
SECURITIES AND EXCHANGE COMMISSION
SRC RULE 68, AS AMENDED
RULES AND REGULATIONS COVERING
FORM AND CONTENT OF FINANCIAL STATEMENTS

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RULE 68

General Requirements

1. APPLICATION AND DEFINITION OF TERMS

a. Application of this Rule

- i. This Rule (together with subsequent official pronouncements, interpretations and rulings on accounting and reporting matters, which may be issued by the Commission from time to time) states the requirements applicable to the form and content of financial statements required to be filed with the Commission by all corporations that file with the Commission audited financial statements that are prepared and presented in conformity with the generally accepted accounting principles in the Philippines, except those whose paid-up capital is less than P50,000.00.
- ii. Financial statements of branch offices of foreign corporations licensed to operate in the Philippines by the Commission shall likewise comply with the requirements of this Rule.
- iii. Additional requirements for financial statements of corporations covered under Section 17.2 of the Securities Regulation Code are set forth under Rule 68.1.
- iv. Unless otherwise specified, the term financial statements when used in this Rule, shall include a balance sheet, a statement of income, statement of changes in equity, and a statement of cash flows, together with all notes to the statements, as defined in Statement of Financial Accounting Standards No. 1 and related schedules required by the Commission or other subsequent amendments thereto.

b. Definition of Terms Used in this Rule

Unless the context otherwise requires, the following terms shall have the respective meanings when used in this Rule.

- i. **Audit**, when used in regard to financial statements, means an examination of the statements by an independent certified public accountant in accordance with generally accepted auditing standards in the Philippines (GAAS) for the purpose of expressing an opinion whether the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles in the Philippines.
- ii. **Auditor's report** when used in regard to financial statements, means a document in which an independent certified public accountant indicates the scope of the audit which he has made and sets forth a clear written expression of his opinion regarding the financial statements taken as a whole, or an assertion to the effect that an overall opinion cannot be expressed. When an overall opinion cannot be expressed, the reason/s therefore shall be stated.
- iii. **Auditor or independent auditor** means an independent certified public accountant who performs an audit of financial statements for the purpose of expressing an opinion thereon.
- iv. **Generally accepted accounting principles in the Philippines (GAAP)** means accounting principles based on pronouncements of recognized bodies involved in setting accounting principles. Greatest weight shall be given to their pronouncements in the order listed below:

- A. Philippine Securities and Exchange Commission.
- B. Accounting Standards Council.
- C. Standards issued by the International Accounting Standards Board.
- D. Accounting principles and practices for which there is a long history of acceptance and usage.

If there appears to be a conflict between any of the bodies listed above, the pronouncements of the first listed body shall be applied.

- v. **Control**, for purposes of preparation of consolidated financial statements, is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of the voting power of an enterprise unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists even when the parent owns one half or less of the voting power of an enterprise when there is:
 - A. Power over more than one half of the voting rights by virtue of an agreement with other investors;
 - B. Power to govern the financial and operating policies of the enterprise under a statute or an agreement;
 - C. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
 - D. Power to cast the majority of votes at meetings of the board of directors or equivalent governing body.
- vi. **Parent** is an enterprise that has one or more subsidiaries.
- vii. **Registrant** means an issuer of securities with respect to which a securities registration statement or required issuer report has been or is to be filed.
- viii. **Related parties** exists when one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.
- ix. **Significant influence** is the participation in the financial and operating policy decisions of an enterprise, but not in control of those policies. Significant influence may be exercised in one or more of the following ways:
 - A. Representation on the board of directors or equivalent governing body of the investee;
 - B. Participation in policy making processes;
 - C. Material intercompany transactions;
 - D. Interchange of managerial personnel; or
 - E. Dependence on technical information.

Significant influence may be gained by share ownership, statute or agreement.

