

## 172 FINANCIAL RECORDS

Banks shall have a true and accurate account, record or statement of their daily transactions. For this purpose, the definition of records under Sec. 001 shall apply. The making of any false entry or the willful omission of entries relevant to any transaction is a ground for the imposition of administrative sanctions under Section 37 of R.A. No. 7653 and the disqualification from office of any director or officer responsible therefor under Section 9-A of R.A. No. 337, as amended. This is without prejudice to their criminal liability under Sections 35 and 36 of R.A. No. 7653 and/or the applicable provisions of the Revised Penal Code.

Records shall be retained for a period of at least five (5) years, unless they are otherwise required by law or other regulations, or as directed by the Bangko Sentral to be retained for a longer period. RBs and Coop banks shall follow the guidelines on the retention and disposal of records in *Appendix 51*. However, records which are the subject of, or are pertinent to, an issue that has been raised during a Bangko Sentral examination shall be preserved until such time that the issue has been fully resolved with finality by the Bangko Sentral.

**Adoption of the Manual of Accounts.** Banks shall strictly adopt the Manual of Accounts prescribed by the Bangko Sentral for recording daily transactions including reportorial and publication requirements.

Local branches of foreign banks may continue using their parent bank's general ledger accounts: *Provided*, That published statements and reports submitted to the Bangko Sentral follow the account definitions in the Bangko Sentral-prescribed Manual of Accounts: *Provided, further*, That the mathematical formulas for reconciling such published statements and submitted reports with the general ledger accounts of the bank are submitted to the appropriate supervising department of the Bangko Sentral: *Provided, finally*, That said banks prepare for Bangko Sentral use, reconciliations of their ledger accounts with the Bangko Sentral prescribed Manual of Accounts during regular or special bank examinations.

Any bank which fails or refuses to adopt the prescribed Manual of Accounts, or any of the applicable accounts contained therein, or adopts any general ledger account not specified in the said Manual of Accounts without prior written approval of the Governor of the Bangko Sentral, shall be penalized by revocation or suspension of its authority to engage in quasi-banking function.

**Financial Reporting Package.** In line with the adoption of the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) effective the annual financial reporting period beginning 01 January 2005, the Manual of Accounts and the Bangko Sentral reportorial requirements consisting of the Consolidated Statement of Condition (CSOC), Consolidated Statement of

Income and Expense (CSIE) and their supporting schedules are amended through the issuance of the new Financial Reporting Package (FRP) for banks.

The general features as well as the implementing guidelines of the FRP is provided in *Appendix 81*.

***Philippine Financial Reporting Standards/Philippine Accounting Standards.***

*Statement of Policy.* It is the thrust of the Bangko Sentral to align its financial reporting requirements with standards and practices that are widely accepted internationally to promote fairness, transparency, and accountability in the financial industry. In this light, the Bangko Sentral is issuing guidelines governing the adoption of the PFRS, aimed at ensuring consistency of application and comparability of financial reports across the industry.

- a. *Adoption of PFRS.* BSP Supervised Financial Institutions (BSFIs) shall adopt PFRS in recording transactions and in the preparation of financial statements and reports to the Bangko Sentral. However, in cases where there are differences between Bangko Sentral regulations and PFRS as when more than one (1) option are allowed or certain maximum or minimum limits are prescribed by PFRS, the option or limit prescribed by the Bankgo Sentral shall be adopted by BSFIs. These include the accounting treatment of “Government Grants”.

*Government grants* extended in the form of loans bearing nil or below-market rate of interest shall be measured upon initial recognition at its fair value (i.e, the present value of the future cash flows of the financial instrument discounted using the market interest rate). The difference between the fair value and the net proceeds of the loan shall be recorded under “Unearned Income-Others”, and shall be recognized as income on a systematic basis over the period of the loan necessary to match with the related cost for which the grants are intended to compensate.

- b. *Preparation of prudential reports.* For prudential reporting, BSFIs shall adopt in all respect the PFRS except in the following cases:

- (1) In preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated with the financial statements of the parent bank on a line-by-line basis; while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures shall be accounted for using the equity method in accordance with the provisions of the Philippine Accounting Standards (PAS) 28 “Investments in Associates and Joint Ventures”.

In preparing solo/separate financial statements, investments in financial/non-financial

allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall be accounted for using the equity method as described in PAS 28.

The rules on the preparation of solo financial statements as provided in *Appendix 81* shall apply to banks.

- (2) BSFIs shall recognize adequate and timely allowance for credit losses at all times. In this respect, BSFIs shall adopt the principles provided under the Enhanced Standards on Credit Risk Management under Sec. 143 as well as the provisions of *Appendix 100* in measuring credit losses.

- c. *Preparation of Audited Financial Statements (AFS)*. AFS shall in all respect be PFRS compliant and shall be submitted to the Bangko Sentral in accordance with the provisions of Sec. 174.

BSFIs shall submit to the Bangko Sentral adjusting entries reconciling the balances in the financial statements for prudential reporting with those in the AFS.

- d. *Guidelines on adoption of PFRS 9 Financial Instruments*. BSFIs shall adopt, as part of the PFRS framework, PFRS 9: Financial Instruments upon its mandatory effectivity date of 01 January 2018.

For this purpose, BSFIs shall be governed by the following:

- (1) Consistent with the duties and responsibilities of the board of directors provided under Sec. 132 (*Specific duties and responsibilities of the board of directors*), the board of directors or any equivalent governing body in the case of branches of foreign banks, shall ensure that the BSFI appropriately and consistently adopts PFRS 9 as part of its reporting governance process. In this respect, the board shall assess the impact of PFRS 9 on business strategies and risk management systems and ensure availability of sufficient resources, including capacity building initiatives, in adopting the standard.

