

[ **SEC MEMORANDUM CIRCULAR NO. 3, S. OF 2009,  
May 29, 2009** ]

**SUBMISSION OF TRUST FUND VALUATION AND COMPLIANCE  
REPORT OF PRE-NEED COMPANIES**

In line with the monitoring of compliance by pre-need companies on the requirements covering their trust funds, the Commission hereby issues the following directives to pre-need companies and trustee banks:

**I. Baseline Report**

Sec. 1. A one-time independent audit of trust fund accounts of pre-need companies as of **March 31, 2009**, shall be conducted to establish baseline information on trust fund valuation and compliance.

Sec. 2. (a) The Trust Fund Valuation and Compliance (TFVC) Report shall be prepared and submitted directly to the Commission **not later than July 15, 2009**, by an independent financial institution or accounting firm with expertise on the requirements on trust funds, valuation of assets and investment guidelines of the Commission. Such independent party shall be engaged by the pre-need company at its own expense.

(b) Subsequent changes in the Report as provided in Part II of this Circular, must be prepared and signed under oath by the Chief Finance Officer and either by the Compliance Officer or Chief Executive Officer of the pre-need company.

Sec. 3. The TFVC report shall cover all trust fund accounts of a pre-need company with all its trustee banks.

Sec. 4. The TFVC report shall contain among others, the following information:

**a. Internal Control of Trustee Banks**

A discussion on the evaluation of **internal control policies and procedures** of the trustee bank/s including findings thereon;

**b. Trust Fund Assets**

i. A complete description of each trust fund assets including titles/ownership on each;

ii. A discussion of the procedures conducted to determine the following:

1. Whether or not the trustee has the legal title/interest over each trust fund asset;

2. Whether or not it has possession/custody or control of the asset;
3. Whether or not the asset is encumbered.

The discussion shall include information on the documents supporting such title/interest.

- iii. A comparison between the valuation for each asset provided by the trustee and the valuation made by the independent party. It shall include a discussion on the basis of valuation used by such independent party;
- iv. A presentation of the percentage of the amount of each trust fund asset over total trust fund (i.e., portfolio mix) and investment qualifications (i.e., investment grade);

#### **c. Trust Fund Liabilities**

- i. A complete description of each trust fund liability including the documents supporting each item;
- ii. A discussion on the procedures conducted to determine the validity and reasonableness of each trust fund liability.

#### **d. Deposits and Withdrawals from the Trust Fund**

- i. A discussion on the procedures conducted to determine sufficiency of deposits made to the fund;
- ii. A discussion on the procedures conducted to determine any unauthorized or prohibited withdrawals from the trust fund;
- iii. A presentation of the deposits and withdrawals made from the trust fund for the period ended December 31, 2008 and March 31, 2009;
- iv. A discussion on the procedures conducted to determine compliance by the parties with prescribed trust fees and charges under the Trust Agreement.

#### **e. Divestment Program**

If the company has a divestment program to comply with the Guidelines set by the Commission, a discussion of the said program and the actions taken by the company based on supporting documents.

#### **f. Findings**

The findings may include any or all of the following items:

- i. The internal control policies and procedures of the trustee banks are not sufficient or there are material weaknesses that raise an issue on the reliability of the monthly reports of the trustee bank;
- ii. The deposits made are not in accordance with the prescribed amount;