- x. **Significant subsidiary** means a subsidiary, including its subsidiaries, which meets any of the following conditions.
- A. The corporation's and its other subsidiaries' investments in and advances to the subsidiary exceed ten percent (10%) of the total assets of the corporation and its subsidiaries consolidated as of the end of the most recently completed fiscal year (for a proposed business combination to be accounted for as a pooling of interests, this condition is also met when the number of common shares exchanged or to be exchanged by the corporation exceeds ten percent (10%) of its total common shares outstanding at the date the combination is initiated); or
 - B. The corporation's and its other subsidiaries' proportionate share of the total assets (after inter company eliminations) of the subsidiary exceeds ten percent (10%) of the total assets of the corporation and its subsidiaries consolidated as of the end of the most recently completed fiscal year; or
 - C. The corporation's and its other subsidiaries' equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of the subsidiary exceeds ten percent (10%) of such income of the corporation and its subsidiaries consolidated for the most recently completed fiscal year.

Computational note: For purposes of making the prescribed income test the following guidance shall be applied:

1. When a loss has been incurred by either the parent and its subsidiaries consolidated or the tested subsidiary, but not both, the equity in the income or loss of the tested subsidiary shall be excluded from the income of the corporation and its subsidiaries consolidated for purposes of the computation.
2. If income of the corporation and its subsidiaries consolidated for the most recent fiscal year is at least 10 percent lower than the average of the income for the last five (5) fiscal years, such average income shall be substituted for purposes of the computation. Any loss years shall be omitted for purposes of computing average income.
3. Where the test involves combined entities, as in the case of determining whether summarized financial data shall be presented, entities reporting losses shall not be aggregated with entities reporting income.

- xi. **Subsidiary** is an enterprise that is controlled by another enterprise (known as the parent)
- xii. **Summarized financial information** referred to in this Rule shall mean the presentation of summarized financial information as to the assets, liabilities and results of operations of the entity for which the information is required. Summarized financial information shall include the following disclosures:
- A. Current assets, noncurrent assets, current liabilities, noncurrent liabilities, and when applicable, redeemable preferred stocks and minority interests (for specialized industries in which classified balance sheets are normally

not presented, information shall be provided as to the nature and amount of the major components of assets and liabilities);

- B. Net sales or gross revenues, gross profit (or, alternatively, costs and expenses applicable to net sales or gross revenues), income or loss from continuing operations before extraordinary items and when the alternative treatment under ASC SFAS 13 (revised 2000) is followed, the cumulative effect of a change in accounting principle, and net income or loss (for specialized industries, other information may be substituted for sales and related costs and expenses if necessary for a more meaningful presentation).
- xiii. **Voting shares** mean the sum of all rights, other than as affected by events of default, to vote for election of directors.

2. GENERAL GUIDES TO FINANCIAL STATEMENTS PREPARATION

- a. In addition to the provisions in this Rule and those that will be subsequently issued or announced by the Commission, financial statements to be filed with the Commission shall be in accordance with the following Statements of Financial Accounting Standards (SFAS)/International Accounting Standards (IAS) and related Interpretations adopted by the Commission and the Accounting Standards Council (ASC):

Effective 2002

-	-	Framework for the Preparation and Presentation of Financial Statements
SFAS 1	IAS 01	Presentation of Financial Statements (revised 2000)
SFAS 4	IAS 02	Inventories (revised 2000)
SFAS 7	-	Contingencies and Subsequent Events
SFAS 8	-	Accounting for Effects of Changes in Foreign Exchange Rates
SFAS 9	-	Summary of Generally Accepted Accounting Principles on Intangible Assets
SFAS 10	-	Summary of Generally Accepted Accounting Principles on Investments
SFAS 13	IAS 08	Net Income or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
SFAS 18	-	Summary of Generally Accepted Accounting Principles on Stockholders' Equity
SFAS 19	-	Summary of Generally Accepted Accounting Principles on Banking Industry
SFAS 19A	-	Accounting for Investments in Debt and Marketable Securities of Banks (an amendment of SFAS 19)
SFAS 20	-	Accounting for Business Combinations
SFAS 22	IAS 07	Cash Flows Statements (revised 2000)
SFAS 23	-	Accounting for Income Taxes
SFAS 24	-	Retirement Benefit Costs
SFAS 25	IAS 23	Borrowing Costs
SFAS 26	IAS 11	Construction Contracts
SFAS 27	-	Accounting and Reporting for the Nonlife Insurance Industry
SFAS 28	IAS 18	Revenue
SFAS 29	IAS 33	Earnings Per Share
SFAS 30	IAS 34	Interim Financial Reporting
SFAS 31	IAS 14	Segment Reporting

