

[**BSP CIRCULAR NO. 653, May 05, 2009**]

GUIDELINES IN THE PREPARATION OF AUDITED FINANCIAL STATEMENTS FOR TRUST INSTITUTIONS

The Monetary Board, in its Resolution No. 601 dated 23 April 2009, approved the guidelines in the preparation of audited financial statements (AFS) for trust institutions for the financial reporting period beginning 1 January 2008.

SECTION 1. Amendments to the Manual of Regulations for Banks (MORB) -

(1) Section X 421 Books and Records and Subsection X426.2 External Audit of the MORB are hereby amended to read as follows:

a. Section X421 Books and Records

"The bank's trust department or investment management department shall keep books and records on trust, other fiduciary and investment management accounts separate and distinct from the books and records of its other businesses and shall follow the Financial Reporting Package for Trust Institutions prescribed by the BSP.

" xxx xxx xxx "

(b) Subsection X426.2 External Audit

"The trust and other fiduciary business and investment management activities of a bank shall be included in the annual financial audit by independent external auditors required under Subsection X166.1

" xxx xxx xxx "

"The audit of the trust/investment management department of a bank authorized to engage in trust and other fiduciary business/investment management activities shall be covered by a separate supplemental audit report to be submitted to the bank's board of directors and to the BSP within the prescribed period containing, among other things, the complete set of financial statements of the trust/investment management department of a bank prepared in accordance with the provisions of Subsection X425.3 together with the other information required by the BSP to be submitted under Subsection X166.1: Provided, That a reconciliation statement of the balance sheet in the AFS and the Financial Reporting Package for Trust Institutions shall be prepared for each of the general categories of contractual relationships (i.e., UITF-

trust, institutional-trust, and individual-trust; other fiduciary; institutional-agency, and individual-agency; and special purpose trust) of the trust/investment management department of a bank with its clients following the format in Annex 1*.

(2) Subsection X425.3 of the MORB is hereby added as follows:

"Subsection X425.3 Audited Financial Statements (AFS). The trust/investment management department of a bank shall adopt the provisions of the Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS) in all respect, for purposes of preparing the AFS of its trust and other fiduciary and investment management activities. The following guidelines shall likewise be observed in the preparation of the AFS:

(a) The provisions of PFRS/PAS shall be adopted effective the annual financial statements beginning 1 January 2008;

(b) A complete set of financial statements shall comprise of the following:

(1) Balance sheet as of the end of the period;

(2) Income statement for the period;

(3) Statement of changes in accountabilities, which shall show a reconciliation of the net carrying amount at the beginning and end of the period of the following accounts: (i) principal; (ii) accumulated income and (iii) net unrealized gains/(losses) on available for sale financial assets, separately disclosing the changes in each of the foregoing accounts;

(4) Notes, which shall comprise of a summary of significant accounting policies and other disclosure requirements provided under PFRS/PAS: Provided, That for purposes of complying with the disclosure of the nature and extent of risks arising from financial instruments as required under PFRS 7, disclosure statements may be made based on the general categories of contractual relationships (i.e., UITF-trust, institutional-trust, and individual-trust; other fiduciary; institutional-agency, and individual-agency; and special purpose trust) of the trust/investment management department of a bank with its clients; and

(5) Balance sheet as at the beginning of the earliest comparative period when a trust/investment management department applies an accounting policy retrospectively or when it makes a retrospective restatement of items in the financial