the financial statements shall be certified under oath by the corporation's treasurer or chief financial officer.

"The purpose of the provision that financial statements should be audited by independent auditor is to ensure the fairness and credibility of the report submitted by the corporations to the Commission," SEC Chairperson Emilio B. Aquino said.

In order to clarify certain areas of the Section 177 of the Revised Corporation Code, SEC has released the following guidelines:

Impact of Section 177 in the preparation and submission of AFS

The guidelines on filing Audited Financial Statements clarify the periods covered by the Old Corporation Code and the Revised Corporation Code in terms of preparation and submission of financial statement.

All financial statements covering the periods on or before February 22, 2019, should be prepared and submitted in accordance with the Old Corporation Code, in addition to the requirements of Securities Regulation Code Rule 68 or as Amended Rules and Regulations Covering Form and Content of Financial Statements.

On the other hand, the requirements to prepare and submit AFS pursuant to the Revised Corporation Code should be applied from February 23, 2019 and onwards.

Comparative presentation of financial statements beginning February 23, 2019

Moreover, all companies required to file AFS under the Revised Corporation Code should comply with the required comparative presentation as provided under Securities Regulation Code Rule 68.

Pursuant to Section 5 of Rule 68, if the financial statements of the prior year were not audited, such statements shall be marked prominently as “UNAUDITED.” In addition, the auditor shall disclose this in an “other matter” paragraph in auditor’s report.

Additional information to be disclosed in the financial statements

The guidelines also explain the additional information which must be disclosed in the financial statements.

It provides that in order to enhance understandability of Audited Financial Statements, companies should include in the Notes to Financial Statement a discussion of the impact of the Revised Corporation Code relative to the preparation and submission of financial statements.

Other reportorial requirements in Section 177

Aside from Annual Financial Statements, corporations are also required to submit General Information Sheet (GIS).

Corporations vested with public interest must also submit a director or trustee compensation report, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director or trustee.

Section 29 likewise mandates corporations vested with public interest to submit to their shareholders and the Commission an annual report of the total compensation of **each** of their directors or trustees.

In case corporations fail to submit the reportorial requirements three (3) times, consecutively or intermittently, within a period of five (5) years, the delinquent corporations will be placed under delinquent status.

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