The board shall approve policies and guidelines relative to the adoption of PFRS 9, which shall cover responsibilities of the different units in the BSFI (e.g., Treasury, Risk Management, Financial Controllershship) as well as the extent of participation or involvement of third parties in the adoption process. The board shall likewise ensure that adequate control measures are in place to ensure integrity of reports.

- (2) Management shall implement the policies set by the board related to the adoption of PFRS 9 and ensure that sound professional judgement is exercised in implementing the provisions of

the standard. Management shall provide feedback to the board on the effectiveness of implementation of PFRS 9.

- (3) BSFIs shall be guided by the provisions of *Appendix 27* on “Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) – Classification and Measurement” and *Appendix 100* on “Impairment” in implementing the provisions of PFRS 9.

e. *Enforcement Actions.* Consistent with Sec. 002, the Bangko Sentral reserves the right to deploy its range of supervisory tools and enforcement actions to promote adherence with the requirements set out in this Section and bring about timely corrective actions to ensure appropriate and consistent adoption of PFRS. In this respect, the Bangko Sentral may issue directives or impose sanctions on the BSFI and/or its directors, officers and/or employees concerned for noted supervisory issues on the adoption of PFRS 9.

Prudential reports affected by non-adherence to the provisions of this Section shall be subject to penalties/sanctions provided under Sec. 171 (*Sanctions on Reports for Non-compliance with the Reporting Standards*).

f. *Transitory Provisions.* BSFIs shall observe the following transition rules:

- (1) BSFIs shall apply PFRS 9, retrospectively, in accordance with the transition requirements and guidance provided under PFRS 9 and PAS 8 “*Changes in Accounting Policies, Changes in Accounting Estimates and Errors*”. BSFIs shall be guided by the provisions of PAS 8 if the retrospective application is impracticable.
- (2) A BSFI that applied the earlier versions of PFRS 9 (2009), PFRS 9 (2010) or PFRS 9 (2013) shall be allowed to reclassify its financial assets: *Provided*, That the reclassification requirements under the standard are met.
- (3) A BSFI is expected to comply with the reportorial and disclosure requirements of the Securities and Exchange Commission on the adoption of PFRS 9.

***Accounting treatment for prudential reporting.*** For prudential reporting, banks shall adopt in all respect the PFRS and PAS except as follows:

- a. In preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated on a line-by-line basis; while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Financial/non-financial allied/non-allied associates shall be accounted for using the equity

method in accordance with the provisions of PAS 28 “Investments in Associates”; and

b. Banks shall be required to meet the Bangko Sentral recommended allowance for credit losses.

Government grants extended in the form of loans bearing nil or low interest rates shall be measured upon initial recognition at its fair value (i.e., the present value of the future cash flows of the financial instrument discounted using the market interest rate). The difference between the fair value and the net proceeds of the loan shall be recorded under “Unearned Income-Others”, which shall be amortized over the term of the loan using the effective interest method.

The provisions on government grants shall be applied retroactively to all outstanding government grants received. FIs that adopted an accounting treatment other than the foregoing shall consider the adjustment as a change in accounting policy, which shall be accounted for in accordance with PAS 8.

Notwithstanding the exceptions in Items “a” and “b”, the audited financial statements required to be submitted to the Bangko Sentral in accordance with the provisions of Sec. 174 (*Financial audit*) shall in all respect be PFRS/PAS compliant: Provided, That FIs shall submit to the Bangko Sentral adjusting entries reconciling the balances in the financial statements for prudential reporting with that in the audited financial statements.

**Guidelines on the preparation of solo/separate financial statements.** For purposes of preparing solo/separate financial statements, financial allied, non-financial allied and non-allied subsidiaries/associates/joint ventures, including insurance subsidiaries/associates, shall be accounted for using the equity method, in accordance with PAS 27, as amended.

The rules on the preparation of solo financial statements are also provided under Appendix 81 on the Financial Reporting Package.

**Guidelines on the adoption of PFRS 9 financial instruments<sup>1</sup>.** Banks, including their trust entities, shall adopt the full provisions of PFRS 9 Financial Instruments only upon its mandatory effectivity date of 01 January 2018. Prior to said mandatory effectivity date, financial instruments of banks, including their trust entities, shall continue to be accounted for in accordance with the provisions of PAS 39 under *Appendix 27*.

As an exception, banks, including their trust entities, which have early-adopted PFRS 9 (2009 and 2010) as of 31 December 2015, shall continue to account for their financial instruments in accordance with the provisions of *Appendix 100* until 31 December 2017.

**Marking to market of financial instruments.** Financial instruments that are required to be classified

and measured at fair value, within the scope of Philippine Financial Reporting Standards (PFRS 9) under *Appendix 27*, shall be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the Securities and Exchange Commission. The marked-to-market guidelines for debt and equity securities are set out in *Appendix 28*.

BSFIs and the concerned officers found to have violated the provisions of these regulations shall be subject to the enforcement actions under this Section (*Philippine Financial Reporting Standards/Philippine Accounting Standards*).

*(Circular Nos. 1021 dated 15 November 2018, 1011 dated 14 August 2018, 960 dated 04 May 2017, 957 dated 17 April 2017, 915 dated 05 July 2016, 912 dated 27 May 2016, 890 dated 02 November 2015, 837 dated 18 June 2014, and M-2014-009 dated 17 March 2014)*

#### Footnotes

1. As an exception, banks, including their trust entitles, which have early-adopted PFRS 9 (2009 and 2010) as of 31 December 2015, shall continue to account for their financial instruments in accordance with the provisions of *Appendix 100* until 31 December 2017.