



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



<b>Circular Letter No.:</b>	<b>2022-14</b>
<b>Date:</b>	<b>14 March 2022</b>
<b>Supplements/ Amends:</b>	<b>None</b>

### CIRCULAR LETTER

**TO : ALL GOVERNMENT-OWNED OR CONTROLLED CORPORATIONS OR ENTITIES ENGAGED IN SOCIAL OR PRIVATE INSURANCE**

**SUBJECT : ADOPTION OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) 4 – INSURANCE CONTRACTS**

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**WHEREAS**, under Section 437 of Republic Act No. 10607 (Amended Insurance Code), the Insurance Commissioner may issue such rulings, instructions, circulars, orders and decisions as may be deemed necessary to secure enforcement of the Code, to ensure efficient regulation of the insurance industry in accordance with global best practices and to protect the insuring public;

**WHEREAS**, Section 190 of the Code provides that the term insurer or insurance company shall include all partnerships, associations, cooperatives or corporations, including government-owned or-controlled corporations or entities, engaged as principals in the insurance business, excepting mutual benefit associations;

**WHEREAS**, paragraph two (2) of Section 253 of the Code provides that government-owned or-controlled corporations or entities engaged in social or private insurance shall similarly be subjected to examination by the Commission unless their respective charters otherwise provide.

**WHEREAS**, Section 189 of the Code states that all companies regulated by the Commission, unless otherwise required by law, should comply with the financial reporting frameworks (FRF) adopted by the Commission for purposes of creating the statutory financial reports and the annual statements (AS) to be submitted to the Commission. This financial reporting framework is not the same as the financial reporting framework used to for general purpose financial statements.

**WHEREAS**, the FRF is a set of accounting and reporting principles, standards, interpretations and pronouncements that must be adopted in the preparation and submission of the statutory financial statements and reports required by the Commission.

**WHEREAS**, Section 189 of the Code further states that the main purpose of the statutory statements is to present important information about the level of risk and solvency situation of insurers. In prescribing the applicable statutory financial reporting framework, the Commissioner shall take into account international standards concerning solvency and insurance company reporting as well as generally accepted actuarial principles concerning financial reporting promulgated by the Actuarial Society of the Philippines.

**WHEREAS**, the current international insurance accounting standard is the International Financial Reporting Standard 4 – Insurance Contracts, which is adopted in the Philippines as PFRS 4;

**WHEREAS**, the Life and Non-life Insurance Companies, Health Maintenance Organizations and Mutual Benefit Associations are required to adopt the PFRS 4;

**WHEREAS**, PFRS 4 applies to insurance contracts (including reinsurance contracts) that an entity issues and reinsurance contracts that it holds. Likewise, it applies to financial instruments with discretionary participation features;

**WHEREAS**, PFRS 4 aims to enhance the disclosure requirements for insurance contracts as well as to improve recognition and measurement practices for such contracts;

**WHEREAS**, to address the shortcomings of PFRS 4, which include the lack of comparability of insurers due to varying accounting practices across the globe, a new accounting standard was issued, known as IFRS 17 or PFRS 17 – Insurance Contracts.

**WHEREAS**, PFRS 17 shall take effect beginning the annual reporting period of 01 January 2023.

**WHEREAS**, the IC issued Circular Letter (CL) No. 2018-69, which was amended by CL No. 2020-62, deferring the implementation of PFRS 17 to two years after its effectivity date as decided by the International Accounting Standards Board.

**WHEREAS**, Philippine Accounting Standards (PAS) 37 – Provisions, Contingent Liabilities and Contingent Assets outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).

