



REPUBLIC OF THE PHILIPPINES
Department of Trade and Industry
SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills, Mandaluyong City

NOTICE

The Commission En Banc, in its meeting on 04 February 2010, resolved to adopt the following **Implementation Guidelines** to address certain issues on the adoption of the **Philippine Financial Reporting Standards (PFRS) for Small and Medium Entities (SMEs)**:

1. Transition from full PFRS to PFRS for SMEs

Some entities are currently using full PFRS either because they (a) opted to although they qualify as Non-Publicly Accountable Entities (NPAE), or (b) are required to use full PFRS as they do not qualify as NPAE under PAS 101. These entities may now qualify as SMEs under the definitions in PFRS for SMEs and the 13 August 2009 SEC En Banc Resolution (the "SEC Resolution").

If they qualify and adopt the PFRS for SMEs, they shall be considered as 'first-time adopter' of the PFRS for SMEs and, therefore, should apply Section 35 (*Transition to the PFRS for SMEs*). Paragraphs 35.1 and 35.2 of said section state that:

"35.1 This section applies to a first-time adopter of the IFRS for SMEs, regardless of whether its previous accounting framework was full IFRS or another set of generally accepted accounting principles (GAAP) such as its national accounting standards, or another framework such as the local income tax basis.

35.2 An entity can be a first-time adopter of the IFRS for SMEs only once. x x x"

2. Transition of NPAEs from PAS 101 to PFRS for SMEs

NPAEs that are currently using PAS 101 may qualify as SMEs under the PFRS for SMEs and the SEC Resolution. If they qualify, they may use the PFRS for SMEs and will be considered as first-time adopter of the PFRS for SMEs and should apply paragraphs 35.1 and 35.2 thereof (Refer to Item 1 above.)

3. Transition of NPAEs from PAS 101 to full PFRS

NPAEs that currently use PAS 101 may not qualify as SMEs under the PFRS for SMEs and the SEC Resolution (for example, entities that crossed the ceiling threshold for total assets of P350 million).

NPAEs that currently use PAS 101 but (a) no longer qualify as SMEs under the PFRS for SMEs and the SEC Resolution, and (b) are not considered “micro-business entities” (i.e., entities whose total assets or total liabilities are below the P3 million floor threshold for the size criteria – see Item 4 below), should use the full PFRS. If this is the first time that such entities will adopt full PFRS, they should apply PFRS 1, First-time Adoption of Philippine Financial Reporting Standards.

4. Financial Reporting Framework of Entities not covered by either the full PFRS or PFRS for SMEs

Micro-business entities have the option to use any of these bases of accounting in the preparation of their financial statements: (a) full PFRS, (b) PFRS for SMEs, or (c) another acceptable basis of accounting.¹

If an entity uses a basis of accounting other than full PFRS and the PFRS for SMEs in the preparation of its financial statements, its management shall assess the acceptability of such basis of accounting in the light of the nature of the entity and the objective of the financial statements, or the requirements of the law or regulators and standard-setters. By way of illustration, tax regulations permit taxpayers to use the income tax basis of accounting; on the other hand, the SEC allows the use of the cash basis of accounting by micro-business entities.

5. Date for applying the size criteria and for transitioning to full PFRS or to PFRS for SMEs

The PFRS for SMEs shall be effective for annual periods beginning on or after January 1, 2010, except for the guidance in applying the requirements of Section 23 (*Revenue*) in recognizing revenue from agreements for the construction of real estate which shall apply to annual periods beginning on or after January 1, 2012.

As indicated in the Preface to the PFRS for SMEs, the amount of total assets and total liabilities shall be based on the entity’s audited financial statements as of December 31, 2009.

Thus, an SME whose accounting period begins on January 1, 2010 shall apply the size criteria based on the entity’s audited total assets or audited total liabilities as of

¹ Both the full PFRS and the PFRS for SMEs define what statements/disclosures shall be presented as part of a complete set of financial statements. These include a statement of financial position, a statement of comprehensive income for the period, a statement of changes in equity for the period, and a statement of cash flows for the period. In the absence of a similar definition of statements to be presented for another basis of accounting, the provisions of the full PFRS and PFRS for SMEs may be used as a guide. For example, if the basis of accounting is prescribed or permitted by a government regulatory agency and is substantially an accrual basis, the financial statements may include the same financial statements required under the full PFRS and the PFRS for SMEs. On the other hand, a separate statement of cash flows ordinarily is not needed when financial statements are prepared on a cash receipts and disbursements basis or an income tax basis that is essentially a cash basis. These bases already accommodate the equivalent of a cash flow statement presentation. Therefore, such presentations need not conform with the requirements for a statement of cash flows that would be included in a full PFRS or PFRS for SMEs presentation.

