



TAX LAW FOR BUSINESS
Atty. Ma. Ursula Cristina
S. Casa-Siervo

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Early adoption of PFRS 9

On November 12, 2009, the International Accounting Standards Board (IASB) issued International Financial Reporting Standards 9 (IFRS) Financial Instruments, covering the classification and measurement of financial assets, as the first part of its project to replace IAS 39. Subsequently, on October 28, 2010, the IASB reissued IFRS 9 Financial Instruments, incorporating new requirements on accounting for financial liabilities and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities.

The Securities and Exchange Commission (the "Commission"), pursuant to its commitment to align its rules with global standards and practices, has consistently adopted IFRS by including them in the rules of the Commission as Philippine Financial Reporting Standards (PFRS). Thus, in May 2010, the Commission adopted the initial IFRS 9 containing the requirements on financial assets. Subsequently, in January 2011, the Commission, likewise, adopted the reissued IFRS 9 covering both financial assets and financial liabilities.

Entities covered by PFRS shall begin to apply PFRS 9 to their financial statements for annual periods beginning on or after January 1, 2013. However, these entities are given the option to adopt the standard before the required date.

For entities adopting early PFRS 9, the Commission has issued some guidelines for a smoother transition. For purposes of these guidelines, however, the Commission refers to the originally issued PFRS 9, which deals only with financial assets as PFRS 9 (2009) and the reissued PFRS 9 as PFRS 9 (2010)

The guidelines on the transition and disclosure requirements for the early adoption of PFRS 9 are as follows:

1. Covered companies are given up to September 30, 2011, to study the potential impact of the adoption of PFRS 9 on their 2011 annual FS. However, companies that have early adopted in their 2010 FS PFRS 9 (2009) shall only cover the impact evaluation of PFRS 9 (2010) with respect to financial liabilities.

2. Covered companies that are required to submit interim FS shall comply with the following requirements:

a) Interim FS that shall be submitted in 2011 by covered companies should not yet reflect the impact of the early adoption of either PFRS 9 (2009) or PFRS 9 (2010) unless a complete evaluation has been undertaken by the company and it has already decided to adopt such standard for interim reporting. In the latter case, there shall be sufficient disclosure of the completion of the process;

b) For those which have already adopted PFRS 9 (2009) in their 2010 financial reporting, the interim FS for 2011 and succeeding periods shall reflect the application of such standard;

c) The following information shall be disclosed in the interim FS as of June 30, 2011:

i) The company has not yet decided whether to early adopt PFRS 9 for its 2011 financial reporting and, therefore, the interim FS does not reflect the impact of the standard unless the circumstances cited in item (a) or (b) above are applicable and, therefore, such fact must be disclosed;

ii) It is currently evaluating the impact of the possible early adoption of PFRS 9 in its FS;

iii) A brief discussion of the accounts that are to be affected in case of early adoption.

d) If the company decides to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2011 annual financial reporting, its interim FS as of September 30, 2011, shall contain a qualitative and quantitative discussion of the result of the company's impact evaluation;

e) For covered entities that will decide not to early adopt either PFRS 9 for their 2011 annual financial reporting, each company shall provide the following information in its interim FS as of September 30, 2011:

i) After consideration of the result of its impact evaluation, the company has decided not to early adopt PFRS 9 for its annual financial reporting;

ii) It shall conduct in early 2012 another impact evaluation using the outstanding balances of FS as of December 31, 2011;

iii) A statement that the company's decision whether to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2012 financial reporting shall be disclosed in its interim FS as of March 31, 2012. The company shall, likewise, state that if the decision of the company will be to early adopt the subject standard for its 2012 financial reporting, its interim reports as of March 31, 2012, will already reflect the application of the requirements under the said standard and will contain a qualitative and quantitative discussion of the results of the company's impact evaluation.

Failure on the part of covered entities to comply with these guidelines shall be subject to fines and penalties imposed by the Commission.

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The author is a senior associate of Du-Baladad and Associates Law Offices, a member-firm of World Tax Services Alliance.

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