

[ **SEC MEMORANDUM CIRCULAR NO. 2, S. 2014,**  
**January 21, 2014** ]

**GUIDELINES ON ASSET VALUATIONS**

*Adopted: 21 January 2014*

*Date Filed: 04 February 2014*

To enhance reliability and quality of reports on valuation or appraisal of assets of registered corporations imbued with public interest and pursuant to its powers and authority under Sections 62 and 141 of the Corporation Code and Sections 5 and 68 of the Securities Regulation Code (SRC), the Commission in its meeting on 21 January 2014 resolved to revise the Guidelines on Property Valuations under the previously-issued SEC Memorandum Circular No. 4, Series of 2010.

**I. DEFINITIONS**

1. **Appraiser** also known as valuer, is a Filipino citizen who possesses the necessary qualifications, license, ability and experience to execute the valuation or appraisal of an asset.
2. **Appraisal company** is a corporation or partnership registered under the laws of the Philippines, engaged in the business of valuing properties for its clients;
3. **Assets** are resources controlled by an entity as a result of past events and from which some future economic benefits are expected to flow to the entity. An asset includes real property, intangible asset or financial asset.
4. **Intangible Asset** is an identifiable non-monetary asset without physical substance which may include patents, trademarks, scientific or technical knowledge, brandnames.
5. **Financial Asset** is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets to financial liabilities with another entity under conditions that are potentially favorable to the entity, or a contract that will or may be settled in the entity's own equity instruments meeting the criteria under the existing financial reporting standards.
6. **Professional Services Organization (PSO)** is either a professional partnership or corporation organized under Philippine law to provide professional services which may include assurance, tax, business and transaction advisory, and corporate finance services.
7. **Public company** is an entity with assets of at least P50 Million and have 200 or more shareholders who each own at least 100 shares of a class of its equity securities;
8. **Real estate** refers to the land and all those items which are attached to the land. It is the physical, tangible entity, together with all the additions or improvements on, above or below the ground.
9. **Real property** includes all the rights, interests and benefits related to the ownership of real estate.

10. **Real estate appraiser** is a professional licensed by the Professional Regulation Commission (PRC) who, for a professional fee, compensation or other valuable consideration, performs or renders, or offers to perform services in estimating and arriving at an opinion of or acts as an expert on real estate values, such services of which shall be finally rendered by the preparation of the report in acceptable written form.
11. **Secondary licensees** are grantees of a license from the Commission, namely:
  - i. Issuers of registered securities to the public;
  - ii. Investment houses;
  - iii. Brokers and dealers of securities;
  - iv. Investment companies or mutual funds;
  - v. Government securities eligible dealers;
  - vi. Universal banks registered as underwriters of securities;
  - vii. Investment company advisers;
  - viii. Clearing agency and clearing agency as depository;
  - ix. Stock and securities exchange/s;
  - x. Financing companies;
  - xi. Lending Companies;
  - xii. Transfer agents;
  - xiii. Such other corporations as may be required by law to secure a secondary license from the Commission to be able to engage in certain business activities.
12. **Valuation Specialist** is a Filipino citizen employed by a PSO and who has completed relevant training and possesses the ability and experience to perform the valuation of a business, shares of stock, other financial assets, and intangible assets.

## **II. ACCREDITATION**

1. The following corporations shall engage the services of an SEC-accredited appraisal company if the asset involved is real estate, or a PSO if the asset is other than real estate:
  - i. Public companies and secondary licensees of the Commission, including their significant subsidiaries as defined under SRC Rule 68, that propose to receive an asset, in exchange for shares of stock, as provided for in Section 62 of the Corporation Code;
  - ii. Issuers of securities to the public or public companies that propose to transfer their asset to another entity in exchange for shares of stock or asset. For this transaction, the contracting entity that will exchange its asset with that of the issuers of securities or public companies shall likewise engage the services of an SEC-accredited appraisal company or PSO, as the case maybe;
  - iii. Public companies and secondary licensees and their significant subsidiaries that adopt the fair value model in measuring their real properties pursuant to the Philippine Financial Reporting Standards (PFRS);
  - iv. Public companies and secondary licensees of the Commission covering the asset that would be declared as dividend or the non-financial assets that they would receive arising from a business combination;