**WHEREAS**, PAS 37 excludes obligations and contingencies arising from insurance contracts under PFRS 4.



**WHEREAS**, the IC issued CL Nos. 2016-66 and 2016-67 to provide the valuation standards for all Life Insurance Companies, Mutual Benefit Associations, all Non-life Insurance Companies and Professional Reinsurance Companies doing business in the Philippines, respectively;

**WHEREAS**, the Department of Finance, through its letter to the Chairperson of the Commission on Audit (COA) dated 17 November 2020, directed all Government Insurance Institutions (GIIs) to adopt accounting standards consistent with PFRS 4;

**WHEREAS**, there are GIIS that have yet to adopt PFRS4 as their standard in preparing their general purpose financial statement;

**WHEREAS**, in order to promote transparency, comparability and consistency of financial reports submitted to the Insurance Commission for audit, insurance entities must adopt a common and acceptable accounting standard for transactions of similar nature.

**NOW, THEREFORE**, in view of all the foregoing and in accordance with the undersigned's powers under Section 437 of the Republic Act No. 10607 (Amended Insurance Code), the following rules and regulations are hereby promulgated:

#### **SECTION 1: ADOPTION OF THE PHILIPPINE FINANCIAL REPORTING FRAMEWORK (PFRS) 4 – INSURANCE CONTRACTS**

- 1.1. All government-owned or-controlled corporations or entities engaged in social or private insurance or simply referring to GIIs, shall adopt the requirements of PFRS 4 – Insurance Contracts on classifying, measuring, recognizing the contractual obligations and the appropriate presentation and disclosure requirements on the statutory reporting and AS submission to the Commission.

#### **SECTION 2: DEFINITION OF INSURANCE CONTRACT**

- 2.1. An insurance contract is defined as a contract under which one party accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Further guidance on this definition is defined in the Appendix B of the PFRS 4.
- 2.2. A Life Insurance Contract shall be defined as insurance on human lives and insurance appertaining thereto or connected therewith. Moreover, every contract or undertaking for the payment of annuities including contracts for the payment of lump sums under a retirement program where a life insurance company manages or acts as a trustee for such retirement program shall be considered a life insurance contract<sup>1</sup>. For the purposes

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<sup>1</sup> Section 181 of the Amended Insurance Code

of this Circular, other insurance contracts that are connected to life insurance contracts such as riders shall be classified as life insurance contracts.

- 2.3. A Non-life Insurance Contract shall be defined as an insurance that do not come under the scope of life insurance. For the purposes of this Circular, other insurance contracts that are **not connected or are not riders** to life insurance contracts shall be classified as non-life insurance contracts.
- 2.4. A Reinsurance Contract shall be defined as a contract by which an insurer procures a third person to insure him against loss or liability by reason of such original insurance.<sup>2</sup>

### **SECTION 3: VALUATION METHODOLOGY**

- 3.1. Life Insurance Contracts shall apply the required valuation standard provided in IC CL No. 2016-66.
- 3.2. Non-Life Insurance Contracts shall apply the required valuation standard provided in IC CL No. 2016-67.

### **SECTION 4: FINANCIAL REPORTING FRAMEWORK**

- 4.1. GIs covered by this Circular Letter shall apply the financial reporting framework issued by the COA in preparing their general purpose financial statements.
- 4.2. The general purpose financial statements as audited by the COA shall be used as basis for the preparation of the AS, which will be subjected to examination of the IC.
- 4.3. The presentation prescribed under IC CL No. 2016-65 shall be applied in the preparation of the AS unless superseded and/or another applicable IC CL is issued.

### **SECTION 5: EFFECTIVITY DATE AND TRANSITION**

- 5.1. This Circular Letter shall apply for annual periods beginning on or after 1 January 2023.
- 5.2. For the purposes of the transition requirements of this Circular:
  - a. the date of initial application is the beginning of the annual reporting period in which an entity first applies PFRS 4; and

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<sup>2</sup> Section 97 of the Amended Insurance Code

b. the transition date is the beginning of the annual reporting period immediately preceding the date of initial application.

5.3. An entity shall apply PFRS 4 retrospectively unless it is impracticable to do so.



**DENNIS B. FUNA**  
Insurance Commissioner

