

**PHILIPPINE ELECTRICITY
MARKET CORPORATION**

(A Nonstock, Nonprofit Corporation)

**Financial Statements
December 31, 2019 and 2018
and
Independent Auditors' Report**

18th Floor, Robinsons-Equitable Tower
ADB Avenue, Ortigas Center
Pasig City, Philippines

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees and Members
PHILIPPINE ELECTRICITY MARKET CORPORATION
18th Floor, Robinsons-Equitable Tower
ADB Avenue, Ortigas Center
Pasig City, Philippines

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Philippine Electricity Market Corporation (the "Company"), which comprise the statements of assets, liabilities and fund balance as at December 31, 2019 and 2018, and the statements of receipts and expenses, statements of changes in fund balance and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRS, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on Other Legal and Regulatory Requirements

Report on the Supplementary Information Required by the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 27 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of Management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Navarro Amper & Co.

BOA Registration No. 0004, valid from November 12, 2018 to July 16, 2021

SEC Accreditation No. 0001-FR-5, issued on January 15, 2019; effective until January 14, 2022, Group A
TIN 005299331

By:

Melina S. Delgado
Melissa S. Delgado

Partner

CPA License No. 0091257

SEC A.N. 0332-AR-4, issued on September 4, 2018; effective until September 3, 2021, Group A
TIN 151684764

BIR A.N. 08-002552-007-2019, issued on October 10, 2019; effective until October 9, 2022

PTR No. A-4689423, issued on January 2, 2020, Taguig City

Taguig City, Philippines

June 24, 2020



PHILIPPINE ELECTRICITY MARKET CORPORATION

(A Non-stock, Non-profit Corporation)

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

		December 31	
	Notes	2019	2018
ASSETS			
Current Assets			
Cash and cash equivalents	6	P714,173,283	P707,434,331
Market fees and other receivables	7	39,583,901	31,712,634
Advances to IEMOP	8	17,403,053	51,687,002
Prepayments and other current assets	9	77,629,032	113,352,810
Total Current Assets		848,789,269	904,186,777
Non-current Assets			
Property and equipment - net	10	11,609,630	145,882,988
Intangible assets - net	11	16,380,798	728,846,705
Right-of-use asset	21	12,627,492	-
Defined benefit asset	17	91,364,051	64,106,904
Other non-current assets - net	12	27,198,244	48,317,481
Total Non-current Assets		159,180,215	987,154,078
		P1,007,969,484	P1,891,340,855
LIABILITIES AND FUND BALANCE			
Current Liabilities			
Accounts payable and accrued expenses	13	P451,621,660	P72,074,522
Current portion of lease liability	21	11,535,857	-
Total Current Liabilities		463,157,517	72,074,522
Non-current Liability			
Lease liability - net of current portion	21	1,632,799	-
Total Liabilities		464,790,316	72,074,522
Fund Balance		543,179,168	1,819,266,333
		P1,007,969,484	P1,891,340,855

See Notes to Financial Statements.

PHILIPPINE ELECTRICITY MARKET CORPORATION

(A Non-stock, Non-profit Corporation)

STATEMENTS OF RECEIPTS AND EXPENSES

December 31			
	Notes	2019	2018
Receipts			
Revenue	14	P 227,240,000	P698,372,932
Interest income	6	25,357,183	40,567,330
Other income	15	44,842,509	14,519,089
		297,439,692	753,459,351
Expenses			
Personnel	16	124,701,356	213,705,401
Depreciation and amortization	10, 11, 21	22,923,287	64,260,294
Outside services	21	11,441,906	48,845,134
Utilities		5,817,163	35,988,699
Rental	21	1,850,908	31,274,551
Repairs and maintenance		4,719,122	23,610,230
Honorarium and allowances		26,170,000	21,717,850
Transportation and travel		4,981,629	9,874,793
Supplies		2,870,115	6,846,284
Income Taxes		13,303,501	1,276,692
Interest	21	1,015,929	-
Others	18	15,414,702	23,562,378
		235,209,618	480,962,306
Excess of Receipts over Expenses for the Year		62,230,074	272,497,045
Other Comprehensive Income			
Item that will not be Reclassified			
Subsequently to Receipts over Expenses			
Remeasurement of defined benefit asset	17	26,759,642	(75,354,063)
Transfer of Assets and Liabilities to IEMOP	25	(1,365,076,881)	29,415,101
Total Receipts over Expenses		(P1,276,087,165)	P226,558,083

See Notes to Financial Statements.

PHILIPPINE ELECTRICITY MARKET CORPORATION

(A Non-stock, Non-profit Corporation)

STATEMENTS OF CHANGES IN FUND BALANCE

	Notes	Fund Balances	Reserves	Accumulated Excess of Revenue over Expenses	Total
Balance, December 31, 2017		P10,000	(P20,970,285)	P1,620,837,265	P1,599,876,980
Excess of receipts over expenses for the year		-	-	272,497,045	272,497,045
Prior period adjustments	25			(7,168,730)	(7,168,730)
Transfer of assets and liabilities to IEMOP	25			29,415,101	29,415,101
Other comprehensive income					-
Effect of remeasurement of defined benefit asset	17	-	(75,354,063)	-	(75,354,063)
Total comprehensive income		-	(75,354,063)	294,743,416	219,389,353
Balance, December 31, 2018		10,000	(96,324,348)	1,915,580,681	1,819,266,333
Excess of receipts over expenses for the year		-	-	62,230,074	62,230,074
Transfer of assets and liabilities to IEMOP	25			(1,365,076,881)	(1,365,076,881)
Other comprehensive income					-
Effect of remeasurement of defined benefit asset	17	-	26,759,642	-	26,759,642
Total comprehensive income		-	26,759,642	(1,302,846,807)	(1,276,087,165)
Balance, December 31, 2019		P10,000	(P69,564,706)	P 612,733,874	P 543,179,168

See Notes to Financial Statements.

PHILIPPINE ELECTRICITY MARKET CORPORATION

(A Non-stock, Non-profit Corporation)

STATEMENTS OF CASH FLOWS

		December 31	
	Notes	2019	2018
Cash Flows from Operating Activities			
Excess of receipts over expenses		P 62,230,074	P 272,497,045
Adjustments for:			
Depreciation and amortization	10, 11, 21	22,923,287	64,260,294
Interest expense	21	1,015,929	-
Unrealized foreign exchange (gains)/losses		129,665	(168,932)
Loss on disposal of property and equipment	10, 18	-	76,095
Gain on disposal of intangible assets	11, 15	(100,000)	-
Interest income	6	(25,357,183)	(40,567,330)
Provision for bad debts	7	24,789	-
Retirement benefit income	17, 15	(497,505)	(10,094,516)
Operating cash flows before working capital changes		60,369,056	286,002,655
(Increase) Decrease in current assets:			
Market fees and other receivables	7	(7,896,056)	51,867,622
Advances to IEMOP	8	34,283,949	(51,687,002)
Prepayments and other current assets	9	35,723,778	(24,281,433)
(Increase) Decrease in other non-current assets	12	21,119,237	8,735,213
Decrease in current liabilities	13	(10,522,469)	(62,769,999)
Cash generated from operations		133,077,495	207,867,056
Interest received		25,357,183	40,567,330
Net cash from operating activities		158,434,678	248,434,386
Cash Flows from Investing Activities			
Proceeds from sale of intangible assets	10, 15	5,030,569	-
Acquisitions of:			
Property and equipment	10	(3,227,937)	(68,844,970)
Intangible assets	11	(16,618,323)	(99,175,743)
Net cash used in investing activities		(14,815,692)	(168,020,713)
Cash Flows from Financing Activities			
Assignment of Loans to the Independent Electricity Market Operator (IEMOP)		-	(686,288,981)
Transfer of assets to IEMOP	25		
Cash		(116,900,293)	(91,593,500)
Guarantee deposits		(8,233,286)	-
Supplies		-	(1,604,222)
Payment of lease liabilities		(11,616,790)	-
Net cash used in financing activities		(136,750,369)	(779,486,703)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(129,665)	168,932
Net Increase (Decrease) in Cash and Cash Equivalents		6,738,952	(698,904,098)
Cash and Cash Equivalents, Beginning	6	707,434,331	1,406,338,429
Cash and Cash Equivalents, End	6	P714,173,283	P 707,434,331

See Notes to Financial Statements.

PHILIPPINE ELECTRICITY MARKET CORPORATION

(A Non-stock, Non-profit Corporation)

NOTES TO FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

1. CORPORATE INFORMATION

a. Organization

Philippine Electricity Market Corporation (the "Company" or "PEMC") is a non-stock, non-profit corporation registered with the Philippine Securities and Exchange Commission (SEC) on November 18, 2003. The Company was incorporated upon the initiative of the Department of Energy (DOE). This is in pursuant to Section 30 of Republic Act (RA) No. 9136, the Electric Power Industry Reform Act (EPIRA) of 2001, which directs the DOE to constitute an autonomous group market operator, with equitable representation from industry participants, which shall undertake the preparatory work and initial operation of the Wholesale Electricity Spot Market (WESM), as disclosed in Note 21.

On September 19 2018, PEMC and IEMOP executed an Operating Agreement by virtue of which, PEMC acknowledges and confirms that the Independent Electricity Market Operator of the Philippines, Inc. (IEMOP) shall act as Independent Market Operator of WESM pursuant to the DOE Department Circular No. 2018-01-0002 dated January 18, 2018 and Plan for Transition to the Independent Market Operator of the WESM which was approved in accordance with Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA) and its IRR.

Pursuant to said Operating Agreement, PEMC shall remain to be the governing body of WESM and will continue to perform the WESM governance functions, including, among other things, the supervision and monitoring of the operations of the Market Operator in accordance with the WESM Rules.

IEMOP shall perform the market operator functions and other services. Correspondingly, the related personnel, assets, and liabilities were transferred from PEMC to IEMOP. The time and date of the actual transfer and assumption by IEMOP of the market operator functions and other services defined in the Operating Agreement was on September 26, 2018 as the "Commencement Date."

All of the Company's costs of administering and operating the WESM is expected to be fully funded through the market fees collected from the WESM trading participants, as disclosed in Note 14.

b. WESM Operation

Pursuant to the DOE's Department Circular No. 2006-06-008 issued on June 21, 2006 in accordance with the EPIRA, WESM's commercial operation in Luzon formally commenced on June 26, 2006. On December 26, 2010, the commercial operations of the WESM in the Visayas formally started. From June 26, 2006 to September 25 2018 for Luzon and from December 26, 2010 to September 25, 2018 for Visayas, the Company acted as the market operator of WESM subject to the overall supervision of the PEM Board of Directors, as disclosed in Note 21. As market operator for said period, it administered the operation of the WESM in accordance with the rules that will govern the market (WESM Rules). Transactions between the WESM trading participants are not reflected in the Company's financial statements because such transactions are those of the trading participants, with the Company acting only as a pass-through entity.

Then, September 26, 2018, the market operator functions have been transferred to IEMOP pursuant to the Operating Agreement.



On May 4, 2017, the DOE issued Department Circular No. DC2017-05-0009, which provided for the launch of the WESM in Mindanao. The trial operations program (TOP) for the WESM in Mindanao was still ongoing as at December 31, 2019.

c. Central Registration Body (CRB)

The commercial operations and integration of the Retail Competition and Open Access (RCOA) into the WESM was launched on June 26, 2013.

Section 31 of EPIRA provides that RCOA shall be implemented not later than three years upon the implementation of EPIRA. As at December 31, 2017, the Energy Regulatory Commission (ERC) allowed all electricity end users with a monthly average peak demand of at least seven hundred fifty (750) kilowatts for the preceding 12 months to be contestable. The Company is the CRB of the RCOA. As at December 31, 2019, there were 1,179 contestable customers.

However, the CRB function was likewise transferred to IEMOP starting September 26, 2018 pursuant to the Operating Agreement between PEMC and IEMOP.

d. Interim Mindanao Electricity Market (IMEM)

On September 20, 2013, IMEM was launched and the full commercial operations of the market commenced December 3, 2013. The Company was designated as the operator of the IMEM. On February 27, 2014, when IMEM is already on its 3rd month of operations, the Mindanao region experienced a system-wide blackout due to the unplanned shutdown of several major plants. The significant supply deficiency triggered the declaration of the Mindanao System Operator of a market intervention but during this period, the central scheduling of contracts are still implemented through IMEM. The IMEM was terminated on June 7, 2017 upon the effectivity of DOE Department Circular No. DC2017-05-0009 which provided for the transitional arrangements prior to the commercial operations of the WESM in the region.