- v. Such other entities and transactions that the Commission may determine as requiring the services of an appraisal company.
2. For corporations that are not public companies or secondary licensees and the asset involved is real property, they shall engage the services of an appraiser or valuer who is licensed by the PRC and registered with the Professional Regulatory Board of Real Estate Service (PRBRES) pursuant to Republic Act No. 9646 (Real Estate Service Act of the Philippines 2009). The appraisal report of an appraiser or valuer shall indicate his complete name, office address, the validity periods and numbers of license and registration with PRC and PRBRES, respectively, Accredited Professional Organization (APO) Receipt Number, Professional Tax Receipt Number (PTR) and his Tax Identification Number (TIN). If the subject of the valuation is other than real property, the appraiser or valuer issuing the report shall show proof upon request by the Commission, of the technical expertise on conducting such valuation.
  3. The criteria for accreditation shall be the following:
    - i. The applicant shall be registered with the Commission either as a corporation or general professional partnership organized by individuals engaged in appraisal or valuation work and shall be 100% Filipino-owned pursuant to the 9<sup>th</sup> Foreign Investment Negative List.
    - ii. The appraisers of the applicant-appraisal company who are authorized by its Board of Directors to act and/or sign appraisal reports on its behalf shall each possess the following qualifications:
      - a. He is a professional appraiser or valuer licensed and registered by the PRC and PRBRES, respectively, pursuant to R. A. No. 9646 and its Implementing Rules and Regulations;
      - b. He is one of the executive officers or directors of the applicant-appraisal company;
      - c. He is an officer or a member in good standing of any registered association of property appraiser or valuers under the Philippine laws;
      - d. He has a minimum experience of five (5) years in providing property valuation services on a regular basis;
      - e. He is compliant with the Continuing Professional Education (CPE) prescribed by the CPE Council of the PRBRES pursuant to Section 35 of R.A. No. 9646;
      - f. He is covered by a professional indemnity insurance.
    - iii. The valuation specialists of an applicant-PSO who are authorized by the firm or the Board of Directors to act and/or sign on behalf of the PSO shall each possess the following qualifications:
      - a. He is a Certified Public Accountant or Engineer licensed by the appropriate Board of the PRC;
      - b. He is one of the partners of the firm or one of the executive officers or directors of the corporation, as the case maybe;
      - c. He is a member in good standing of a recognized professional

- organization;
  - d. He has a minimum experience of five (5) years in providing valuation services on a regular basis. The said work experience should be recent and continuous and should involve valuation of intangible and financial assets;
  - e. He is compliant with the CPE prescribed for the profession;
  - f. He is covered by a professional indemnity insurance
- iv. .At the time of application, the applicant appraisal company or PSO shall have the following minimum qualifications:
- a. It has all the requisite business permits and licenses to operate the business;
  - b. It has at least two (2) appraisers or valuation specialists who are duly authorized to act and/or sign appraisal reports on behalf of the appraisal company or PSO, as the case maybe, and who each possesses the qualifications required under the above paragraphs;
  - c. It has adequate number of technical and administrative personnel for the conduct of valuation;
  - d. It has an unimpaired outstanding capital of not less than P5,000,000 or such higher amount of capital as the Commission may prescribe as a result of future assessment of the resources of appraisal companies or partnership. In addition, it must have positive financial ratios (e.g., current, solvency, liquidity and debt to equity ratios) based on the latest financial report of the company;
  - e. It has effective internal controls and checks and balances to ensure the quality and integrity of valuation reports;
  - f. It has a professional liability insurance for errors and omissions in the amount of at least Five Hundred Thousand Pesos (P500,000.00). It shall have a sworn undertaking that it will provide professional liability insurance in such higher amount as the client corporation shall require to adequately cover the risk exposure of the appraisal company.
- v. The applicant entity shall have rendered professional services to at least two (2) banks, or two (2) public companies or secondary licensees, or two (2) large corporations which are those with more than P350 Million total assets and/or P250 Million total liabilities;
- vi. The applicant and/or any of its directors/officers or partners, as the case may be, and its property appraisers or valuation specialists shall have no adverse judgment against them on any administrative, civil or criminal case involving its appraisal business. The adverse judgment must be final and executory.
4. The applicant shall submit to the Commission the following documents:
- i. Notarized application for accreditation;
  - ii. Board or partners' resolution approving the filing of the

- application and the designation of authorized signatory on behalf of the company;
- iii. Proof of payment of the prescribed processing fee;
  - iv. Profile showing the history, scope of services, list of employees and their corresponding profession, and bio-data of the directors/executive officers or partners, and certifying property appraisers or valuation specialists;
  - v. Documents showing compliance with the prescribed qualifications for the applicant's appraisers or valuation specialists, i.e., professional license, CPE certificates, working experience record;
  - vi. Certificate of good standing issued by PRC recognized or APO;
  - vii. List of clients showing current and previous clients;
  - viii. Certifications from at least two (2) banks, or two (2) public companies or secondary licensees or two (2) large corporations that they have engaged its services;
  - ix. Notarized certification of the applicant signed by its president or managing partner that it meets all the qualification requirements under paragraph II(3) above; that it has not been declared liable by the Commission or any competent court for violation of the Corporation Code, SRC or any relevant laws and regulations, and that the applicant and/or any of its directors/officers or partners, or property appraisers or valuers have no adverse judgment against them on any administrative, civil or criminal case involving its appraisal business. The adverse judgment must be final and executory;
  - x. List of any pending administrative, civil or criminal case filed against the company or any of its officers and employees;
  - xi. Copy of the audited financial statements for the recent three years including the period due for filing;
  - xii. Copy of professional liability insurance policy and sworn undertaking to provide professional liability insurance as required by its clients; and
  - xiii. Copies of two (2) appraisal or valuation reports issued by the applicant, as may be requested by the Commission based on its selection criteria such as amount involved, purpose of the valuation and secondary license of the company-client;
  - xiv. A description of the framework from which the company's internal control procedures are based, and the code or standard it follows to ensure the integrity of valuation reports.
5. The accreditation that may be granted by the Commission under these Guidelines shall be effective for a period of five (5) years, subject to the following requirements:
- i. Payment of an annual fee of Two Thousand Pesos (P2,000.00) not later than January 31<sup>st</sup> of the year;
  - ii. Submission of copies of renewed licenses of the company's appraisers or valuation specialists within fifteen (15) business days from expiration date;
  - iii. Compliance with operational and reportorial requirements under these Guidelines.