Based on new format

SFAS 16	IAS 16	Property, Plant and Equipment
SFAS 24	IAS 24	Related Party Disclosures
SFAS 27	IAS 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
SFAS 28	IAS 28	Accounting for Investments in Associates
SFAS 31	IAS 31	Financial Reporting of Interests in Joint Ventures
SFAS 35	IAS 35	Discontinuing Operations
SFAS 36	IAS 36	Impairment of Assets

- i. SFAS Nos. 16, 24, 27, 28, 31, 35 and 36 above shall be effective for the period beginning January 1, 2002.
- ii. SFAS Nos. 29 (Earnings per share), 30 (Interim Financial Reporting) and 31 (Segment Reporting) shall only be applicable to companies covered by SRC Rule 68.1.
- iii. The following SFAS have been approved by the ASC and are effective beginning January 1, 2003. The Commission encourages earlier application of these standards.

SFAS 8A	-	Deferral of Foreign Exchange Differences
SFAS 10	IAS 10	Events After the Balance Sheet Date
SFAS 20	IAS 20	Accounting for Government Grants and Disclosures for Government Assistance
SFAS 22	IAS 22	Business Combinations
SFAS 37	IAS 37	Provisions, Contingent Liabilities and Contingent Assets
SFAS 38	IAS 38	Intangible Assets

b. Responsibility for Financial Statements

- i. The financial statements filed with the Commission are primarily the responsibility of the management of the reporting company and accordingly, the fairness of the representations made therein is an implicit and integral part of the management's responsibility. The Board of Directors, in discharging its responsibilities, reviews and approves the financial statements before these are submitted to the stockholders.
- ii. To carry out the intent and attain the wisdom of this concept, management of all corporations covered by this Rule are required to acknowledge their responsibility over their financial statements. For this purpose, the financial statements filed with the Commission, other than companies covered by Rule 68.1, shall be accompanied by a statement of management's responsibility as follows:

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of (name of reporting company) is responsible for all information and representations contained in the financial statements for the year (s) ended (date). The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

(name of auditing firm), the independent auditors and appointed by the stockholders, has examined the financial statements of the company in accordance with generally accepted auditing standards and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to stockholders.

Signature _____
Name of the Chairman of the Board _____

Signature _____
Name of Chief Executive Officer _____

Signature _____
Name of Chief Financial Officer _____

- iii. In case of branch offices of foreign corporations, the above Statement shall be signed by its local manager who is in charge of its operations within the Philippines. The third paragraph of the Statement may be deleted since the Philippine Branch does not have any local Board of Directors or stockholders.
- iv. The independent certified public accountant's responsibility for the financial statements required to be filed with the Commission is confined to the expression of his opinion on such statements which he has examined.

c. Form, Order and Terminology

- i. This section shall be applicable to financial statements filed with the Commission for all corporations covered by this Rule.
- ii. Financial statements shall be filed in such form and order, and shall use such generally accepted terminology as will best indicate their significance and character in the light of the provisions applicable thereto. The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further material information as is necessary to make the required statements, in the light of the circumstances under which they are made, not misleading.

Financial statements filed with the Commission shall be prepared in accordance with generally accepted accounting principles in the Philippines [See definition in paragraph 1(b)(v)].