The IMEM was a venue for a transparent and efficient utilization of all available capacities in the Mindanao grid to meet the supply deficiency. Unlike the WESM operating in Luzon and Visayas, the IMEM was a day-ahead market to address only the supply deficiency in the grid.

e. Renewable Energy Market (REM)

Under Section 8 of the Renewable Energy Act (RA 9513), the Company is mandated to perform the functions of the Renewable Energy Registrar (RER) to conduct the issuance, keeping and verification of RER Certificates (RECs) corresponding to the generation of eligible Renewable Energy facilities. Furthermore, the same provision appoints the RER to act as the Operator of the REM which will facilitate the trading of the RECs.

Pursuant to the Renewable Portfolio Standard (RPS) Rules promulgated by the DOE on December 30, 2017, the REM should be commercially operating by 2019. To this end, PEMC, in collaboration with the DOE, completed the public consultations for the REM Rules and the Rules was targeted to be issued by April 2018. PEMC also has an ongoing project with the United Nations Development Program (UNDP) to implement the Philippine RE Market System (PREMS) that will operationalize the processes of the RER and is under the Renewable Energy Applications Mainstreaming and Market Sustainability (DREAMS) Project.

The DOE has yet to issue the Renewable Energy Market (REM) Rules.

The registered principal office address of the Company is at the 18th Floor Robinsons-Equitable Tower, ADB Avenue, Ortigas Center, Pasig City.



2. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), which includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and the Board of Accountancy (BOA) and adopted by the SEC.

Basis of Preparation and Presentation

The financial statements have been prepared on the historical cost basis, except for certain financial instruments carried at amortized cost, defined benefit asset recognized as the net total of the present value of the fair value of plan assets less defined benefit obligation.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of PFRS 2, leasing transactions that are within the scope of PFRS 16 (prior January 1, 2019, PAS 17), and measurements that have some similarities to fair value but are not fair value, such as net realizable value in PAS 2 or value in use in PAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Functional and Presentation Currency

These financial statements are presented in Philippine Peso, the currency of the primary economic environment in which the Company operates. All amounts are recorded in the nearest Peso, except when otherwise indicated.



3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

Adoption of New and Revised Accounting Standards Effective in 2019

The Company adopted all accounting standards and interpretations as at December 31, 2019. The new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) and approved by the FRSC in the Philippines, were assessed to be applicable to the Company's financial statements, are as follows:

PFRS 16 - Leases

PFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease requires and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 4. The impact of the adoption of PFRS 16 on the Company's financial statements is described below.

The date of initial application of PFRS 16 for the Company is January 1, 2019.

The Company has applied PFRS 16 using the modified retrospective approach, without restatement of the comparative information.

The Company has made use of the practical expedient available on transition to PFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with PAS 17 and Philippines IFRIC 4 will continue to be applied to those leases entered or modified before January 1, 2019.

The change in definition of a lease mainly relates to the concept of control. PFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Company applies the definition of a lease and related guidance set out in PFRS 16 to all lease contracts entered into or modified on or after January 1, 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of PFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in PFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Company.

Impact on Lessee Accounting

Applying PFRS 16, for all leases (except as noted below), the Company:

- a. Recognizes right-of-use assets and lease liabilities in the statement of assets, liabilities and fund balance, initially measured at the present value of future lease payments;
- b. Recognizes depreciation of right-of-use assets and interest on lease liabilities in the statement of receipts and expenses; and

Lease incentives (e.g. free rent period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under PAS 17 they resulted in the recognition of a lease incentive liability, amortized as a reduction of rental expense on a straight-line basis.

Under PFRS 16, right-of-use assets are tested for impairment in accordance with PAS 36, *Impairment of Assets*. This replaces the previous requirement to recognize a provision for onerous lease contracts.



The Company as a lessee

- 1) The application of PFRS 16 to leases previously classified as operating leases under PAS 17, *Leases*, resulted in the recognition of right-of-use assets and lease liabilities. It resulted in a decrease in rental expense and an increase in depreciation and amortization and interest expense.
- 2) Lease incentives liability previously recognized with respect to operating leases has been derecognized and the amount factored into the measurement of the right-of-use assets and lease liabilities.

The application of PFRS 16 has an impact on the statement of cash flows of the Company.

Under PFRS 16, lessees must present

- short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities (the Company has included these payments as part of payments to suppliers and employees);
- cash paid for the interest portion of lease liability as either operating activities or financing activities, as permitted by PAS 7 (the Company has opted to include interest paid as part of operating activities); and
- cash payments for the principal portion for lease liability, as part of financing activities.

Under PAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities.

Amendment to PFRS 9 - Prepayment Features with Negative Compensation

The amendments include:

Changes regarding symmetric prepayment options

Under the amendments, the sign of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favor of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

Clarification regarding the modification of financial liabilities

The amendments contain a clarification regarding the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. An entity recognizes any adjustment to the amortized cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortized cost amount.

The amendments are effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

The Management of the Company has assessed that the adoption of these amendments has no significant impact to the financial statements as the Company has no lease agreements with prepayment features.

PAS 28 - Long-term Interests in Associates and Joint Ventures

The amendment clarify that an entity applies PFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The amendments are effective for periods beginning on or after January 1, 2019. Earlier application is permitted.



The Management of the Company has assessed that the adoption of these amendments has no significant impact to the financial statements as the Company has no interest in associates and joint ventures.

Philippine Interpretation IFRIC 23 - *Uncertainty over Income Tax Treatments*

This interpretation applies in determining the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under PAS 12 - *Income Taxes*.

An entity has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing.

- If the entity concludes that it is probable that a particular tax treatment is accepted, the entity has to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings.
- If the entity concludes that it is not probable that a particular tax treatment is accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty.
- An entity has to reassess its judgments and estimates if facts and circumstances change.

The interpretations are effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

The Management of the Company has assessed that the adoption of these amendments has no significant impact to the financial statements of the Company.

Amendments to PAS 19 - *Plan Amendment, Curtailment or Settlement*

The amendments in Plan Amendment, Curtailment or Settlement are:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The amendments are effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

The Management of the Company has assessed that the adoption of these amendments has no significant impact to the financial statements as the Company has no plan amendment, curtailment or settlement during the year

Annual Improvements to PFRSs 2016-2018 Cycle

Amendments to PFRS 3 and PFRS 11 - *Previously held interest in a joint operation*

The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to PFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.



Amendments to PAS 12 - Income tax consequences of payments on financial instruments classified as equity

The amendments clarify that the requirements in the former paragraph 52B (to recognize the income tax consequences of dividends where the transactions or events that generated distributable profits are recognized) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

Amendments to PAS 23 - Borrowing costs eligible for capitalization

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

The amendments are effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

The Management of the Company has assessed that the adoption of these amendments has no significant impact to the financial statements.

New Accounting Standards Effective after the Reporting Period Ended December 31, 2019

PFRS 17 - Insurance Contracts

PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of PFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

The key principles in PFRS 17 are that an entity:

- identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder;
- separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;
- divides the contracts into groups that it will recognize and measure;
- recognizes and measures groups of insurance contracts at:
 - i. a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset)
 - ii. an amount representing the unearned profit in the group of contracts (the contractual service margin);
- recognises the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognizes the loss immediately;
- presents separately insurance revenue (that excludes the receipt of any investment component), insurance service expenses (that excludes the repayment of any investment components) and insurance finance income or expenses; and
- discloses information to enable users of financial statements to assess the effect that contracts within the scope of PFRS 17 have on the financial position, financial performance and cash flows of an entity.

PFRS 17 includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts.

The standard is effective for periods beginning on or after January 1, 2022. Earlier application is permitted.



The Management of the Company believes that the adoption of this standard will have no significant impact on the financial statements as the Company does not issue insurance contracts.

Amendments to PAS 1 and PAS 8, *Definition of Material*

The amendments relate to a revised definition of 'material':

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

Three new aspects of the new definition include (i) obscuring; (ii) could reasonably be expected to influence; and (iii) primary users.

The amendments stress especially five ways material information can be obscured:

- if the language regarding a material item, transaction or other event is vague or unclear;
- if information regarding a material item, transaction or other event is scattered in different places in the financial statements;
- if dissimilar items, transactions or other events are inappropriately aggregated;
- if similar items, transactions or other events are inappropriately disaggregated; and
- if material information is hidden by immaterial information to the extent that it becomes unclear what information is material.

The amendments are effective for periods beginning on or after January 1, 2020. Earlier application is permitted.

The Management of the Company is still evaluating the impact of the adoption of this new standard on the financial statements.

Amendments to PFRS 3, *Definition of Business*

The amendments are to:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

The Management of the Company believes that the adoption of this standard will have no significant impact on the financial statements as the Company has no plans of acquiring business in the near future.



New Accounting Standards Effective in 2019 - Adopted by Financial Reporting Standards Council (FRSC) but pending for approval by the Board of Accountancy.

PIC Q&A No. 2019-04, Conforming Changes to PIC Q&As – Cycle 2019

The interpretation sets out the changes (i.e., amendments or withdrawal) to certain interpretations. These changes are made as a consequence of the issuance of new PFRS that become effective starting January 1, 2019 and other relevant developments.

PIC Q&As Amended

The following table summarizes the changes made to the amended interpretations:

PIC Q&A Amended	Amendment
PIC Q&A No. 2011-05: PFRS 1 – Fair Value or Revaluation as Deemed Cost	Updated because of applying PFRS 16, Leases, for the first time starting January 1, 2019
PIC Q&A No. 2011-06: Acquisition of investment properties – asset acquisition or business combination?	Reference to PAS 40, Investment Property, has been updated because of applying PFRS 16 for the first time starting January 1, 2019.
PIC Q&A No. 2012-02: Cost of a new building constructed on the site of a previous building	Reference to PAS 40 has been updated because of applying PFRS 16 for the first time starting January 1, 2019.
PIC Q&A No. 2017-02: PAS 2 and PAS 16 - Capitalization of operating lease cost as part of construction costs of a building	Updated to comply with the provisions of PFRS 16 and renamed as PIC Q&A No. 2017-02: PAS 2 and PAS 16 - Capitalization of depreciation of right-of-use asset as part of construction costs of a building
PIC Q&A No. 2017-10: PAS 40 - Separation of property and classification as investment property	Reference to PAS 40 has been updated because of applying PFRS 16 for the first time starting January 1, 2019.
PIC Q&A No. 2018-05: PAS 37 - Liability arising from maintenance requirement of an asset held under a lease	Updated to comply with the provisions of PFRS 16
PIC Q&A No. 2018-15: PAS 1- Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current	Reference to PAS 40 (included as an attachment to the Q&A) has been updated because of applying PFRS 16 for the first time starting January 1, 2019.

PIC Q&A Withdrawn

PIC Q&A Withdrawn	Basis for Withdrawal
PIC Q&A No. 2017-09: PAS 17 and Philippine Interpretation SIC-15 - Accounting for payments between and among lessors and lessees	This PIC Q&A is considered withdrawn starting January 1, 2019, which is the effective date of PFRS 16. PFRS 16 superseded PAS 17, Leases, and Philippine Interpretation SIC-15, Operating Leases— Incentives
PIC Q&A No. 2018-07: PAS 27 and PAS 28 - Cost of an associate, joint venture, or subsidiary in separate financial statements	This PIC Q&A is considered withdrawn upon publication of IFRIC agenda decision - Investment in a subsidiary accounted for at cost: Step acquisition (IAS 27 Separate Financial Statements) in January 2019.

The effective date of the amendments is included in the affected interpretations.

The Management of the Company has assessed that the adoption of these amendments has no significant impact on the Company's financial statements as the Company has no investment properties nor any construction cost for capitalization.



PIC Q&A No. 2019-06, *Accounting for step acquisition of a subsidiary in a parent*

The interpretation clarifies how a parent should account for the step acquisition of a subsidiary in its separate financial statements.