For stock corporations with paid-up capital stock of more than P50,000.00, and non-stock corporations with total assets of more than P500,000.00 and total contributions of more than P100,000.00, the relevant requirements of SRC Rule 68 shall be complied with, particularly, the submission of a complete set of financial statements (i.e., Balance Sheet, Income Statement, Cash Flow Statement (if cash basis, not mandatory), Statement of Changes in Equity/Fund Balance, Notes to Financial Statements), Statement of Management’s Responsibility and Auditor’s Report.

December 31, 2009. An SME whose accounting period begins on a date other than January 1, 2010 (i.e., it uses a fiscal year, for example, January 31, 2010 to January 31, 2011) shall apply the size criteria using the entity's audited financial statements for the immediately preceding fiscal year (i.e., for the fiscal year ending January 31, 2010).

If an SME that uses the PFRS for SMEs in a current year (for example, calendar year 2010) breaches the floor or ceiling of the size criteria at the end of that current year (i.e., December 31, 2010), and the event that caused the change is considered "significant and continuing", the entity should transition to the applicable financial reporting framework (i.e., full PFRS if the ceiling threshold is breached, or another acceptable accounting basis if the floor threshold is breached) in the next accounting period (or calendar year 2011). If the event is not considered "significant and continuing", the entity can continue to use the same financial reporting framework it currently uses.

The determination of what is "significant and continuing" shall be based on management's judgment taking into consideration relevant qualitative and quantitative factors. As a general rule, 20% or more of total assets or total liabilities would be considered significant.

6. Date for applying the size criteria if the PFRS for SMEs is adopted early

If an entity opts to apply early the PFRS for SMEs (for example, in calendar year 2009), it shall apply the size criteria using the entity's audited financial statements for the immediately preceding calendar year (i.e., for the calendar year ended December 31, 2008).

7. Subsidiaries of a parent company that use full PFR

There are situations where a parent company that uses full PFRS has subsidiaries that qualify as SMEs under the PFRS for SMEs and the SEC Resolution.

The subsidiaries that qualify as SMEs under the PFRS for SMEs and the SEC Resolution (such as, they are not listed, have no public accountability, are not holders of secondary licenses from the SEC, etc.), may use the PFRS for SMEs even if their parent company uses full PFRS. Paragraph 1.6 of Section 1 of the PFRS for SMEs provides that:

"1.6 A subsidiary whose parent uses full IFRS, or that is part of a consolidated group that uses full IFRS, is not prohibited from using this IFRS in its own financial statements if that subsidiary by itself does not have public accountability. If its financial statements are described as conforming to the IFRS for SMEs, it must comply with all the provisions of this IFRS."

One issue to consider, however, with regard to a subsidiary whose financial statements are consolidated into group financial statements is the requirement under the PFRS for SMEs and the full PFRS on the use by a group of uniform accounting policies. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for similar transactions and events under the same

circumstances, appropriate adjustments should be made in the financial statements of that entity in the preparation of the consolidated financial statements.

8. Required disclosures

If an SME's first financial statements use the PFRS for SMEs, it shall make the required disclosures which include an explanation of the transition to the PFRS for SMEs (under paragraph 35.12) and reconciliations (under paragraphs 35.13 to 35.15) of Section 35 of the PFRS for SMEs.

If an SME does not opt to make an early application of the PFRS for SMEs, it shall disclose the impact on its financial statements of the future adoption or application of the PFRS for SMEs.

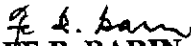
9. Early adoption of PFRS for SMEs

As earlier stated, PFRS for SMEs shall be effective for periods beginning January 1, 2010. Although the International Financial Reporting Standards for SMEs and the PFRS for SMEs do not provide for early adoption, the same may, however, be allowed for SMEs which are capable, in terms of systems and resources, to efficiently transition to PFRS for SMEs for their financial statements as of 31 December 2009, provided that such entities discuss in their financial statements the impact of such early adoption.

If an SME is capable and opts to early adopt the PFRS for SMEs, it should be considered as 'first-time adopter' of the PFRS for SMEs and, therefore, should apply Section 35 (*Transition to the PFRS for SMEs*).

Issued this 9th day of February, 2010.

For the Commission:


F. B. BARIN
Chairperson