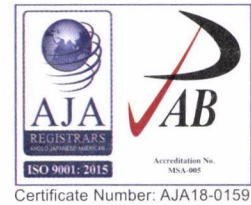




Republic of the Philippines  
Department of Finance  
**INSURANCE COMMISSION**  
1071 United Nations Avenue  
Manila



Circular Letter (CL) No.:	2019 - 70
Date:	02 December 2019
Supplements:	IC CL Nos.: 2016-65, 2016-68 2017-15, and 2017-30

### CIRCULAR LETTER

**TO :** ALL INSURANCE / REINSURANCE COMPANIES  
AUTHORIZED TO TRANSACT BUSINESS IN THE  
PHILIPPINES

**SUBJECT :** ACCOUNTING OF RIGHT-OF-USE ASSETS AND RELATED  
LEASE LIABILITY FOR STATUTORY REPORTING

**WHEREAS**, the International Accounting Standards Board (IASB) has issued a new accounting standard for leases, known as the International Financial Reporting Standard – Leases (IFRS 16) or Philippine Financial Reporting Standard 16 – Leases (PFRS 16) in the Philippines.<sup>1</sup>

**WHEREAS**, PFRS 16 supersedes Philippine Accounting Standard 17 – Leases (PAS 17) and related Interpretations<sup>2</sup>, and is effective 01 January 2019.<sup>3</sup>

**WHEREAS**, PFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Leases are ‘capitalized’ by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets). If lease payments are made over time, a company also recognizes a financial liability (lease liability) representing its obligation to make future lease payments.

**WHEREAS**, further, it was noted that significant number of insurance companies are leasing or renting properties as their office, sub-leased and other purposes. As such, will be affected by this new accounting standard.

<sup>1</sup> Philippine Financial Reporting Standards (PFRSs) are currently fully converged with International Financial Reporting Standards (IFRSs).

<sup>2</sup> IFRS (2019, 08 January). New Standard on Leases Now Effective. Available at: <https://www.ifrs.org/news-and-events/2019/01/ifrs-16-is-now-effective/>; Accessed 24 September 2019.

<sup>3</sup> Philippine Financial Reporting Standards. Available at: [http://www.picpa.com.ph/frsc.html?article=Philippine%20Financial%20Reporting%20Standards&page=FRSC&main\\_menu=PFRSs](http://www.picpa.com.ph/frsc.html?article=Philippine%20Financial%20Reporting%20Standards&page=FRSC&main_menu=PFRSs); Accessed 24 September 2019.

**WHEREAS**, on 28 December 2016, the Insurance Commission (IC) issued Circular Letter (CL) Nos. 2016-65 and 2016-68, to provide rules and regulations on the new Financial Reporting Framework (FRF) under Section 189 of Republic Act No. 10607 (Amended Insurance Code) and Amended Risk-Based Capital (RBC2) Framework, respectively.

**WHEREAS**, the IC issued CL Nos. 2017-15 and 2017-30 dated 10 March 2017 and 02 May 2017, respectively to provide additional guidelines on the implementation of the new FRF and RBC2 Frameworks, among others.

**NOW, THEREFORE**, pursuant to the powers of the Insurance Commissioner under Sections 231 and 437 of the Republic Act No. 10607 (Amended Insurance Code) and in line of the above changes and in consideration of the regulated industries' request for clarification pertaining to PFRS 16, the following guidelines are issued and promulgated to insurance and professional reinsurance companies acting as lessees in a leasing contract which allows for the recognition of right-of-use asset and corresponding lease liability per PFRS 16:

#### **Section 1. Financial Reporting Framework**

The "Right-of-Use (ROU) Asset" and the corresponding "Lease Liability" shall be presented separately as new line items in the Statement of Financial Position and shall form part of the uniform chart of accounts on FRF under CL 2016-65.

#### **Section 2. Risk-Based Capital 2 Framework**

The ROU Asset shall be subject to twenty-five percent (25%) risk charge, the same RBC factor also applied to related assets such as (i) Real Estate Investment Trust, (ii) Land, Building and Building Improvements (under Property and Equipment) and (iii) Investment Property.

#### **Section 3. Admittance and Non-Admittance**

The ROU Asset shall be admitted up to the extent of the corresponding Lease Liability. Any ROU Asset in excess of Lease Liability shall be treated as non-admitted in the computation of the net worth requirement pursuant to Section 194 of the Amended Insurance Code.

#### **Section 4. Implementation and Effectivity**

All insurance and professional reinsurance companies are required to apply the abovementioned guidelines in the preparation and submission of statutory quarterly and annual reports dated as of 30 September 2019 onwards.

All concerned should be guided accordingly.



**DENNIS B. FUNA**  
Insurance Commissioner