Salient points of the interpretation are the following:

IFRIC concluded either of the two approaches may be applied:

- Fair value as deemed cost approach

Under this approach, the entity is exchanging its initial interest (plus consideration paid for the additional interest) for a controlling interest in the investee (exchange view). Hence, the entity's investment in subsidiary is measured at the fair value at the time the control is acquired.

- Accumulated cost approach

Under this approach, the entity is purchasing additional interest while retaining the initial interest (non-exchange view). Hence, the entity's investment in subsidiary is measured at the accumulated cost (original consideration).

Any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration is taken to profit or loss, regardless of whether, before the step acquisition transaction, the entity had presented subsequent changes in fair value of its initial interest in profit or loss or other comprehensive income (OCI).

The interpretation is effective for periods beginning on or after October 19, 2019.

The Management of the Company has assessed that the adoption of this interpretation has no impact on the Company's financial statements as the Company is not a parent company.

PIC Q&A No. 2019-07, *Classification of Members' Capital Contributions of Non-Stock Savings and Loan Associations (NSSLAs)*

Background:

The Bangko Sentral ng Pilipinas (BSP) issued Circular No. 1045 on August 29, 2019 to amend the Manual of Regulations for Non-Bank Financial Institutions Applicable to Non-Stock Savings and Loan Associations (MORNBFIS) – Regulatory Capital of Non-Stock Savings and Loan Associations (NSSLAs) and Capital Contributions of Members.

Under the Circular, each qualified member of an NSSLAs shall maintain only one capital contribution account representing his/her capital contribution. While only one capital account is maintained, the Circular breaks down a member's capital contributions as follows:

- a. Fixed capital which cannot be reduced for the duration of membership except upon termination of membership. The minimum amount of fixed capital is Php1,000, but a higher minimum can be prescribed under the NSSLAs' by-laws.
- b. Capital contribution buffer, which pertains to capital contributions in excess of fixed capital. The capital contribution buffer can be withdrawn or reduced by the member without affecting his membership. However, the NSSLAs shall establish and prescribe the conditions and/or circumstances when the NSSLAs may limit the reduction of the members' capital contribution buffer, such as, when the NSSLAs is under liquidity stress or is unable to meet the capital-to-risk assets ratio requirement under Sec. 4116S of the MORNBFIS Regulations. Such conditions and/or circumstances have to be disclosed to the members upon their placement of capital contribution buffer and in manners as may be determined by the Board.



For purposes of identifying and monitoring the fixed capital and capital contribution buffer of a member's capital contribution, NSSLAs shall maintain subsidiary ledgers showing separately the fixed and capital contribution buffer of each member. Further, upon receipt of capital contributions from their members, NSSLAs shall simultaneously record the amount contributed as fixed and capital contribution buffer in the aforementioned subsidiary ledgers. However, NSSLAs may use other systems in lieu of subsidiary ledgers provided that the system will separately show the fixed and capital contribution buffer of each member.

The interpretation assessed and concluded that both Fixed Capital and the Capital contribution buffer qualify as "equity" in the NSSLAs' financial statements as they both meet all the requirements of paragraphs 16A and 16B of PAS32, Financial Instruments: Presentation.

The interpretation is effective for periods beginning on December 11, 2019, and should be applied retrospectively.

The Management of the Company has assessed that the adoption of this interpretation has no impact on the Company's financial statements as the Company is not a member of NSSLAs.

PIC Q&A No. 2019-08, PFRS 16, *Leases - Accounting for Asset Retirement or Restoration Obligation* ("ARO")

The interpretation clarifies the recognition of ARO under the following scenarios:

1) Accounting for ARO at lease commencement date

The cost of dismantling and restoration (i.e., the ARO) should be calculated and recognized as a provision in accordance with PAS 37, with a corresponding adjustment to the related ROU asset as required by PFRS 16.24(d). As such, the lessee will add the amount of ARO to the cost of the ROU asset on lease commencement date, which will then form part of the amount that will be amortized over the lease term.

2) Change in ARO after initial recognition

2.1) Because ARO is not included as a component of lease liability, the measurement of such ARO is outside the scope of PFRS 16. Hence, its measurement is generally not affected by the transition to PFRS 16. Except in cases where the reassessment of lease-related assumptions (e.g., lease term) would affect the measurement of ARO-related provision, the amount of ARO existing at transition date would not be remeasured; rather, the balance of the ARO provision and any related asset will remain as previously measured. The asset will simply be reclassified from property and equipment to the related ROU asset as required under PFRS 16.24(d).

2.2) Assuming there is a change in lease-related assumptions that would impact the ARO measurement (e.g., change in lease term due to the new PFRS 16 requirements), the following will be the accounting treatment depending on the method used by the lessee in adopting PFRS 16:

- a. Modified retrospective approach - Under this approach, the lessee uses the remaining lease term to discount back the amount of provision to transition date. Any adjustment is recognized as an adjustment to the ROU asset and ARO provision. This adjustment applies irrespective of which of the two methods in measuring the ROU asset will be chosen under the modified retrospective approach.
- b. Full retrospective approach - The ARO provision and related asset, which gets adjusted to the ROU asset, should be remeasured from commencement of the lease, and then amortized over the revised or reassessed lease term. Because full retrospective approach is chosen, it is possible that the amount of cumulative adjustment to the ARO provision and the ROU asset at the beginning of the earliest period presented will not be the same; hence, it is possible that it might impact retained earnings.

The Management of the Company has assessed that the adoption of this interpretation has no impact on the Company's financial statements as the Company has not recognized any ARO on their current lease agreements.



PIC Q&A No. 2019-09, *Accounting for Prepaid Rent or Rent Liability Arising from Straight-lining under PAS 17 on Transition to PFRS 16 and the Related Deferred Tax Effects*

The interpretation aims to provide guidance on the following:

1. How a lessee should account for its transition from PAS 17 to PFRS 16 using the modified retrospective approach. Specifically, this aims to address how a lessee should, on transition, account for any existing prepaid rent or rent liability arising from straight-lining of an operating lease under PAS 17, and
2. How to account for the related deferred tax effects on transition from PAS 17 to PFRS 16.

The Management of the Company has assessed that the adoption of this interpretation has no significant impact on the Company's financial statements as the Company has not recognized any deferred taxes.

PIC Q&A No. 2019-10, *Accounting for variable payments with rent review*

Some lease contracts provide for market rent review in the middle of the lease term to adjust the lease payments to reflect a fair market rent for the remainder of the lease term. This Q&A provides guidance on how to measure the lease liability when the contract provides for a market rent review.

The Management of the Company has assessed that the interpretation has no significant impact on the Company's financial statements as the Company has no lease agreement with variable payments.

PIC Q&A No. 2019-11, *Determining the current portion of an amortizing loan/lease liability*

The interpretation aims to provide guidance on how to determine the current portion of an amortizing loan/lease liability for proper classification/presentation between current and non-current in the statement of financial position.

The Management of the Company has assessed that the adoption of this interpretation has no significant impact on the Company's financial statements as the lease liability is already classified and presented as current and non-current in the statement of assets, liabilities and fund balance.

PIC Q&A No. 2019-12, *PFRS 16, Leases – Determining the lease term*

The interpretation provides guidance how an entity determine the lease term under PFRS 16.

A contract would be considered to exist only when it creates rights and obligations that are enforceable. Therefore, any non-cancellable period or notice period in a lease would meet the definition of a contract and, thus, would be included as part of the lease term. To be part of a contract, any option to extend or terminate the lease that are included in the lease term must also be enforceable.

If optional periods are not enforceable (e.g., if the lessee cannot enforce the extension of the lease without the agreement of the lessor), the lessee does not have the right to use the asset beyond the non-cancellable period. Consequently, by definition, there is no contract beyond the non-cancellable period (plus any notice period) if there are no enforceable rights and obligations existing between the lessee and lessor beyond that term.

In assessing the enforceability of a contract, an entity should consider whether the lessor can refuse to agree to a request from the lessee to extend the lease. Accordingly, if the lessee has the right to extend or terminate the lease, there are enforceable rights and obligations beyond the initial noncancellable period and thus, the parties to the lease would be required to consider those optional periods in their assessment of the lease term. In contrast, a lessor's right to terminate a lease is ignored when determining the lease term because, in that case, the lessee has an unconditional obligation to pay for the right to use the asset for the period of the lease, unless and until the lessor decides to terminate the lease.



In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, an entity shall consider all relevant facts and circumstances (i.e., including those that are not indicated in the lease contract) that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

The Management of the Company has assessed that the adoption of this interpretation has an impact on the Company's financial statements in determining the lease term of the existing and new lease agreements entered into by the Company.

PIC Q&A No. 2019-13, PFRS 16, Leases – Determining the lease term of leases that are renewable subject to mutual agreement of the lessor and the lessee

The interpretation provides guidance how an entity determine the lease term under PFRS 16. This interpretation focuses on lease contracts that are renewable subject to mutual agreement of the parties.

A renewal option is only considered in determining the lease term if it is enforceable. A renewal that is still subject to mutual agreement of the parties is legally unenforceable under Philippine laws until both parties come to an agreement on the terms.

In instances where the lessee have known to be, historically, renewing the lease contract after securing mutual agreement with the lessor to renew the lease contract, the lessee's right to use the underlying asset does not go beyond the one-year period covered by the current contract, as any renewal still has to be agreed on by both parties. A renewal is treated as a new contract.

The Management of the Company has assessed that the adoption of this interpretation has no significant impact on the Company's financial statements as the Company has no such terms in the existing lease agreements of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments

Initial recognition

Financial assets are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value.

Transaction costs are included in the initial measurement of the Company's financial assets. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

Classification and subsequent measurement

As at December 31, 2019, the Company does not have financial assets classified as FVTOCI and FVTPL.

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Financial assets are subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as follows:

- Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost;
- Financial assets that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI); and
- All other financial assets managed on their fair value basis and equity instruments are subsequently measured at FVTPL.



However, the Company may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

- The Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which PFRS 3 applies, in OCI; and
- The Company may irrevocably designate a debt instrument that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

Impairment of financial assets

The Company recognizes a loss allowance for ECL on financial assets that are measured at amortized cost. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

ECLS are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLS are measured at an amount equal to the 12-month ECL.

ECLS are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate.



The Company measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

The Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12 month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, i.e., the effective interest rate computed at initial recognition.

The carrying amount of financial assets carried at amortized cost is reduced directly by the impairment loss with the exception of market fees receivable, wherein the carrying amount is reduced through the use of an allowance account. When market fees receivables are considered uncollectible, these are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

Default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Company considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Company; or
- The borrower is unlikely to pay its credit obligations to the Company in full.

When assessing if the borrower is unlikely to pay its credit obligation, the Company takes into account both qualitative and quantitative indicators. The qualitative information assessed depends on portfolios of liabilities or loans that shares similar economic risk characteristics. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Company uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.



Significant increase in credit risk

The Company monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Company will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Forward-looking information considered includes forecasted credit limit and liquidity assessment on the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument (e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost);
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default;
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.



The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the asset's cash flows expire or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument.

Financial liabilities

Initial recognition

Financial liabilities are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are deducted from the initial measurement of the Company's financial liabilities, except for any debt instruments classified at FVTPL.

Other financial liabilities

Since the Company does not have financial liabilities classified at FVTPL, all financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts through the expected life of the financial liability, or a shorter period, to the net carrying amount on initial recognition.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

A right to offset must be available today rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.



Derecognition of financial liabilities

Financial liabilities are derecognized by the Company when the obligation under the liability is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Fund balance

Fund balance includes the initial contributions made by the incorporators of the Company and the accumulated excess/(deficiency) of revenues over/(against) expenses.

Excess of receipts over expenses

Excess of receipts over expenses represents accumulated gains incurred by the Company. Excess may also include effects of changes in accounting policy as may be required by the standard's transitional provision.

Reserves

Reserves pertains to the accumulated other comprehensive income related to the remeasurement gain or loss of the defined benefit obligation.

Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to income as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the statements of assets, liabilities and fund balance as current assets when the cost of services related to the prepayment are expected to be incurred within one year or the Company's normal operating cycle, whichever is longer. Otherwise, prepayments are classified as non-current assets.

