



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



ADVISORY No. 20-2017

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

SUBJECT : IMPLEMENTATION OF PFRS 15 REVENUE FROM
CONTRACTS WITH CUSTOMERS STARTING
01 JANUARY 2018

DATE : 26 OCTOBER 2017

In view of the impending application of the Philippine Financial Reporting Standard (PFRS) 15 *Revenue from Contracts with Customers* for annual reporting periods starting 01 January 2018 onwards, and its possible implication with PFRS 4 *Insurance Contracts*, please be advised that 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 a particular contract issued by the HMO.

Thus, the basis for revenue recognition of HMOs shall be the following:

- PFRS 4 shall apply to the insurance contracts; and
- PFRS 15 shall apply for the non-insurance contracts or components thereof under CL 2017-19.

As provided in PFRS 4, the application of insurance/pre-need local accounting practices shall be exercised for accounting purposes only and shall not make an HMO company an insurance/pre-need company for statutory or regulatory purposes.

Attached herewith is a brief discussion of PFRS 4 and 15 as "Annex A" for your reference.

Please be guided accordingly.


DENNIS B. FUNA
Insurance Commissioner



“ANNEX A”

PFRS 15 Revenue from Contracts with Customers

This standard applies to all contracts with customers **except for**:

- a. Leases within the scope of PAS 17 Leases;
- b. Financial instruments and other contractual rights or obligations within the scope of PFRS 9 Financial Instruments;
- c. PFRS 10 Consolidated Financial Statements;
- d. PFRS 11 Joint Arrangements;
- e. PAS 27 Separate Financial Statements and PAS 28 Investment in Associates and Joint Ventures;
- f. **Insurance Contracts within the scope of PFRS 4 Insurance Contracts¹** (will be superseded by PFRS 17); and
- g. Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

The core principle of PFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

- a. Identify the contract(s) with customer;
- b. Identify the performance obligation in the contract;
- c. Determine the transaction price;
- d. Allocate the transaction price to the performance obligations in the contract; and
- e. Recognize revenue when (or as) the entity satisfies a performance obligation.

PFRS 4 Insurance Contracts

This applies to virtually all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. Under PFRS 4, entities that issue insurance contracts generally apply previous accounting² to contracts that are in scope of that standard, without separating any non-insurance components included in the insurance contracts.

¹ An insurance contract is 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."

² This is a standard that does not specify a comprehensive accounting model for insurance contracts, but allows entities to continue to apply their (local) accounting practices that existed upon the adoption of PFRSs.