- iii. All money amounts required to be shown in financial statements may be expressed in whole pesos or multiples thereof, as appropriate: provided, that when stated in other than whole pesos, an indication to that effect is inserted immediately beneath the caption of the statement or schedule, at the top of the money columns, or at an appropriate point in narrative material.
- iv. Negative amounts shall be shown in a manner which clearly distinguish the negative attribute. When determining methods of display, consideration shall be given to the limitations of reproduction and microfilming processes.
- v. The chronological arrangement of data may be with the most recent date to the right or to the left. However, the ordering used must be consistent in all financial statements, tabular data and footnote data in the document.

d. Inapplicable Captions and Omission of Unrequired or Inapplicable Financial Statements

- i. No caption shall be shown in any financial statement as to which the items and conditions are not present.
- ii. Financial statements not required or inapplicable because the required matter is not present need not be filed.
- iii. The reasons for the omission of any required financial statements shall be indicated.

3. QUALIFICATIONS AND REPORTS OF INDEPENDENT AUDITORS

a. Examination of Financial Statements by Independent Auditors

The Commission will not accept financial statements required to be audited unless such financial statements are accompanied by an auditor's report issued by an independent auditor.

b. Qualifications of Independent Auditors

- i. The Commission will not recognize any person as an independent auditor who is not duly registered with the Board of Accountancy (BOA)/Professional Regulation Commission (PRC) in accordance with the rules and regulations of said professional regulatory bodies. Those who are not in good standing and entitled to practice as such under the laws governing the practice of public accounting in the Philippines shall not likewise be recognized by the Commission.
- ii. For external auditors of public companies or those companies enumerated under Section 17.2 of the Securities Regulation Code, they must have been accredited by the Securities and Exchange Commission in accordance with SEC Circular No.05 (Series of 2002). The said Circular shall take effect beginning January 1, 2003 and will cover audited financial statements for the year ending June 30, 2003 and thereafter.
- iii. The term independent auditor as used in the foregoing paragraph is an auditor who possesses the independence as defined by the Board of Accountancy and approved by the Professional Regulation Commission.

c. Reports of Independent Auditors

- i. Technical Requirements - The auditor's report shall: (A) be dated; (B) be manually signed; (C) identify the financial statements covered by the report; (D) state the signing accountant's License, Tax Identification and PTR numbers, and registration number with BOA/PRC; (E) state the complete mailing address of the client and the auditor; (F) clearly indicate the name of the signing partner, where the audit report is made under a firm name.

The auditor's report of a company covered by Rule 68.1 shall likewise indicate the signing partner's accreditation number with the Securities Exchange Commission for audited financial statements covering fiscal year ending June 30, 2003 and thereafter.

- ii. Representations as to the Audit - The auditor's report shall state whether the examination was made in accordance with GAAS and shall designate any auditing

procedure deemed necessary by the auditor under the circumstances of the particular case, which have been omitted, and the reasons for their omission. This rule, however, shall not be construed to imply authority for the omission of any procedure which independent auditors would ordinarily employ in the course of an audit made for the purpose of expressing the opinion required by paragraph (iii) below.

- iii. Opinion to be Expressed - The auditor's report shall state clearly the opinion of the independent auditor on the fairness of presentation in conformity with GAAP of the financial statements.
- iv. Exceptions - Any matter to which the independent certified public accountant takes exception shall be clearly identified, the exception thereto specifically and clearly stated and to the extent practicable, the effect of each such exception on the related financial statements given. In cases when financial statements filed with the Commission pursuant to its rules and regulations are prepared in accordance with accounting principles for which there is no substantial authoritative support, such financial statements will be presumed to be misleading or inaccurate despite disclosures contained in the report of the accountant or in footnotes to the financial statements provided the matters involved are material.