Property and Equipment

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by Management; and the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

At the end of each reporting period, item of property, plant and equipment measured using the cost model are carried at cost less any subsequent accumulated depreciation and impairment losses.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.



Depreciation is computed on the straight-line method based on the estimated useful lives of the assets as follows:

Office equipment	3-5 years
System hardware	3-5 years
Transportation equipment	5 years
Furniture and fixture	3 years

Leasehold improvements are depreciated over the estimated useful life of the improvements of three years or the terms of the lease including renewal periods that are reasonably assured, whichever is shorter.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in statements of receipts and expenses.

Intangible Assets

Intangible asset acquired separately

Intangible assets are initially measured at cost. Subsequent to initial recognition, intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the estimated useful lives. The estimated useful life and the amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

System software

Market management system (MMS)

The MMS which is the enabler of the WESM, is an infrastructure with various hardware, software and interfaces that is made up of several highly advanced applications for market interface, market application that supports real time electricity spot scheduling and pricing processes.

The asset is accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire or develop the MMS. Capitalized costs are amortized on a straight-line basis over the estimated useful life of the asset of five years.

Other system software

Other system software is stated at cost less accumulated amortization and any impairment in value. The initial cost of system software comprises its purchase price. Expenditure which enhances or extends the performance of system software programs beyond their original specifications is capitalized and added to the original cost of the software. Costs associated with developing or maintaining system software programs are recognized as expense when incurred.

System software development costs recognized as assets are amortized using the straight-line method over their useful lives, but not exceeding a period of five years.

System software under development represent software still in progress and is stated at cost. This includes costs of the development and other direct costs. System software is not amortized until such time that the software is completed and is available for use.

The intangible assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in statement of receipts and expenses.



Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Company assesses whether there is any indication that any of its tangible and intangible assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs.

When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group CGU for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized as an expense, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro-rata* basis.

Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Provisions and Contingent Liabilities

Provisions

Provisions are recognized when the Company has a present obligation, either legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made in the amount of the obligation.

The amount of the provision recognized is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the cash flows estimated to settle the present obligation, and a reliable estimate can be made of the amount of obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed.



Contingent liabilities

Contingent liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent liabilities assumed in a business combination are only recognized when these are present obligation and can be measured reliably.

Employee Benefits

Short-term benefits

The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period that are expected to be settled wholly before twelve months after the end of the reporting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Post-employment benefits

The Company has a defined benefit retirement plan which requires contributions to be made to trustee-administered funds. The net defined benefit asset is the aggregate of the fair value of plan assets reduced by the present value of the defined benefit obligation at the end of the reporting period, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company maintains a defined benefit retirement plan that covers all regular full-time employees. Under its defined benefit plan, the Company pays fixed contributions based on the employees monthly salaries. The Company, however, is covered under Republic Act (RA) No. 7641, The Philippine Retirement Law, which provides for its qualified employees a defined benefit minimum guarantee. The DB minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA 7641.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit cost is comprised of service costs, net interest on the net defined benefit asset and remeasurements of net defined benefit asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in receipts and expenses. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit asset is the change during the period in the net defined benefit asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit asset. Net interest on the net defined benefit asset is recognized as expense in receipts and expenses.



Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to revenue and expenses in subsequent periods. These are retained in other comprehensive income until full settlement of the obligation.

Revenue Recognition

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of a product or service to a customer.

Market transaction fees

Market transaction fees refers to the monthly fees to be assessed to each trading participants (Generator/Seller) on the usual market-billing period. Since the total market transaction fees correspond to the annual budgetary requirements of the Company, it is equitably distributed to the market participants based on the total metered quantity in KWh scheduled through the market, inclusive of both spot and bilateral contract quantities. Market transaction fees are recognized every month upon receipt of WESM billing which is based on market fee filings as approved by the Energy Regulatory Commission ("ERC").

Market registration fees

This refers to the annual fees to be assessed and paid by each market participants to enable participation in the market. Market registration fees consist of fixed and variable fees. Although with several cost components, it is paid as a single amount. Market registration fees are recognized upon registration and are based on rates approved by the ERC.

Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Other income

Other income is income generated outside the normal course of business and is recognized when it is probable that the economic benefits will flow to the Company and it can be measured reliably.

Expense Recognition

Expenses are recognized in the statements of receipts and expenses when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized on the basis of a direct association between the costs incurred in the fulfillment of the Company's purpose: on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods; when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of assets, liabilities and fund balance as an asset.

Expenses in the statements of receipts and expenses are presented using the nature of expense method.



Accounting Policies applied after January 1, 2019 for Leases

The Company as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of assets, liabilities and fund balance.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.



Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under PAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of assets, liabilities and fund balance. The Company applies PAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line Rental expenses in the statement of receipts and expenses.

As a practical expedient, PFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient

Accounting Policies applied before January 1, 2019 for Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign Currency Transactions and Translation

Transactions in currencies other than Philippine Peso are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the end of each reporting period.

Related Party Transactions

A related party transaction is a transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged.

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. An entity that is a post-employment benefit plan for the employees of the Company and the key management personnel of the Company are also considered to be related parties.



Taxation

Income tax expense represents the sum of the current tax and deferred tax expense.

Current tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's current tax expense is calculated using regular corporate income tax (RCIT) rate of 30%.

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, while deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in OCI or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity respectively.

Events after the Reporting Period

The Company identifies events after the end of each reporting period as those events, both favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. The financial statements of the Company are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting period. Non-adjusting events after the end of the reporting period are disclosed in the notes to the financial statements when material.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.



Critical Judgments in Applying Accounting Policies

The following are the critical judgments, apart from those involving estimations, that Management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Determining the timing of satisfaction of performance obligations

Revenue for the service is recognized when those services are rendered to the market participants, which is considered point in time. Market registration fees shall form part of the revenue and to be recorded using WESM Bill upon registration of each market participant. Market transaction fees are recognized every month upon receipt of WESM bill which is based on market fee filings as approved by the ERC.

Functional currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the Company in determining the costs of its services.

Leases

The evaluation of whether an arrangement contains a lease is based on its substance. An arrangement is, or contains, a lease when the fulfillment of the arrangement depends on a specific asset or assets and the arrangement conveys the right to use the asset.

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid and accrued lease payments relating to that lease recognized in the statement of financial position immediately before the initial application.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Probability of default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

When assessing if the borrower has probability of default, the Company takes into account both qualitative and quantitative indicators. The qualitative information assessed depends on portfolios of liabilities that shares similar economic risk characteristics. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Company uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Estimating loss allowance for expected credit losses

The Company measures expected credit losses of a financial instrument in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and information about past events, current conditions and forecasts of future economic conditions. When measuring ECL the Company uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.



When measuring ECL, the Company uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

As at December 31, 2019, Management believes that the recoverability of their market fees and other receivables and advances to IEMOP are certain. Accordingly, no ECL was recognized. Total market fees and other receivables and advances to IEMOP as at December 31, 2019 amounted to P39,583,901 and P17,403,053, as disclosed in Note 7 and 8, respectively.

Estimating useful lives of property and equipment and intangible assets with definite life

The useful lives of the Company's assets with definite life are estimated based on the period over which the assets are expected to be available for use. The estimated useful lives of the Company's property and equipment and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the Company's assets. In addition, the estimation of the useful lives is based on the Company's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment and intangible assets would increase the recognized operating expenses and decrease non-current assets.

As at December 31, 2019 and 2018, the carrying amounts of the Company's property and equipment amounted to P11,609,629 and P145,882,988, respectively, as disclosed in Note 10. Total accumulated depreciation as at December 31, 2019 and 2018 amounted to P89,211,165 and P330,578,813, respectively, as disclosed in Note 10.

As at December 31, 2019 and 2018, the carrying amounts of the intangible assets amounted to P16,380,798 and P728,846,705 respectively, as disclosed in Note 11.

Asset impairment

The Company performs an impairment review when certain impairment indicators are present.

Determining the recoverable amount of property and equipment, intangible assets and right-of-use assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Company to conclude that property and equipment, intangible assets and right-of-use assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

The preparation of the estimated future cash flows involves significant judgment and estimations. While the Company believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges.

As at December 31, 2019 and 2018, Management believes that the recoverable amounts of the Company's property and equipment, intangible assets and right-of-use assets exceed its carrying amounts. Accordingly, no impairment loss was recognized in both years.



Retirement benefits

The determination of the retirement obligation cost and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates, expected returns on plan assets, mortality and rates of compensation increase. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

In 2019 and 2018, the Company recognized income from the defined benefit plan amounting to P497,505 and P10,094,516, respectively. The defined benefit asset as at December 31, 2019 and 2018 amounted to P91,364,051 and P64,106,904, respectively, as disclosed in Note 17.

6. CASH AND CASH EQUIVALENTS

Cash at the end of the reporting period as shown in the statements of cash flows can be reconciled to the related items in the statements of assets, liabilities and fund balances as follows:

	2019	2018
Cash equivalents	P 567,070,703	P671,640,767
Cash in banks	147,052,580	35,743,564
Cash on hand	50,000	50,000
	P714,173,283	P707,434,331

Cash equivalents are short-term highly liquid investments that are made for varying periods up to three months depending on the immediate cash requirements of the Company.

Cash in banks and cash equivalents earned average interest at prevailing deposit rates ranging from 2.5% to 6% and 4% to 6% per annum during 2019 and 2018, respectively. Interest income earned from cash in banks and cash equivalents amounted to P25,357,183 and P40,567,330 for the years ended December 31, 2019 and 2018, respectively.

Cash transfers to IEMOP amounted to P116,900,293 in 2019 and P91,593,500 and P686,288,981 in 2018. Cash transfers made pertain to market fees collection and payment for PSALM loan for the years ended December 31, 2019 and 2018, respectively, as disclosed in Note 25. Also, part of cash equivalents amounting to P390,069,607 is set aside as IEMOP's allocated fund, as agreed between the Company and IEMOP in 2018.

7. MARKET FEES AND OTHER RECEIVABLES

The details of the Company's receivables are:

	2019	2018
Market fees receivables	P25,311,458	P25,311,458
Interest receivable	1,224,143	1,071,102
Receivables from officers and employees	923,052	1,645,142
Others	12,150,037	3,684,932
	39,608,690	31,712,634
Less: Allowance for bad debts	24,789	-
	P39,583,901	P31,712,634



Market fees receivables pertain to amount due from the imposition of market fees to the power generation companies. Market fees receivables are non-interest-bearing and generally have a term of 30 days.

Other receivables include receivables from training fees conducted to various participants and registration fees are collected upon demand.

In determining the recoverability of trade receivables, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

8. ADVANCES TO IEMOP

Pursuant to the Operating Agreement dated September 19, 2018 between the Company and IEMOP, all existing assets pertaining to the performance of market operations functions, including the associated liabilities, will be transferred by the Company to IEMOP.

However, the Company made payments for the security deposits, advanced rentals, pre-paid subscriptions, and other advanced payments for contracts, work orders, purchase orders, or other transactions that pertain to the functions of IEMOP as the market operator after September 26, 2018.

The balance of the expenses settled by the Company for the account of IEMOP is broken down as follow:

	2019	2018
Utilities	P 9,454,001	P13,915,280
Taxes and dues	2,280,587	831,682
Insurance	2,122,972	1,591,495
Rental	1,639,291	5,538,948
Repairs and maintenance	851,053	14,450,940
Property and equipment	724,982	-
Transportation and travel	270,742	1,271,827
Conference	59,185	126,084
Materials	240	-
Contracted services	-	2,238,394
Personnel	-	11,722,352
	P17,403,053	P51,687,002

9. PREPAYMENTS AND OTHER CURRENT ASSETS

The details of the Company's prepayments and other current assets are:

	Note	2019	2018
Prepaid tax	21	P 58,638,804	P 71,807,472
Prepaid input value added tax (VAT)		10,556,740	10,160,525
Guarantee deposits	21	6,233,223	13,724,415
Prepaid supplies		1,660,689	1,120,792
Prepaid maintenance		309,915	10,709,808
Prepaid rent	21	95,175	5,339,563
Others		134,486	490,235
		P77,629,032	P113,352,810

Others include advances to suppliers, prepaid subscription and prepaid insurance.

