

**[SEC MEMORANDUM CIRCULAR NO. 15, S. 2004,
October 29, 2004]**

**AMENDMENTS TO THE ACCREDITATION AND REPORTORIAL
REQUIREMENTS OF EXTERNAL AUDITORS OF PUBLIC
COMPANIES AND SECONDARY LICENSEES OF THE COMMISSION
(SEC MEMORANDUM CIRCULAR NO. 13, SERIES OF 2003)**

The Commission En Banc at its meeting held on October 14, 2004, resolved to revise the subject requirements as follows:

I. SECTION 3.7 For purposes of this circular the Secondary licensees of the Commission shall be grouped as follows:

A.

- i. Issuers of registered securities which have sold a class of securities pursuant to a registration under Section 12 of the Securities Regulation Code (SRC);
- ii. Issuers with a class of securities listed for trading in an Exchange.

B.

- i. Pre-need Companies
- ii. Investment Houses
- iii. Brokers and Dealers of securities
- iv. Investment companies
- v. Government Securities Eligible Dealers (GSEDs)
- vi. Universal Banks Registered as Underwriters of Securities
- vii. Investment Company Advisers
- viii. Clearing Agency and Clearing Agency as Depository
- ix. Issuers of Registered Time Shares, Proprietary and Non-Proprietary Membership Certificates
- x. Stock and Securities Exchange/s
- xi. Special Purpose Vehicles registered pursuant to RA 9182

C.

- i. Financing Companies
- ii. Transfer Agents

II. SECTION 5.1(B)(i) of the subject circular shall henceforth read as:

"At the time of application, the external auditor (i.e. single practitioner or signing partner in an auditing firm) shall have at least five (5) years experience in external audits. In exceptional cases, the Commission may consider the participation in industry-specific accounting/auditing seminars conducted by any professional organization or association duly recognized by the Commission or by the BOA/PRC through a Continuing Professional Education (CPE) Council."

Section 5.1(B)(iii) of the subject circular shall henceforth read as:

"At the time of application, the applicant must have the following track record:

1. The external auditor with general accreditation to audit public companies and all secondary licensees listed in Section 3.7 must have had at least five (5) clients with total assets of at least P50 million each
2. The external auditor for the Group B secondary licensees in Section 3.7(B)(i)to(xi) must have had at least three (3) clients with total assets of at least P20 million each; Provided that an external auditor with general

accreditation pursuant to item (1) above is automatically qualified to audit these Group B secondary licensees.

3. The external auditor for Group C secondary licensees in Section 3.7(C)(i)to(ii) must have had at least three (3) clients with total assets of P5 million each; Provided, that an external auditor with general accreditation pursuant to item (1) above or selected to audit Group B secondary licensees pursuant to item (2) above, is automatically qualified to audit these Group C secondary licensees."

III. SECTION 8 (Operational Requirements) of the Circular shall have an additional paragraph which shall contain the following provisions:

"8.5. The external auditor shall adopt and implement the following communication process as part of the operational requirements:

- i. Critical Accounting Policies and Practices

The external auditor shall communicate to the audit committee all critical accounting policies and practices. Critical accounting policies are those that are both most important to the portrayal of the company's financial condition and performance, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Prior to finalizing and filing annual reports, audit committees should

review the selection, application and disclosure of critical accounting policies. Consistent with auditing standards, audit committees shall be apprised of the evaluative criteria used by management in their selection of the accounting principles and methods. Proactive discussions between the audit committee and the company's senior management and auditor about critical accounting policies are deemed necessary.

ii. Alternative Accounting Treatments

a) External auditors shall provide audit committees with information on material accounting alternatives. This will minimize the risk that audit committee members will be distracted from material accounting policy matters by the numerous discussions between the auditors and management on the application of accounting principles to relatively small transaction or events. The external auditor shall communicate, either orally or in writing, to the audit committee all alternative treatments within generally accepted accounting principles (GAAP) for policies and practices related to material items that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the accounting firm. This rule is intended to cover recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies.

b) Communications regarding specific transactions shall identify, at a minimum, the underlying facts, financial statement accounts impacted, and applicability of existing corporate accounting policies to the transaction. In addition, if the accounting treatment proposed does not comply with existing corporate accounting policies, or if an existing corporate accounting policy is