



Bangko Sentral ng Pilipinas

OFFICE OF THE GOVERNOR

Circular No. 520

Series of 2006

Subject : Amendments to Circular No. 494 on the Accounting for Appraisal Increment Reserves and Real and Other Properties Acquired

The Monetary Board in its Resolution No. 276 dated 2 March 2006, approved the following amendments to Circular No.494 dated 20 September 2005 on the revised accounting guidelines for appraisal increment reserves and Real and Other Properties Acquired (ROPA).

Sections 3(b) and (c) of Circular No. 494 are hereby amended to read as follows:

- "(b) Bank/Other Financial Institution Premises, Furniture, Fixture and Equipment.** "Bank/Other financial institution premises, furniture, fixture and equipment shall be accounted for using the cost model under PAS 16 "Property, Plant and Equipment."

Outstanding appraisal increment as of the effectivity of this Circular arising from mergers and consolidation and other cases approved by the Monetary Board, shall be deemed part of the cost of the assets. However, appraisal increment booked in accordance with Subsection X606.1 of the MORB and Subsection 4651Q.1 of the MORNBFI shall be reversed.

Accordingly, Subsection X606.1 of the MORB and Subsection 4651Q.1 of the MORNBFI, which allow the booking of appreciation or increase in the book value of bank/NBQB premises and other fixed assets in cases where the market value of the property has greatly increased since the original purchase subject, among others, to the prior notification to the appropriate supervision and examination departments of the BSP are hereby deleted.

- "(c) Real and Other Properties Acquired (ROPA)**

1. Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dation in payment shall be booked under the ROPA account as follows: (i) on the date of the entry of judgment in case of judicial foreclosure;(ii) on the date of notarization of the Sheriff's Certificate in case of extra-judicial foreclosure; and (iii) on the date of notarization of the Deed of Dacion in case of dation in payment (dacion en pago). Real and other properties acquired

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shall be booked initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses computed based on PAS 39 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based on PAS 39 provisioning requirements) plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property); *Provided*, That if the carrying amount of ROPA exceeds P5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP.

2. The carrying amount of ROPA shall be allocated to land, building, other non-financial assets and financial assets (e.g., receivables from third party or equity interest in an entity) based on their fair values, which allocated carrying amounts shall become their initial costs.
3. The non-financial assets portion of ROPA shall remain in ROPA and shall be accounted for as follows:
 - (a) Land and buildings shall be accounted for using the cost model under PAS 40 "Investment Property";
 - (b) Other non-financial assets shall be accounted for using the cost model under PAS 16 "Property Plant and Equipment";
 - (c) Buildings and other non-financial assets shall be depreciated over the remaining useful life of the assets, which shall not exceed ten years and three years from the date of acquisition, respectively; and
 - (d) Land, buildings and other non-financial assets shall be subject to the impairment provisions of PAS 36 "Impairment".

Financial assets, on the other hand, shall be reclassified and booked according to intention under HFT, DFVPL, AFS, HTM, INMES, Unquoted Debt Securities Classified as Loans or Loans and Receivable and accounted for in accordance with the provisions of PAS 39, except interests in subsidiaries, associates and joint ventures, which shall be booked under Equity Investments in Subsidiaries, Associates and Joint Ventures and accounted for in accordance with the provisions of PAS 27, 28 and 31, respectively.

ROPAs that comply with the provisions of PFRS 5 "Non-Current Assets Held for Sale" shall be reclassified and accounted for as such.

4. Claims arising from deficiency judgments rendered in connection with the foreclosure of mortgaged properties shall be lodged under the real account "Deficiency Judgment Receivable"; while probable claims against the borrower arising from the foreclosure of mortgaged properties shall be lodged under the contingent account "Deficiency Claims Receivable".
5. *Appraisal of Properties.* Before foreclosing or acquiring any property in settlement of loans, it must be properly appraised to determine its true economic value. If the amount of ROPA to be booked exceeds P5 million, the appraisal must be conducted by an independent appraiser acceptable to the BSP. An in-house appraisal of all ROPAs shall be made at least every other year: *Provided, That* immediate re-appraisal shall be conducted on ROPAs which materially decline in value.
6. *Non-Cash Payment for Interest.* Financial institutions that accept non-cash payments for interest on their borrowers' loans shall book the acquired assets as ROPA. The amount to be booked as ROPA shall be the booked accrued interest less allowance for credit losses (computed based on PAS 39 provisioning requirements): *Provided, That* if the carrying amount of ROPA exceeds P5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP. The carrying amount of ROPA shall be allocated in accordance with Item (c)2 and shall be subsequently accounted for in accordance with Item (c)3 of this Section.
7. *Sales Contract Receivable (SCR)* shall be recorded based on the present value of the installments receivables discounted at the imputed rate of interest. Discount shall be accreted over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PAS 18 "Revenue" *Provided, furthermore, That* SCR shall be subject to impairment provision of PAS 39.

Accordingly, Section X611, Subsections X611.1, X611.2 and X611.3 and Appendix 18 Section II.C of the MORB and Section 4109Q, Subsections 4109Q.1, 4109Q.2, 4109Q.3 and Appendix Q-10 Section II.C of the MORNBF on the accounting treatment of ROPA are hereby superseded.

The provisions of this Section shall be applied retroactively to all outstanding real and other properties acquired and Sales Contract Receivables: *Provided:* That for properties acquired before 1 January 2005, the carrying amount of the acquired properties when initially booked under ROPA shall be the cost subject to depreciation and impairment testing, which shall be reckoned from the time of acquisition.

This Circular shall take effect after fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


AMANDO M. TETANGCO, JR.
Governor

20 March 2006