Prepaid tax pertains to creditable withholding tax from the Bureau of Internal Revenue (BIR).

The Management believes that there is no impairment related to creditable withholding tax since the Company applied for tax refund with the local tax authorities and as well applied on income taxes on other taxable income.



10. PROPERTY AND EQUIPMENT – net

Movements in the carrying amount of the Company's property and equipment are as follows:

	Office Equipment	System Hardware	Leasehold Improvements	Transportation Equipment	Furniture & Fixtures	Total
Cost						
Balance, January 1, 2018	P272,440,668	P105,604,000	P68,321,017	P13,297,321	P17,569,731	P477,232,737
Additions	7,935,198	57,495,669	3,349,014	-	65,089	68,844,970
Disposals	(30,818,381)	(11,367,239)	(26,684,689)	-	(745,597)	(69,615,906)
Balance, December 31, 2018	249,557,485	151,732,430	44,985,342	13,297,321	16,889,223	476,461,801
Additions	3,224,544	-	-	-	3,393	3,227,937
Disposals	(178,478,928)	(149,486,081)	(36,852,560)	(5,970,536)	(8,080,838)	(378,868,943)
Balance, December 31, 2019	74,303,101	2,246,349	8,132,782	7,326,785	8,811,778	100,820,795
Accumulated Depreciation						
Balance, January 1, 2018	199,088,122	59,137,371	52,253,428	13,145,132	17,087,446	340,711,499
Prior year adjustments	2,066,627	2,452,381	1,219,319	-	-	5,738,327
Balance, January 1, 2018 (as restated)	201,154,749	61,589,752	53,472,747	13,145,132	17,087,446	346,449,826
Depreciation	39,487,177	9,570,369	4,146,595	152,189	312,469	53,668,799
Disposals	(30,742,284)	(11,367,240)	(26,684,690)	-	(745,598)	(69,539,812)
Balance, December 31, 2018	209,899,642	59,792,881	30,934,652	13,297,321	16,654,317	330,578,813
Depreciation	7,208,278	303,571	1,522,390	-	105,605	9,139,844
Disposals	(150,688,204)	(58,431,949)	(27,374,536)	(5,970,536)	(8,042,267)	(250,507,492)
Balance, December 31, 2019	66,419,716	1,664,503	5,082,506	7,326,785	8,717,655	89,211,165
Carrying Amount December 31, 2019	7,883,385	581,846	3,050,276	-	94,123	11,609,630
Carrying Amount December 31, 2018	P 39,657,843	P 91,939,549	P 14,050,690	P -	P 234,906	P145,882,988

The cost of fully depreciated property and equipment that are still used in the Company's operations amounted to P73,375,661 and P302,564,228 as at December 31, 2019 and 2018, respectively.

In 2018, loss on disposal amounting to P76,095 was recognized from the disposal of property and equipment as disclosed in Note 18.

As at December 31, 2019 and 2018, Management believes that the carrying amount of its property and equipment is not in excess of its recoverable amount.



11. INTANGIBLE ASSETS – net

Movements in the carrying amount of the Company's intangible assets are as follows:

	Market Management System	Other System Software	System Software Under Development	Total
Cost				
Balance, January 1, 2018	P681,264,498	P72,246,627	P630,544,129	P1,384,055,254
Additions	-	20,651,659	78,524,084	99,175,743
Retirement of assets	-	(10,568,227)	-	(10,568,227)
Balance, December 31, 2018	681,264,498	82,330,059	709,068,213	1,472,662,770
Additions	-	-	16,618,323	16,618,323
Retirement of assets	-	(73,428,019)	(709,748,783)	(783,176,802)
Balance, December 31, 2019	681,264,498	8,902,040	15,937,754	706,104,291
Accumulated Amortization				
Balance, January 1, 2018	681,264,498	62,528,299	-	743,792,797
Amortization	-	10,591,495	-	10,591,495
Retirement of assets	-	(10,568,227)	-	(10,568,227)
Balance, December 31, 2018	681,264,498	62,551,567	-	743,816,065
Amortization	-	2,641,417	-	2,641,417
Retirement of assets	-	(56,733,989)	-	(56,733,989)
Balance, December 31, 2019	681,264,498	8,458,995	-	689,723,493
Carrying Amount December 31, 2019	-	443,045	15,937,754	16,380,798
Carrying Amount December 31, 2018	P -	P19,778,492	P709,068,213	P 728,846,705

Market dispatch optimization model (MDOM) software modification project

On December 20, 2012, the Company launched the MDOM Software Modification Project to implement enhancements to the processes of the Market Management System (MMS) of WESM. The WESM MMS Market Infrastructure and Market Applications software are delivered specifically for the generator ramping and modelling loss of transmissions. Additional costs of MDOM are capitalized as part of "Other system software".

In 2019, gain on disposal of intangible assets amounting to P100,000 was recognized as disclosed in Note 15. Also, there has been a transfer of intangible assets to EIMOP amounting to a net book value of P721,512,244 as disclosed in Note 25.

Management believes that the carrying amounts of its intangible assets are not in excess of its recoverable amount as at December 31, 2019 and 2018.

12. OTHER NON-CURRENT ASSETS – net

	Note	2019	2018
Deferred input VAT		P22,135,122	P43,254,357
Income tax refund		8,374,250	8,374,250
		30,509,372	51,628,607
Less: allowance for impairment losses on income tax refund	21 (g)	3,311,126	3,311,126
		P27,198,246	P48,317,481



13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2019	2018
Trade payable	P410,963,445	P35,862,791
Accrued expenses	30,387,053	25,856,713
Withholding taxes payable	5,843,226	6,082,890
Deferred output VAT	3,616,220	3,051,226
Others	811,716	1,220,902
	P451,621,660	P72,074,522

Trade payables are non-interest-bearing and generally have a term of 30 days.

Other payables include government payables such as fringe benefits and employee contributions to other government agencies.

Details of accrued expenses are shown below:

	Note	2019	2018
Market fees payable	14	P22,921,966	P22,921,966
Employee benefits		5,768,701	1,658,214
Others		1,696,386	1,276,533
		P30,387,053	P25,856,713

Accrued expenses are settled within the next financial year. Other accrued expenses pertain to administrative expenses.

14. REVENUE

	2019	2018
Market transaction fees	P227,240,000	P697,955,532
Market registration fees	-	417,400
	P227,240,000	P698,372,932

As mandated in Section 2.10 of the WESM Rules, the Company will recover all its costs of administering and operating the WESM through the market fees imposed on all WESM members, provided that such market fees are approved by the ERC.

The market transaction fees shall be levied upon the generators registered with the WESM and will be apportioned based on the gross kilowatt hours generated by the trading participant during the billing period.

Market transaction fees (MTF)

On October 12, 2017, the Company applied for the approval of the proposed market transaction fees for 2018 in the amount of P822,208,000, without prejudice to the resolution of the Company's MMS Loan Repayment Application. The Company has completed the presentation of its witnesses and has made further submissions with respect to the documents in support of its application as requested by the ERC.

Pending approval of the foregoing application, the Company collected market fees based on the latest market transaction fees level approved by the ERC, which is the market transaction fees approved for 2014. Upon the assumption of IEMOP of market operations function on September 26, 2018, IEMOP collected Market Fees through the WESM settlement process in accordance with the WESM Rules and relevant market manuals. IEMOP also remits the market fees pertaining to the Company based on the allocation approved by the Philippine Electricity Market Board ("PEM Board") prior to the assumption of IEMOP. It is understood that the Company owns the market fees pertaining to it and that these are being collected by IEMOP only on behalf of the Company.



On November 20, 2019, the Company submitted an indicative allocation of the budget applied for between the Company and IEMOP pursuant to ERC's Order. The total proposed budget for 2019 is P835 million broken down as follows: (a) the Company's proposed budget is P292.25 million; and (b) IEMOP's proposed budget is P542.75 million.

The total MTF recognized in 2019 and 2018 are computed as follows:

2019	
Approved ERC budget for CY 2014	P227,240,000
MTF accrual (reversal) for period	
December 26 to 31:	
2018	(22,601,828)
2019	22,601,828
	P227,240,000
<hr/>	
2018	
Approved ERC budget for CY 2014	P533,894,228
MMS Loan Repayment	211,380,000
MTF accrual (reversal) for period	
December 26 to 31:	
2016	(69,920,524)
2017	22,601,828
	P697,955,532

A Motion for Reconsideration was filed by the Company on December 16, 2014 questioning (a) the use of variance report as basis in determining the 2014 Market Transaction Fees, (b) the need for an enhanced budget for Maintenance and Other Operating Expenses (MOOE) for advertising and promotions, and subscriptions, (c) the budget for Personnel Services (PS) for P8.00 million, (d) the budget for corporate infrastructure at P3.20 million, (e) and the need for the approval of the remaining budget for the market system enhancement project and Market Research and Development Platform (MRDP).

In the Order dated December 10, 2015, the ERC partially granted the Company's Motion for Reconsideration, as follows: (i) approved the budget for Corporate Infrastructure and Enhancement and Replacement of Equipment in the amount of P21,335,000; (ii) denied its motion to set aside the imposition of carrying costs; (iii) approved the remaining budget for MRDP and Market Design and Structural Feasibility Study (Forwards Market), subject to the submission of certain documents and reportorial requirements; and (iv) denied its motion to approve the remaining budgets for PS.

On March 10, 2016, the Company filed its Motion for Leave to File and Admit Attached Motion for Partial Reconsideration [Re: Order dated December 10, 2015] seeking a reconsideration of the Order dated December 10, 2015 and praying as follows: (i) that the new formula for computing the market fees be set aside and the old formula be retained; and (ii) that the Company be ordered to return by way of deduction to the succeeding year's application for market fees the actual interest earned in the amount of P499,190 from the unutilized approved budget for the MRDP and Forwards Market projects. The ERC has not yet resolved the motion as at December 31, 2019.

Refund of market fees

In ERC Order dated July 19, 2010 on ERC Case No. 2010-079 RC, a motion for additional market transaction fee (AMF) of P0.0075 per kilowatt-hour (kWh) the incremental amount intended to finance MMS Migration was granted with modification. ERC allowed the Company to collect the P331,483,000 budgeted capital expenditures that will be spread over a period of 5 years with an annual rate of P0.0015 per kWh.



On February 4, 2011, the Company filed a Manifestation and Motion where it was manifested that it has terminated its negotiations with ABB, Inc. relative to the MMS Migration. Nonetheless, the Company requested for the continued collection of the approved budget to fund the purchase of the new MMS. The request was denied in the absence of a concrete basis to justify the same and considering that the acquisition of a new MMS has yet to be approved by the ERC.

Relative to this, the Company was directed to refund to the market participants the market fees in 2011 amounting to P268.28 million inclusive of 22.24 million interests computed at Manila Reference Rate plus 3%. The Company filed a petition for review with the Court of Appeals (CA) seeking to reverse the ERC order as regards the imposition of interest using the Manila Reference Rate plus 3%. On February 11, 2015, the Company received the decision of the CA ruling that there was no basis to impose said rate and that the ERC can only order the return of actual interest. In the absence of evidence on the actual interest earned however, the CA, imposed legal interest at 6%. The Company filed a motion for reconsideration on February 26, 2015 which was denied by the CA in the Resolution dated October 14, 2015. No further appeal was taken by the Company in 2019.

Meanwhile, in compliance with the ERC directive, in 2011, the Company returned to the trading WESM participants the sum of P245.28 million inclusive of P13.45 million interests which management believes is the amount collected from the market participants. The difference of P22,921,966 consisting of interest and unutilized market transaction fees was recognized as part of "Accrued expense" included under "Accounts payable and accrued expenses" account in the statements of assets, liabilities and fund balance as at December 31, 2019 and 2018, as disclosed in Note 13.

15. OTHER INCOME

	Notes	2019	2018
Financial penalties		P43,125,000	P -
Income from defined benefit plan	17	497,505	10,094,516
Gain on sale of intangible assets	11	100,000	-
Training and conference fees		-	1,427,200
Excess of standard over actual input VAT		-	870,248
Foreign exchange gain/(loss)		-	168,932
Others		1,120,004	1,958,193
		P44,842,509	P14,519,089

Financial penalties pertain to the sanctions imposed by PEM Board for the breaches of the WESM Rules and/or Market Manuals pursuant to its authority under Section 7.2.5.2 of the WESM Rules. These financial penalties are set forth in the WESM Financial Penalty Manual which was promulgated by the Market Surveillance Committee in 2008 pursuant to Section 1.6.3 of the WESM Rules.

