



Republic of the Philippines  
 Department of Finance  
**INSURANCE COMMISSION**  
 1071 United Nations Avenue  
 Manila



Circular Letter (CL) No.:	2019-58
Date:	28 October 2019
Supplements:	CL No. 2018-68 2018-69

**CIRCULAR LETTER**

**TO : ALL HEALTH MAINTENANCE ORGANIZATIONS (HMOs)  
DOING BUSINESS IN THE PHILIPPINES**

**SUBJECT : APPLICATION OF PFRS 4 AND PFRS 15: ACCOUNTING  
STANDARDS FOR HEALTH MAINTENANCE  
ORGANIZATIONS (HMOs) AGREEMENTS**

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**WHEREAS**, an HMO refers to a juridical entity legally organized to provide or arrange for the provision of pre-agreed or designated healthcare services to its enrolled members for a fixed prepaid fee or a specific period of time<sup>1</sup>;

**WHEREAS**, this Commission has the statutory power over HMOs to “prepare, approve or amend rules, regulations, orders and circulars, and issue opinions, provide guidance on and supervise compliance with such rules, regulations, orders and circulars” under Section 4 (j) of Executive Order No. 192, series of 2015;

**WHEREAS**, the fixed prepaid fee in an HMO Agreement may be in the form of (a) a pre-agreed membership fee or (b) a combination of the enrolment fee, administrative fee and a fund under Administrative Services Only (ASO) agreement, or (c) a combination thereof<sup>2</sup>;

**WHEREAS**, rules and/or guidance on financial reporting is necessary to be implemented to ensure transparent and consistent application of such rules and/or guidance by the HMOs;

**WHEREAS**, Advisory No. 20-2017 dated 26 October 2017 was issued advising HMOs’ revenue recognition shall not be limited to the application of PFRS 15, but also to the application of PFRS 4 depending on the nature of particular contract issued by the HMO;

**WHEREAS**, Circular Letter (CL) No. 2018-69 dated 28 December 2018 was issued deferring the implementation of IFRS 17 for Life Insurance and Non-Life Insurance industries to 01 January 2023;

<sup>1</sup> Executive Order (EO) No. 192, s. 2015

<sup>2</sup> Circular Letter (CL) No. 2017-19

**WHEREAS**, Section 4 of the same Circular provides that all HMOs shall maintain to comply with the current accounting standards until further required by this Commission to comply with another accounting standards;

**WHEREAS**, there is a need to clarify what is the current accounting standard to be used for HMO contracts/agreements;

**NOW, THEREFORE**, pursuant to the powers granted to this Commission under Section 4 of Executive Order No. 192, series of 2015, the following Accounting Standards shall be applied by HMOs, as follows:

**Section 1. APPLICATION OF PFRS 4**

PFRS 4 shall be applied to HMO agreements with **membership fee-based** benefits or where the fixed prepaid fee is in the form of a membership fee where the risks are borne by the HMO.

**Section 2. APPLICATION OF PFRS 15**

PFRS 15 shall be applied to HMO agreements with **fund-based benefits** or where the fixed pre-paid fee is in the form of the enrolment fee, administrative fee and the ASO Cash fund where the risks are borne by the HMO client.

**Section 3. SEPARATING THE COMPONENTS OF AN HMO AGREEMENT**

An HMO agreement with a combination of membership fee-based and fund-based benefits shall be bifurcated. Sections 1 and 2 of this Circular shall then be applied to identify and account for the components of such HMO agreement.

**Section 4. IMPLEMENTATION AND EFFECTIVITY**

This Circular shall be effective for annual and quarterly reporting periods starting 01 January 2020, unless it is subsequently amended or changed by this Commission.



**DENNIS B. FUNA**  
Insurance Commissioner

