

[**SEC NOTICE, February 09, 2010**]

ADOPTION OF THE PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) FOR SMALL AND MEDIUM ENTITIES (SMES)

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 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