Others pertain to miscellaneous income from maintenance fees collected and data requests performed.

16. PERSONNEL COSTS

Personnel costs recognized in the statement of receipts and expenses pertains to salaries and employee benefits amounting to P124,701,356 and P213,705,401, in 2019 and 2018, respectively.



17. RETIREMENT BENEFIT PLAN

The Company maintains a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

The Company meets the provisions of RA 7641 which provides for the minimum retirement pay to qualified private sector employees in the Philippines.

The normal retirement age of the Company's employees is 60 with a minimum of 30 years credited service. The plan also provides for an early retirement at age 60 with a minimum of five years with a minimum of 30 years credited service. Normal post-employment benefit is an amount equivalent to one and a half months' compensation for every year of credited service.

The plan typically exposes the Company to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and real estates. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to leverage the return generated by the fund.

Interest rate risk

A decrease in the government bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The risk relating to benefits to be paid to the dependents of plan members (widow and orphan benefits) is re-insured by an external insurance company.

No other post-retirement benefits are provided to these employees.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out at December 31, 2019 by an independent actuary. The present value of the plan asset, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used in determining retirement benefit asset are as follows:

	2019	2018
Discount rate	5.22%	7.53%
Salary increase rate	4.00%	4.00%

The mortality rates used in the valuation were based on the 2001 CSO Table – Generational.



Amounts recognized in statement of receipts and expenses with respect to this defined benefit plan are as follows:

	2019	2018
Current service cost	P4,329,745	P23,939,166
Settlement Gain	-	(32,987,964)
Net interest income	(4,827,250)	(1,045,718)
Components of defined benefit income recognized statement of in receipts and expenses	(497,505)	(10,094,516)
Remeasurement on the net defined benefit liability:		
Loss (gain) on plan assets	(9,688,782)	16,504,040
Loss in changes in the effect of the asset ceiling	(17,486,261)	57,809,592
Actuarial (gains) and losses from:		
Experience adjustments	(77,623)	1,040,431
Changes in demographic assumptions	(816,978)	-
Changes in financial assumptions	1,310,002	-
Components of defined benefit costs recognized in other comprehensive income	(26,759,642)	75,354,063
	(P27,257,147)	P65,259,547

Income on defined benefit plan was recognized in other income, as disclosed in Note 15.

The amount included in the statement of assets, liabilities, and fund balance arising from the Company's obligations in respect of its defined benefit retirement plan is as follows:

	2019	2018
Fair value of plan assets	P171,996,106	P150,941,434
Present value of defined benefit obligations	(5,863,921)	(1,040,431)
Effect of asset ceiling	(74,768,134)	(85,794,099)
Net asset arising from defined benefit obligation	P 91,364,051	P 64,106,904

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The actual return on plan assets is as follows:

	2019	2018
Interest income	P11,365,890	P15,016,615
Remeasurement gain (loss)	9,688,782	(16,504,040)
Net asset arising from defined benefit obligation	P21,054,672	(P 1,487,425)



Movements in the present value of defined benefit obligations in the current period were as follows:

	2019	2018
Balance, January 1	P1,040,431	P218,628,051
Current service cost	4,329,745	23,939,166
Interest cost	78,344	12,461,799
Benefits paid	-	(222,041,052)
Settlement gain	-	(32,987,964)
Remeasurement of actuarial (gains) losses from:		
Experience adjustments	(77,623)	-
Changes in demographic assumptions	(816,978)	-
Changes in financial assumptions	1,310,002	1,040,431
Balance, December 31	P5,863,921	P 1,040,431

Movements in the fair value of plan assets are as follows:

	2019	2018
Balance, January 1	P150,941,434	P374,469,911
Interest income	11,365,890	15,016,615
Benefits paid	-	(222,041,052)
Gain (Loss) on plan assets (excluding amounts indicated in net interest expense)	9,688,782	(16,504,040)
Balance, December 31	P171,966,106	P150,941,434

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the retirement obligation assuming all other assumptions were held constant (in '000):

	Increase (Decrease) in basispoints	Effect on Retirement Benefit Obligation	
		2019	2018
Discount rate	100	(P635)	(P115)
	(100)	768	138
Salary increase rate	100	769	142
	(100)	(647)	(120)
Attrition rate	No attrition rate	3,963	335

The major categories of the plan asset as a portion of the fair value of the total plan asset are as follows:

	2019	2018
Government securities	P154,452,503	P301,185,102
Unit investment trust funds	10,078,972	27,833,992
Mutual funds	326,793	41,978,548
Cash and payables	7,137,838	1,984,844
Accrual for benefits paid	-	(222,041,052)
	P171,996,106	P150,941,434

Discount rates are based on PDEX – PDST R2 adjusted using the re-investment method in order to approximate zero-coupon rates. The Company has no contribution to the plan asset for the year ending December 31, 2019. Assumptions regarding future mortality experience are set based on the Company's historical turn-over rate.



The Company has no specific asset-liability matching strategy between the plan assets and the plan liabilities.

The Company does not expect to contribute to the plan in 2020.

The average duration of the defined benefit obligation as at December 31, 2019 and 2018 are 12 years and 12.2 years, respectively.

The maturity analysis of the undiscounted benefit payments is as follows:

	2019	2018
Less than one year	P 158	P 85
More than one year to five years	10,569	8,446
More than five years to ten years	12,646	8,132
	P23,373	P16,663

18. OTHER EXPENSES

	Note	2019	2018
Conference		P 5,817,412	P9,143,270
Taxes and licenses		3,475,657	3,412,541
Insurance		3,172,689	2,470,556
Membership and association dues		1,507,445	3,074,066
Training and education		919,320	3,937,340
Subscription		157,608	289,991
Litigations		134,700	667,310
Foreign exchange loss		129,665	-
Advertising and promotions		30,000	179,311
Provision for bad debts	7	24,789	-
Bank charges		11,175	15,566
Excess of standard over actual input VAT		978	-
Registration cost		-	295,962
Loss on sale of property and equipment		-	76,095
Miscellaneous		33,264	370
		P15,414,702	P23,562,378

19. RELATED PARTY TRANSACTIONS

The Company's transactions and outstanding balances with related parties as at and for the period ended December 31, 2019 relates to transaction with IEMOP as disclosed in Note 8.

Remuneration of Key Management Personnel

The remuneration of the key management personnel of the Company represents short-term employee benefits amounting to P26,170,000 and P21,717,850 in 2019 and 2018, respectively.



20. INCOME TAXES

The reconciliation between income tax expense and the product of income before tax in 2019 multiplied by 30% is as follows:

	2019	2018
Total other income	P44,842,509	P14,519,089
Less:		
Income from defined benefit plan	(497,505)	(10,094,516)
Foreign exchange gain	-	(168,932)
Profit before tax	44,345,004	4,255,641
Tax at 30%	P13,303,501	P1,276,692

21. CONTRACTS, COMMITMENTS AND CONTINGENCIES

The following are the significant contracts, commitments and contingencies involving the Company:

Contracts and commitments

a. Operating lease commitments – Company as Lessee

The Company entered into various non-cancellable lease agreements with third parties for the lease covering offices, warehouses and parking slots. The leases have terms ranging from one to three years, with renewal options. Guarantee deposits paid in connection with these agreements amounting to P 6,233,223 and P13,724,415 as at December 31, 2019 and 2018, respectively. Guarantee deposits shall be refunded to the Company at the end of the lease terms.

Total prepaid rent amounted to P95,175 and P5,339,563 in 2019 and 2018, respectively, as disclosed in Note 9.

Total rental expense charged to operations amounted to P1,850,908 and P31,274,551 in 2019 and 2018, respectively.

As a result of adoption of PFRS 16, the Company recognized right-of-use assets and lease liabilities starting January 1, 2019. Details of the right-of-use assets and lease liabilities are presented below:

Right-of-use assets – net

	2019
Cost	
Transition adjustment	P23,769,518
Addition	-
	23,769,518
Accumulated Depreciation	
Transition adjustment	-
Depreciation	11,142,026
	11,142,026
Carrying Amount	P12,627,492



Lease liabilities

	2019
Transition adjustment	P23,769,518
Accretion of interest	1,015,929
Lease payments	(11,616,791)
	13,168,656
Less: Current portion	11,535,857
Lease liabilities – net of current portion	P 1,632,799

Shown below is the maturity analysis of the undiscounted lease payments:

	2019
Not later than 1 year	P12,012,448
Later than 1 year but not later than 3 years	1,679,754
	P13,692,202

b. Outside services

The Company incurred professional fees paid to its consultants, lawyers and auditors for its market and metering audit. Outside services amounted to P11,441,906 and P48,845,134 in 2019 and 2018, respectively.

c. Development of the new market management system

The Company awarded the contract for the software development and quality services in the implementation of the NMMS to Siemens, Inc., as disclosed in Note 11.

Contingencies

d. Case Against Albay Electric Cooperative, Inc. (ALECO)

The Company, insofar as its capacity to collect on behalf of the trading participants and pursuant to the directive of the ERC to undergo the WESM dispute resolution procedure, facilitated the filing of a dispute seeking payment by ALECO of its outstanding obligations to the WESM for the billing months of February to June 2010. The matter was eventually brought to arbitration. During the course of arbitration proceedings, ALECO, PEMC, Therma Luzon Inc., Masinloc Power Partners Co., Ltd., Panasia Energy Holdings Inc., San Miguel Energy Corporation and Strategic Power Development Corporation entered into a payment agreement to restructure the indebtedness of PhP962,956,125.75 over a period of 3 years with interest of 2.70% per annum.

This agreement was later amended to move the initial payment date for the principal and was submitted to the arbitration panel as a compromise agreement. On December 1, 2011, the Arbitral Tribunal issued the arbitral award based on the terms of the agreement.

ALECO however defaulted under the terms of the agreement. A second amendment was thereafter executed providing for a six-month moratorium on the payment of the principal.

Because the Company is not a party to the disputed amounts, management believes that it will not be held liable in case ALECO fails to pay all its obligations to the WESM participants. As at December 31, 2019, the total outstanding obligation of ALECO to the WESM participants amounted to P962,956,125.75, exclusive of VAT and default interest. The Company however, continues to regularly apprise the PEM Board of the status of ALECO.



In 29 May 2019, PEMC filed a Manifestation with Motion to Set Case For Hearing with attached Final Award from Dispute Resolution Panel.

A hearing was held on 14 November 2019 where the Company was directed to submit detailed computation of P962,000,000, including the claimants of this amount from ALECO and the way forward of the Company as to whether it will indeed pursue the disconnection of the electric service of ALECO for its failure or continue to fail in implementing and enforcing the Agreement. Thereafter, on 16 December 2019, PEMC filed its Compliance with Request for Treatment of Confidential Information.

e. 1590 Energy Corporation (1590EC) versus PEMC (ERC Case No. 2015-064 MC)

In its Investigation Report dated October 17, 2014, the Enforcement and Compliance Office (ECO) of the Company found that 1590EC was in breach of the Must Offer Rule (MOR) with respect to the transactions of Bauang Diesel Power Plant, operated by 1590EC, in 37 intervals and recommended the imposition of payment sanction in the total amount of P3.70 million. In October 2015, 1590EC filed the Petition for Dispute Resolution with the ERC against the Company praying that the finding of the ECO of violation of the MOR by 1590EC with respect to 31 intervals be re-opened for review and reconsideration and that a cease and desist order be issued to restrain the Company from implementing the actual deduction/off-setting of the financial penalty in the amount of P3.10million. There being no cease and desist order issued by the ERC, the Company proceeded to collect the financial penalty in the total amount of P3.70 million.

