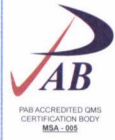




Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
1071 United Nations Avenue
Manila



Insurance Commission Ruling (ICR) No.:	2021-01
Date:	05 Feb 2021

MR. CHRISTIAN S. ARGOS

President

MAXICARE HEALTHCARE CORPORATION

Maxicare Tower, 203 Salcedo St.

Legaspi Village, Makati City

sean.argos@maxicare.com.ph

Joseph.reyes@maxicare.com.ph

SUBJECT: Guidance on the Application of PFRS and IC Circular Letter No. 2020-22

Dear **Mr. Argos**:

This refers to your letter dated 16 December 2020, requesting for guidance from the Insurance Commission on the following matters:

- (1) Whether Maxicare Healthcare Corporation (“the company”) should recognize Membership Fee Receivables in its Financial Statements based on the billed amount or the Total Contract Value for the current coverage year regardless of whether billed or not;
- (2) Whether the company should adopt IC Circular Letter No. 2020-22 on Valuation Standards for HMO Agreement Liabilities and apply the provisions of said circular in the company’s 2020 audited financial statements; and
- (3) In preparing the financial statements in accordance with Philippine Financial Reporting Standards (PFRS), what transition approach should be applied in the year that the valuation standards are adopted by HMOs.

Upon careful consideration of the matters set forth above, the following are the answers to your queries:

- I. **On whether the company should recognize Membership Fee Receivables in the Financial Statements based on the billed amount or the Total Contract Value for the current coverage year regardless of whether billed or not:**

The company is enjoined to value its reserves using Total Contract Value, especially for yearly renewable contracts as this approach would allow simpler valuation of reserves.

II. On whether the company should adopt IC Circular Letter (CL) No. 2020-22 on Valuation Standards for HMO Agreement Liabilities and apply the provisions of said circular in the company's 2020 Audited Financial Statements (AFS):

Please be advised that HMO companies are allowed not to avail of the relief based on CL 2020-100.

III. On the transition approach that will be applied in the year that the valuation standards are adopted by HMOs in preparing the financial statements in accordance with the Philippine Financial Reporting Standards (PFRS):

1. Philippine Accounting Standards (PAS) 8 - Accounting Policies, Changes in Accounting Estimates and Errors provides the following guidance when applying a requirement that is impracticable for adjustment for comparability:

“In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 51–53, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.”

2. PAS 8 further provides when a requirement is impracticable, as follows:

Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- a. the effects of the retrospective application or retrospective restatement are not determinable;***
- b. the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period;***
or
- c. the retrospective application or retrospective restatement requires significant estimates of amounts***

and it is impossible to distinguish objectively information about those estimates that:

- i. provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and***
- ii. would have been available when the financial statements for that prior period were authorised for issue from other information.***

3. However, IC CL No. 2020-22-Addendum provides that the data maintenance is a must. The company should already have 2-3 years data for yearly renewable policies since it is imperative for each company to keep these records for businesses operations. In fact, these data are used to determine the price of HMO agreements.

Thus, the company is enjoined to adopt the retrospective approach as provided under PAS 8 paragraphs 19 and 22, otherwise provide proof why the company cannot comply with the standard.

For your information and guidance.

Very truly yours,

DENNIS B. FUNA
Insurance Commissioner

