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

SEC MEMORANDUM CIRCULAR NO. 12
Series of 2012

TO : **ALL COMPANIES REPORTING UNDER THE PHILIPPINE FINANCIAL REPORTING STANDARDS FRAMEWORK**

SUBJECT: **GUIDELINES ON THE DISCLOSURE OF TRANSACTIONS WITH RETIREMENT BENEFIT FUNDS**

In order to improve quality and transparency of financial reporting of corporations, the Commission resolved to prescribe the information on the transactions of reporting entities with a retirement fund of their employees in accordance with SRC Rule 68, as amended, and Philippine Accounting Standard (PAS) No. 24. This aims to provide greater understanding of the potential effect of such transactions not only on the entity's financial statements but also on the financial position of the fund.

I. These Guidelines shall apply to companies that are mandated under SRC Rule 68, as amended, to adopt the Philippine Financial Reporting Standards (PFRS) as their financial reporting framework.

II. The terms *"reporting entity"* as used in these Guidelines, shall mean a corporation that is mandated to adopt the PFRS, and that has a funded retirement fund for its employees.

III. Under paragraph 9 of PAS 24, "a party is *related* to an entity if the party is a post-employment benefit plan[1] of the employees of an entity, or of any entity that is a related party of the entity. A *related party transaction* is defined under the same paragraph as a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged."

IV. The entity is required under PAS 24 *"to disclose information about any transaction with a related party (the retirement fund, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. At a minimum, disclosures shall include:*

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[1] Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

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1) The amount of the transactions;

2) The amount of outstanding balances, their terms and conditions including whether they are secured, and the nature of the consideration to be provided in settlement, and details of any guarantees given or received;

3) Provisions for doubtful debts related to the amount of outstanding balances; and

4) The expense recognized during the period in respect of bad or doubtful debts due from related parties."

V. PAS 24 provides a general disclosure requirement to disclose information about any transaction with a related party and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. The minimum disclosures under paragraph 17 of PAS 24 do not particularly provide an understanding of the potential effect of the transactions of a retirement fund with the entity whose employees are the beneficiaries thereof.

VI. Given the aforementioned general provisions of PAS 24 and that the disclosures under paragraph 17 of PAS 24 do not provide an understanding of the potential effects of the transactions of the reporting entity with its employees' retirement fund as stated in section V above, these Guidelines shall be observed by disclosing the specific and more detailed information on transactions of a reporting entity with a retirement fund of its employees, pursuant to the powers of the Commission to make, amend and rescind accounting rules and regulations to carry out the provisions of the Securities Regulation Code which includes the power to prescribe the form or forms in which the required information shall be set as well as details therein.

VII. The following disclosures must be provided in the annual financial statements of a reporting entity that has transactions either directly or indirectly through its subsidiaries, with its employees' retirement benefit fund (the "fund"):

1) Information whether the reporting entity's fund is in the form of a trust being maintained by a trustee bank or trust company, or in the form of a corporation which has been created for the purpose of managing the fund;

2) The carrying amount and fair value of the fund;

3) Description of the assets and investments of the fund. The disclosure shall include a brief description of each category such as the market for equity or debt securities, information on the land or building;

4) Volume and outstanding balances of transactions of the fund with the reporting entity or its subsidiaries including the terms and conditions thereof. These transactions may include among others, loans, investment, lease, guarantee or surety;

5) If the transaction is material, a discussion of the nature of relationship of the persons who approved it with the reporting entity, its subsidiaries, or any of its directors and officers.

   The company shall generally be guided by the provisions of paragraph 7 of PAS 1 which states "*Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.*"

   With respect to testing the materiality on a quantitative basis, the company shall consider the threshold set under SEC Memo Circular No. 8, Series of 2009. For listed or public companies and other secondary licensees of the SEC, the threshold is 5% which means any transaction involving an amount more than 5% of the total related accounts, is considered material. For all other corporations, the threshold is 10%.

6) If the fund has investments in the securities (debt or equity) of the related entity, a disclosure of the following information:

   (i) The amount of investment in each type of securities of reporting entity and/or its subsidiaries, including limitations or restrictions provided in the plan (if any);

   (ii) In case of equity investment, nature of the relationship of the person/s who exercises voting right over the shares, with the reporting entity, its subsidiaries, or any of its directors or officers;

   (iii) The amount of gains or losses of the fund arising from its investment in the securities of the reporting entity and/or its subsidiaries. The gains and losses shall be presented per type of security.

These Disclosure Guidelines shall be applicable to annual financial statements (AFS) for the period ended December 31, 2012 and onwards. Except for the 2012 AFS, the presentation of the required information shall be in a two-year comparative period. Failure to comply with the disclosure requirements shall constitute a material deficiency and shall subject the entity to penalties under the existing Scale of Fines.

Signed this 20 day of December 2012, Mandaluyong City, Philippines

TERESITA J. HERBOSA
Chairperson