On February 29, 2016, the ERC has suspended the case pending resolution of the request for reconsideration filed by 1590EC with the PEM Board, without prejudice to its resumption should the parties desire to do so. On April 26, 2016, the PEM Board resolved the request for reconsideration, the fact of which was relayed to 1590EC and the ERC. The case remains pending as at December 31, 2019.

f. Exemption from income taxation

Management took a position that the Company, being a non-stock, non-profit corporation and as intended under the EPIRA, is exempt from income tax and as such, pending approval by the BIR of its application for a tax ruling on its exemption from income tax, did not recognize any income tax on the excess of its receipts over expenses for income arising from its principal activity. Any unfavorable outcome of the pending application for a tax ruling may result in a significant tax obligation. Management, however, believes that there is basis for a favorable ruling from the BIR.

g. Tax claims

The Company is a non-stock, non-profit corporation which, in the opinion of management, is exempt from income tax and consequently, from withholding tax, pursuant to Section 30(F) of the 1997 Tax Code, as amended, in relation to Section 31 of RR No. 2-40. Thus, the income from activities conducted in pursuit of the objectives for which the Company was established is exempt from income tax. However, any income on any of its properties, real or personal, or from any activity conducted for profit, regardless of the disposition of such income is subject to income tax.

The Company has a pending application for a ruling from BIR confirming its exemption from income tax as a non-stock, non-profit entity. Pending the issuance of the BIR ruling, market participants continue to withhold portion of the market fees as withholding taxes, which is creditable against the income tax due of the Company should it get an unfavorable response on its request for ruling from the BIR. Since the Company does not have any taxable income against which the withholding tax credits may be applied, the Company has chosen the option of claiming cash refund from the BIR for such credits. The application is still pending as of December 31, 2019 and 2018.



In 2011, the Company recognized provision for impairment loss amounting to P3.31 million for the portion of the CWT pertaining to taxable years 2007 and 2008 that has prescribed for application. No impairment loss was recognized in 2019 and 2018.

As at December 31, 2019 and 2018, the balance of the creditable withholding taxes net of accumulated impairment loss amounted to P27,380,802 and P40,367,399, respectively.

Provisions and contingencies

The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the financial statements.

EPIRA

RA No. 9136, the EPIRA, which became effective in 2002, and the related Implementing Rules and Regulations provide for significant changes in the power sector, which include, among others:

- i. The unbundling of the generation, transmission, distribution and supply and other disposable assets of Electric Power Industry Participant, including its contracts with independent power producers and electricity rates;
- ii. Creation of a WESM within one year; and
- iii. Open and nondiscriminatory access to transmission and distribution systems.

With respect to the creation of the WESM, the EPIRA mandated the DOE to formulate the WESM Rules jointly with the WESM trading participants and to create a market operator. In the implementation of this mandate, the WESM Rules were promulgated on June 28, 2002 and the Company was incorporated in November 2003 to act as the market operator as well as the governing body for the WESM.

Board of directors and the independent market operator

The powers and functions of the Company are exercised by its PEM Board. The sectors of the electric power industry are equitably represented in the PEM Board; i.e., the market operator, system operator, independent members and other WESM participants. The WESM trading participants include generation companies, distribution utilities (including electric cooperatives), bulk customers and suppliers or aggregators. The Company's primary purpose is to manage, govern and administer an efficient, competitive, transparent and reliable market for the wholesale and purchase of electricity and ancillary services in the Philippines in accordance with the EPIRA and the rules promulgated to govern the operation of the WESM, including their respective amendments and such other laws, rules and regulations which may be enacted hereafter that shall govern the WESM.

Section 30 of the EPIRA and Provision 10.2 of the WESM Rules mandate that the Company undertake the initial operations of the WESM, and one year from implementation of the WESM (the Interim Period), an Independent Market Operator (IMO) shall be formed and the functions, assets and liabilities of the Company shall be transferred to the IMO upon the joint endorsement of the DOE and the WESM trading participants. The DOE has engaged the services of consultants to study the structure and manner of selection or appointment of the IMO which was completed in 2010. In 2011, the DOE formally presented the creation of the IMO. The Company will be restructured and its by-laws will be amended, converting the Company to become the IMO. An Independent Transition Board (ITB) will be formed and chaired by the DOE Secretary. The ITB will be tasked to oversee the orderly transition to the IMO Board which will come into being once all the necessary preparatory steps to fully establish it are completed. However, sometime June 2014, the DOE held public consultations on the draft department circular on the IMO which this time did not include a provision for the constitution of an ITB.



Consistent with the provisions of the EPIRA, the Company's by-laws provide for expiration of the Interim Period one year from commencement date of the WESM operations. As the IMO has not yet been formed, the PEM Board remains as the Interim Board with its members being appointed by the Secretary of the DOE, until such time that the IMO has been finally designated.

While the Company is currently the autonomous group market operator and governing body of the WESM, it will be transferring its functions as market operator to the IMO while retaining its role as the WESM governing body. Such transition is pursuant to the mandates of the Philippines Electric Power Industry Reform Act of 2001 (EPIRA), which mandated the formation of an independent entity to which the market operator functions, assets, and liabilities will be transferred, upon joint endorsement by the Philippines Department of Energy (DOE) and the electric power industry market participants.

The DOE endorsed the transition upon issuance of its Department Circular No. 2018-01-0002 entitled "Adopting Policies for the Effective and Efficient Transition to the Independent Market Operator for the Wholesale Electricity Spot Market". Endorsement by the industry participants, meanwhile, was obtained through ratification by the members of the PEMC during its membership meeting held on February 6, 2018. The members ratified the transition to the IMO as embodied in the "Plan for Transition to the Independent Market Operator of the Philippine Wholesale Electricity Spot Market".

PEM Audit Committee (PAC) Operational Audits of the Market Operations and Metering Review

One of the working groups of the PEM Board includes the PEM Audit Committee. The PEM Audit Committee shall conduct audits of the operation of the market and of the market operator in accordance with Section 1.5.1 of the WESM Rules.

In this regard, the PEM Audit Committee shall:

- i. conduct annual audits of the market operator and the settlement system and any other procedures, persons, systems or other matters relevant to the spot market;
- ii. test and check any new items or version of software provided by the market operator for use by WESM Members;
- iii. assess the adequacy of the metering standards and security systems and processes in the WESM;
- iv. review any procedures and practices which are covered by the WESM Rules at the direction of the PEM Board;
- v. recommend changes to the WESM Rules where the PEM Audit Committee detects deficiencies as a consequence of an audit, review, test, check or other form of review; and
- vi. publish on the market information website the results of any findings and recommendations under this clause 1.5.1.

In the performance of its responsibilities, PAC undertook the following activities in order to reinforce trading participants' confidence in the transparency and adequacy of the WESM operations:

- a. Joint Conduct of the 6th Audit of the Systems, Procedures and Performance of the Market Operator and the 3rd Review of Metering Installations and Arrangements, and Software Certification Audit of the Central Registration and Settlement System.

The PAC administered the conduct of two (2) audit projects in 2017, namely: (i) the Joint Conduct of the 6th Audit of the Systems, Procedures and Performance of the Market Operator (MO Audit) and 3rd Review of Metering Installations and Arrangements (RMIA); and (ii) the Software Certification Audit of the Central Registration and Settlement System (CRSS). Both audit projects were undertaken by the by Intelligent Energy Systems Pty Ltd in consortium with Alliance of Power and Energy Xponents (APEX) and Navarro Amper & Co.



The Certification Audit of the CRSS was completed in December 2017. Meanwhile, the joint conduct of the 6th MO Audit and the 3rd RMIA was formally concluded in January 2018 upon submission by the IES of the holistic review reports and acceptance by the PAC of the final audit report.

b. Software Audit of PEMC's Accounts Management System

The Philippine Electricity Market Corporation (PEMC) developed a software system called the Accounts Management System (AMS) to facilitate an automated collection and payment system for the wholesale and retail markets. An evaluation of the AMS was initiated to provide assurance to WESM participants on the accuracy and validity of the components of the said system and compliance to all relevant rules on the Settlement Process and Prudential Requirements. This audit was conducted by KPMG R.G. Manabat & Co. (KPMG), the external auditor engaged by the PAC and PEMC. The audit project involved the validation and testing of the nine (9) components of the AMS in which KPMG has certified that the AMS components demonstrated compliance with the WESM Rules and internal business processes.

The result of the audit was presented by the PAC to the Department of Energy (DOE) and the PEM Board on August 28, 2018 and August 30, 2018, respectively. The PAC prepared a report in September 2018 summarizing the results of the audit, which was published in the market website.

c. Software Certification Audit of the New Market Management System

The Intelligent Energy Systems Pty Ltd (IES) has been engaged by PEMC in 2017 to undertake the independent audit of the New Market Management System (NMMS). The IES is tasked to perform an extensive audit of specific NMMS components to validate its conformance with the WESM Rules and Manuals, and the Price Determination Methodology (PDM). The audit project involved the validation and testing of eight (8) NMMS components. Two components namely the, Market Participant Interface (C3) and Post-Market Run Calculations (C5) have been certified by IES by the end of 2018.

International Organization for Standardization (ISO)/International – Electrotechnical Commission (IEC) 27001:2005 Certification

The Company has established an Information Security Management System (ISMS) which is a set of policies concerned with information security management as the Company aims to establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for wholesale purchase of electricity and ancillary services in the Philippines in accordance with applicable laws, rules and regulations.

An audit of the ISMS has been performed in which Report No. 70785938 proved that the requirements according to ISO27001:2013 were complied with by the Company. As such, on March 10, 2015, the Company has been awarded with Certification No. 12-130-42589 TMS which is valid until February 14, 2018.

Company's Investigation of Allegations of Anti-Competitive Behavior of PSALM

In October 2006, the Company's Market Surveillance Committee (MSC) investigated allegations of anti-competitive behavior on the part of the PSALM, bidding on behalf of NPC's independent power producers, that was brought about by a spike in the load weighted average rates during the August 26 to September 25, 2006 billing period (third month of operations).

Based on the findings of the MSC, the PEM Board then issued a resolution on November 22, 2006 affirming the MSC's findings and ordering an adjustment in the WESM settlement prices to administered price in accordance with the Energy Regulatory Commission (ERC) approved administered price methodology. At the instance of NPC, clarification was sought from the ERC on the price adjustments.

On December 6, 2006, the ERC (i) directed the Company to submit the resolution; and, (ii) initiated an inquiry into the resolution and the PEM Board's action in adjusting the WESM settlement prices.



In an Order dated December 13, 2006 (ERC Case NO. 2006-080), invoking its mandate under the EPIRA, the ERC provisionally declared "the action of the PEM Board, in correcting the WESM settlement prices and imposing the administered prices to be invalid for having been carried out beyond the scope of its authority and in violation of the EPIRA and the WESM Rules" and directed the formulation of market protocols to put to rest the issues on delineation of functions exercised by entities within the industry and directed the formulation of market protocols to put to rest the issues on delineation of functions exercised by entities within the industry. Pursuant thereto, the PEMC and ERC adopted a protocol that aims to delineate the manner and procedure by which the ERC and PEMC shall exercise their respective authorities in instances of breach of the WESM Rules and Manuals, anti-competitive behavior, and dispute resolution through a Memorandum of Agreement dated 31 January 2008. Meanwhile, the ERC provisionally applied the NPC-Time of Use (TOU) rates.

The Company's lack of authority was affirmed in ERC's subsequent Order dated August 14, 2007. Pursuant to the January 2, 2007 order of the ERC, the Company issued to the WESM customer revised settlement statements on January 25, 2007 covering the billing period falling due, with payment due date for the generators on January 26, 2007.

On July 20, 2007, the Company filed a motion for clarification concerning the appropriate date by which late payment interest is to be reckoned considering the revisions made in the settlement statements due to the adjustments arising from the Order to use NPC-TOU rates.

Subsequently, after the ERC issued its order dated February 5, 2007, confirming the appropriate calculation on the customer metered quantities and, consequently, the Company issued on April 25, 2007 the second revised settlement statements with due dates for the customers set on May 5, 2007 and for the payment due to generators on May 6, 2007.

In ERC Case No. 2007-421 MC (IU Case No. 06-01), the ERC conducted its own investigation on the allegations, and on June 6, 2007, the ERC cleared PSALM of the accusations and found that no prima facie evidence for anti-competitive behavior exist against PSALM.

In view of its finding in ERC Case No. 2007-421, the ERC resolved on the aforementioned Order dated August 14, 2007, that the WESM settlement prices should be used for third and fourth month billing period.