In cases where there is a difference of opinion between the Commission and the corporation as to the proper principles of accounting to be followed, disclosure will be accepted in lieu of correction of the financial statements themselves only if the points involved are such that there is substantial authoritative support for the practices followed by the corporation and the position of the Commission has not previously been expressed in rules, regulations or other official pronouncements of the Commission.

- v. Special report at time of first filing by accountant -

All financial statements to be submitted by a corporation to the Securities and Exchange Commission which are required to be certified by an independent Certified Public Accountant, shall in addition to the report of the certifying CPA, be accompanied by a Statement of Representation, which shall indicate the following:

“TO THE SECURITIES AND EXCHANGE COMMISSION:

In connection with my examination of the financial statements of client-corporations, which are to be submitted to the Commission, I hereby represent the following:

1. That said financial statements are presented in conformity with generally accepted accounting principles in the Philippines in all cases where I shall express an unqualified opinion; Except that in case of any departure from such principles, I shall indicate the nature of the departure, the effects thereof, and the reasons why compliance with the principles would result in a misleading statement, if such is a fact;
2. That I shall fully meet the requirements of independence as provided under the Code of Professional Ethics for CPAs;
3. That in the conduct of the audit, I shall comply with the generally accepted auditing standards promulgated by the Board of Accountancy; in case of any departure from such standards or any limitation in the scope of my examination, I shall indicate the nature of the departure and the extent of the limitation, the reasons therefore and the effects thereof on the expression of my opinion or which may necessitate the negation of the expression of an opinion; and

4. That relative to the expression of my opinion on the said financial statements, I shall not commit any acts discreditable to the profession as provided under Code of Professional Ethics for CPAs.

As a CPA engaged in public practice, I make these representations in my individual capacity and as a partner in the accounting firm of _____.

Signature
 Printed Name
 CPA Cert. No.
 PTR No.
 TIN
 Date:

d. Examination of Financial Statements by More Than One Accountant

If, with respect to the examination of the financial statements, part of the examination is made by an independent Certified Public Accountant other than the principal accountant and the principal accountant elects not to place reliance on the work of the other accountant, the separate report of the other accountant shall be filed. However, notwithstanding the provisions of this Paragraph, reports of other accountants which may otherwise be required in filings need not be presented in annual reports to security holders.

4. FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

- a. This section shall be applicable to general-purpose financial statements prepared and presented in accordance with GAAP and which are filed by corporations covered by this Rule. It summarizes the framework for the preparation and presentation of financial statements of commercial, industrial and business reporting enterprises. However, some enterprises may be covered by industry-specific reporting format.

b. Underlying Assumptions

(i) Accrual Basis

In order to meet their objectives, financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions.

(ii) Going Concern

The financial statements are normally prepared on the assumption that a corporation is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the corporation has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such intention exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

c. Qualitative Characteristics

The information provided in the financial statements shall have the following qualitative characteristics:

- (i) Understandability. The information provided in financial statements are readily understandable by users.
- (ii) Relevance. Information must be relevant to the decision-making needs of users. Information has the quality of relevance when they influence the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. The predictive and confirmatory roles of information are interrelated.
- (iii) Materiality. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.
- (iv) Reliability. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.
- (v) Faithful Representation. Information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent.
- (vi) Substance Over Form. The information must be accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with that which is apparent from their legal or contrived form.
- (vii) Neutrality. The information contained in financial statements must be neutral, that is, free from bias. Financial statements are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgment in order to achieve a predetermined result or outcome.
- (viii.) Prudence(Conservatism). Prudence/conservatism is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence/conservatism does not allow the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.
- (ix) Completeness. The information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.
- (x) Comparability. Users must be able to compare the financial statements of a corporation through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different corporations in order to evaluate their relative financial position, performance and changes in financial position. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout a corporation and over time for that corporation and in a consistent way for different corporations.

d. Basic Financial Statements and Minimum Presentation

(i) Balance Sheet

As a minimum, the face of the balance sheet should include the following line items:

- 1) Cash and Cash Equivalents;
- 2) Financial Assets (excluding amounts shown under (1),(3), and (6));
- 3) Trade and Other Receivables;
- 4) Inventories;
- 5) Property Plant and Equipment;
- 6) Investments accounted for using the equity method;
- 7) Intangible Assets;
- 8) Trade and other payables;
- 9) Tax Liabilities and assets as required by SFAS No. 23, Accounting for Income Taxes;
- 10) Provisions;
- 11) Non-current interest-bearing liabilities;
- 12) Minority interest; and
- 13) Issued capital and reserves.

Except as otherwise required by the Commission, the various line items and disclosures set forth for this form of statement shall be in accordance with the Statements of Financial Accounting Standards/International Accounting Standards enumerated under paragraph (2)(a) of this Rule.

(ii) Income Statement

As a minimum, the face of the income statement should include the following line items:

- 1) Revenue;
- 2) The results of operating activities;
- 3) Finance costs;
- 4) Share of income and losses of associates and joint ventures accounted for using the equity method;
- 5) Tax Expenses;
- 6) Income or loss from ordinary activities;
- 7) Extraordinary items;
- 8) Minority interest; and
- 9) Net income or loss for the period.

Except as otherwise required by the Commission, the various line items and disclosures set forth for this form of statement shall be in accordance with the Statements of Financial Accounting Standards/International Accounting Standards enumerated under paragraph (2)(a) of this Rule.

(iii.) Statement of Changes in Equity

Except as otherwise required by the Commission, Statements of Changes in Equity shall be prepared in accordance with the generally accepted accounting principles in the Philippines [See definition in paragraph 1(b)(v) of Rule 68]. This Annex merely emphasizes some requirements as to presentation and disclosures on the Statements of Changes in Equity.

- (1) A corporation shall present, as a separate component of its financial statements, a statement showing:

- a. The net income or loss for the period;
 - b. Each item of income and expense, gain or loss which, as required by other Statements of Financial Accounting Standards, is recognized directly in equity, and the total of these items; and
 - c. The cumulative effect of changes in accounting policy dealt with under the Benchmark treatment, and the correction of fundamental errors under the required treatment in ASC SFAS No. 13 (revised 2000), Net Income or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.
- (2) In addition, a corporation shall present, either within this statement or in the notes:
- d. Capital transactions with owners and distributions to owners;
 - e. The Balance of accumulated income or loss at the beginning of the period and at the balance sheet date, and the movements for the period; and
 - f. A reconciliation between the carrying amount of each class of capital stock, additional paid in capital and each reserve at the beginning and the end of the period, separately disclosing each movement.
- (3) The requirements above may be met in a number of ways. The approach adopted shall follow a columnar format which reconciles between the opening and closing balances of each element within shareholders' equity, including items (a) to (f). An alternative is to present a separate component of the financial statements which presents only items (a) to (c). Under this approach, the items described in (d) to (f) are shown in the notes to the financial statements. Whichever approach is adopted, a sub-total of the items in (b) to enable users to derive the total gains and losses arising from the registrant's activities during the period, is required.

(iv) Cash Flow Statement

Except as otherwise announced by the Commission, the various line items and disclosures set forth for this form of statement shall be in accordance with the Statements of Financial Accounting Standards/International Accounting Standards enumerated under paragraph (2)(a) of this Rule.

(v) Notes to Financial Statements
(Accounting Policies and Explanatory Notes)

Except as otherwise announced by the Commission, the various disclosures for this part of the financial statement shall be in accordance with the Statements of Financial Accounting Standards/International Accounting Standards enumerated under paragraph (2)(a) of this Rule.

5. COMPARATIVE FINANCIAL STATEMENTS

- (a) The financial statements to be filed with the Commission shall be presented in comparative form. The figures for the most recently ended fiscal year may be presented at the right portion immediately after the accounts name, followed by the figures for the last preceding year.

(b) Balance Sheet

The audited balance sheets shall be as of the end of each of the two most recent completed fiscal years.

(c) Income Statement, Cash Flow Statement and Statement of Changes in Equity

If practicable, these statements shall be for each of the two most recent completed fiscal years or such shorter period as the company (including predecessors) has been in existence.

(d) An explanation through a note or otherwise shall be made explaining the reasons for filing a single-period statement, e.g. it is the first period of a new company.

(e) When financial statements are presented on a comparative basis for more than the periods required, the auditor's report need not extend to prior period's for which the financial statements are not required to be audited.

(i) If the financial statements of the prior year were not audited, such statements should be marked prominently as "UNAUDITED." In addition, the auditor should disclose this fact in his report by a statement to that effect in a separate paragraph after the opinion paragraph.

(ii) If the financial statements of a prior-period have been examined by another independent certified public accountant whose report is not presented, the statements should be marked to disclose prominently that they are not being reported upon by the current auditor. If the auditor of the financial statements for such periods did not give an unqualified opinion on such statements, the auditor for the current year should indicate in the scope paragraph of his report (I) that the financial statements of the prior-period were examined by other auditors, (II) the date of their report (III) the type of opinion expressed by the predecessor auditor and (IV) the substantive reasons it was qualified.

6. PENALTIES, REPEALING CLAUSE AND EFFECTIVITY

a. Penalties

i. All Financial Statements submitted to this Commission shall adhere strictly to the provisions of these Rules; any financial statements filed which are not in accordance with these Rules shall be considered NOT FILED at all.

If the said incomplete financial statements are submitted with other report/s, the said report/s shall likewise be deemed not filed.

ii. Any corporation covered by SRC Rule 68, As Amended, that violates any of its provision is subject to administrative sanctions (monetary and/or non-monetary) provided under the Securities Regulation Code (SRC) and its Implementing Rules and Regulations, for public companies, or the Corporation Code (CC) and its Implementing Rules and Regulations, for all other corporations covered by this Rule.

iii. Any officer or director of a company covered by SRC Rule 68.1 who causes the disclosure of untrue or misleading information in the financial statements or the submission of a materially incomplete financial report of said entity, shall after due notice and hearing, be subject to a basic penalty of One Hundred Thousand Pesos (P100,000.00) plus a daily fine of Five Hundred Pesos (P500.00) until the information is corrected or completed. The same shall be without prejudice to the filing of appropriate criminal charges against the said person.

iv. The penalty under subparagraph (iii) hereof shall likewise be imposed on any officer or director of a company covered by SRC Rule 68.1 or any person acting

under the direction of said officer or director, or acting on his own, who fraudulently influences, coerces, manipulates or misleads the external auditor of such company or any other person(s) on whom such auditor relies, for the purpose of rendering the financial statement materially misleading.

- v. In addition to the monetary penalty imposable under the SRC or CC and their Implementing Rules and Regulations and whenever appropriate, the Certified Public Accountant who attested to the Financial Statements prepared in violation of this Rule shall, after due notice and hearing, be suspended or barred from practicing before this Commission for such period of time as it may deem adequate.

b. Repealing Clause

All rules and regulations, circulars, or memoranda or any part thereof, in conflict with or contrary to these Rules or any portion hereof, are hereby repealed or modified accordingly.

c. Effectivity

Unless otherwise specified, SRC Rule 68 and the accompanying Rule 68.1, as amended, shall become effective for financial statements covering periods beginning January 1, 2002 and for interim financial statements starting the first quarter of 2003, and thereafter.

February 20, 2003, Mandaluyong City, Philippines

LILIA R. BAUTISTA
Chairperson

FE ELOISA C. GLORIA
Commissioner

JOSELIA J. POBLADOR
Commissioner

MA. JUANITA E. CUETO
Commissioner

JESUS E.G. MARTINEZ
Commissioner