On June 17, 2008, the Company received a copy of ERC's order ERC Case No. 2006-080 RC docketed June 16, 2008 regarding the prices from the third billing period. Although the ERC denied the Company's motion for reconsideration regarding the validity of the PEM Board's decision to adjust the prices, the ERC granted the Manila Electric Company's request that it intervene for the greater interest of the industry and the consumers, and set the WESM settlement prices at NPC-TOU rates. Following the results of investigations of alleged anti-competitive behavior, the ERC set the WESM settlement prices for the third and fourth billing periods of 2006 at the ERC-approved NPC-TOU rates. On June 20, 2010, the Supreme Court in G.R. 190119, ruled that the ERC validly exercised its regulatory power pursuant to the police power of the State when it imposed the Commission-approved NPC-TOU rates as a form of price adjustment or price control. The adoption of the NPC-TOU rate instead of the actual market prices for the relevant periods has passed the test of reasonableness.

PSALM filed a Motion for Reconsideration which was denied by the ERC in its Order dated October 20, 2008. PSALM then filed a Petition for Review with the CA. On August 28, 2009, the CA dismissed the Petition of PSALM and further denied in CA order dated November 6, 2009, the Motion for Reconsideration of PSALM. A petition was filed by PSALM to the Supreme Court docketed as G.R. No. 190199.

On June 20, 2010, the Supreme Court in G.R. 190119, ruled that the ERC validly exercised its regulatory power pursuant to the police power of the State when it imposed the Commission-approved NPC-TOU rates as a form of price adjustment or price control. The adoption of the NPC-TOU rate instead of the actual market prices for the relevant periods has passed the test of reasonableness.



Designation as Central Registration Body (CRB) and the Retail Competition and Open Access (RCOA)

June 26, 2013 marked the commercial operations and integration of the RCOA into the WESM.

Section 31 of the EPIRA provides that RCOA shall be implemented no later than three years upon the effectivity of the EPIRA, subject to fulfillment of certain pre-conditions. Through the ERC Resolution No. 10 Series of 2011, dated June 6, 2011 and pursuant to Section 31 of the EPIRA and Section 3, Rule 12 of its Implementing Rules and Regulations, the ERC has declared fulfillment of the pre-conditions prescribed for the initial implementation of the RCOA.

Retail Competition is the provision of electricity to a contestable market by suppliers through Open Access, which is defined as the system of allowing any qualified person of the use of transmission and/or distribution systems and associated facilities, subject to the payment of transmission and/or distribution retail wheeling rates duly approved by the ERC.

The RCOA Steering Committee (RCOA SC) which was created through the DOE Circular No. DC 2011-06-0006 dated June 17, 2011, recommended policies to enhance and ensure the readiness of the industry participants in the implementation of the RCOA and the deferment of its implementation from December 26, 2011 to a later date. In an order dated October 24, 2011 (ERC Case No. 2011-009 RM) the ERC approved and declared the deferment of implementation of the RCOA in Luzon and Visayas, as recommended by the RCOA SC, while all rules, systems, preparations and infrastructures required have not yet been put in place.

On February 24, 2012, the Company was designated by the DOE through DOE Circular No. DC 2012-02-0002 as the CRB assigned to undertake the development and management of the required systems and processes and information technology system that will be capable of handling customer switching and information exchange among retail electricity market participants, as well as the settlement of their transactions in the WESM.

For purposes of implementing the functions of the CRB under the RCOA regime and under the supervision of the DOE, the Company is directed to undertake the following duties and responsibilities:

- Review of WESM Rules and Manuals;
- Develop market infrastructure, systems and processes;
- Conduct training for the electric power industry participants;
- Comply with DOE directives;
- Coordinate with relevant stakeholders and other government agencies; and
- Perform such other related functions as may be necessary in the effective and efficient implementation of the RCOA.

The ERC, through Resolution No. 16.series of 2012, determined the commencement date of open access and retail competition to be on December 26, 2012 (the "Open Access Date"). On November 28, 2012, the DOE promulgated DOE Circular No. DC2012-11-0010 prescribing a transition period of six (6) months from the Open Access Date or the period December 26, 2012 to June 25, 2013 to prepare all stockholders for RCOA. The Circular further provided that the full RCOA Commercial Operation Date shall take effect after the transition period or the period commencing June 26, 2013 onwards. In ERC Resolution No. 10, series of 2016, the ERC set the mandatory contestability date of December 26, 2016 for 1MW Customers and June 26, 2017 for 750kW Customers while the Threshold Reduction Date covering 750kW Customers was set on June 26, 2016 and for 500kW Customers on June 26, 2018. On November 15, 2016, the ERC issued ERC Resolution No. 28, series of 2016, which amended the timeline set forth in the Revised Rules for Contestability in order to provide CCs more time to negotiate their respective RSCs. The original mandatory contestability date for end-users with an average monthly peak demand of at least 1MW was moved from December 26, 2016 to February 26, 2017.



However, in the Resolution dated February 21, 2017 in G.R. No. 228588, the Supreme Court granted therein Petitioners' prayer for the issuance of a temporary restraining order and thus enjoined the implementation of Department of Energy Circular No. DC2015-06-0010, Series of 2015, Energy Regulatory Commission Resolution No. 5, Series of 2016, Energy Regulatory Commission Resolution No. 10, Series of 2016, Energy Regulatory Commission Resolution No. 11, Series of 2016 and Energy Regulatory Commission Resolution No. 28, Series of 2016.

Department Circular No. DC 2019-07-0011 amends previous DOE issuances implementing RCOA. The new rules amend some sections of DC2012-05-0005, specifically the definition of contestable customers wherein they are "allowed the use of the transmission and distribution systems and shall therefore be integrated into the WESM.

IMEM

On September 20, 2013, the DOE launched the IMEM and designated the Company as the operator of the IMEM. Full commercial operations began on December 3, 2013.

The IMEM is a venue for a transparent and efficient utilization of all available capacities in the Mindanao grid to meet the supply deficiency. Unlike the WESM operating in Luzon and Visayas, the IMEM is designed as a day-ahead market to address only the supply deficiency in the grid. IMEM will serve as a transition to the operation of the WESM in Mindanao.

The IMEM has been under market intervention since February 27, 2014 due to the system blackout that occurred in Mindanao during the same day. As a result, only contracted capacities are currently being dispatched in the Mindanao Grid. Moreover, to address issues encountered in the preliminary operations of the market, amendments to the rules governing the operations of the IMEM were issued by the DOE last May 6, 2014. In order to fully implement the amendments, the Company applied for the corresponding changes to the Price Determination Methodology of the IMEM with the ERC. As at December 31, 2019, the ERC has not rendered its decision on the application.

On January 29, 2014, Misamis Oriental Rural Electric Service Cooperative-I (MORESCO-I) and Bukidnon Second Electric Cooperative (BUSECO) filed separate petitions for dispute resolution with the ERC with prayers for a cease and desist order for disconnection from the grid for non-payment of the billing statements issued by the Company in the IMEM for the December 2013 supply month. Both alleged that they did not procure any supply from the IMEM. No order in either case has been issued by the ERC as at December 31, 2014. Moreover, the Company in consultation with the IMEM Trading Participants, has revised the billing computations and has issued revised billing statements for the billing periods December 2013 to February 2014 on September 30, 2014. On October 14, 2015 MORESCO-I and BUSECO filed separate motions to withdraw their respective petitions. The ERC granted the said motions on October 15, 2015.

On June 13, 2017, PEMC received copies of separate petitions for dispute resolution from MORESCO-I and BUSECO seeking the issuance of a cease and desist order to enjoin the threatened disconnection from the grid, for failure to pay with their respective outstanding balances in the IMEM. MORESCO-I and BUSECO likewise seeks to invalidate the December 2013 IMEM bill issued to them. PEMC filed its comment on both petitions. These cases remain pending with the ERC as at December 31, 2019.

Pricing and cost recovery mechanism (PCRM) for reserves in the WESM

On June 8, 2007, PEMC filed an Application for the approval of the PCRM for reserve categories to be traded in the WESM reserve market. On July 7, 2008, the ERC approved the adoption of the following for the WESM reserve market:

- a. Gross pool concept for reserves;
- b. Zonal reserve pricing for Luzon, with reservation on the approval of the zonal pricing scheme for the Visayas region;
- c. Ex-ante price settlement;
- d. Co-optimization of energy and reserves; and
- e. Administered pricing mechanisms for reserves.



In addition, the ERC directed compliance with several operational directives.

On February 26, 2013, the Company proposed a two-stage approach to the implementation of the WESM reserve market. The two-stage approach consists of the following:

Stage 1 – In general, will involve the following major aspects:

1. Operation of the Reserves Market based on the current design
2. Joint ramping of energy and reserves
3. Integration of the Reserve Effectiveness Factors (REF) in the settlement process
4. Modification of the MDOM to ensure a single reserve schedule for a generating unit submitting offer for multiple reserve categories
5. Accounting for contracted reserve capacities for reserve types
6. Operation of Visayas reserve market as a single reserve zone
7. Revision in PEN/MRR/PSM Table
8. Registration of reserve facilities on a per generating unit basis
9. Training of Reserve Market Trading Participants
10. Reserve Market Dry-run

Stage 2 – In general, will involve the following:

1. REF incorporated in the pricing and scheduling process
2. Realignment of specification of reserve services to include fast and slow contingency, introduction of new lower reserve service and ILD as a fully functioning reserve service
3. Changes in the PGC and ASPP
4. Implementation of automatic market power mitigation measures
5. Changes in the PDM
6. Incorporation of the revised design in the New MMS
7. Inclusion of reserve provider capacity cap

On December 2, 2013, the DOE through DC2013-12-0027 declared that the commercial operations of the WESM reserve market for Luzon and Visayas shall commence on March 26, 2014. The launch date has been deferred, however, pending regulatory approval of the PCRM.

In an Order dated March 27, 2015, the ERC directed the Company to engage an independent third party consultant to assess the proposed two-staged approach. In compliance with the directive, the Company filed the report of the independent third party consultant with the ERC on December 1, 2015.

In the Order dated April 17, 2018, the ERC dismissed the Application for having become moot and academic. The ERC cited the inconsistency between the proposed pricing and cost recovery mechanism for reserve transactions in the WESM subject of the Application and the new PDM Application (ERC Case No. 2017-042 RC) which consolidates all WESM pricing-related methodologies, including the pricing and cost recovery mechanism for reserves including the PCRM. It was filed pursuant to DOE Department Circular No. DC2017-03-0001 entitled Adopting Further Amendments to the Wholesale Electricity Spot Market (WESM) Rules and Market Manuals for the Implementation of Enhancements to WESM Design and Operations (Provisions for Price Determination Methodology and Constraint Violation Coefficients and Pricing Re-run).

Expository presentations were held in 2017 while the Pre-Trial and Evidentiary hearings were held in 2018.



Considering the issues raised during the pre-trial on March 5, 2018 whether the instant Application for the settlement of Displaced generators docketed as ERC Case No. 2016-159RC and that the New PDM consolidates all pricing methodologies, PEMC filed a Motion to Withdraw on said case on March 17, 2018, which the ERC granted on April 17, 2018.

In 2019 and 2020, PEMC presented/submitted to the ERC the results of the Software Certification Audit of the New Market Management System (NMMS) and Central Registration and Settlement System (CRSS), and the Market Readiness Assessment Report (MRA) as evidences supporting the Application.

In 04 May 2017, the DOE issued Department Circular DC 2017-05-0009 entitled "Declaring the Launch of the Wholesale Electricity Spot Market (WESM) in Mindanao Providing for the Transition Guidelines". Section 10 of the said issuance provides for the termination of the IMEM upon its effectivity.

MERALCO rate hike

On December 5, 2013, MERALCO wrote a letter-request to the ERC, seeking authority to stagger collection of the Generation Charge (GenCharge) for the November 2013 supply month. In a letter dated December 9, 2013, the ERC authorized MERALCO to: a) collect P7.67/kWh in December 2013, b) add P1/kWh in its GenCharge for February 2014, and c) include the balance in the GenCharge for March 2014, without carrying costs.

On December 20, 2013, petitions were filed before the Supreme Court (SC), assailing the ERC's December 9, 2013 letter. On December 23, 2013, the SC issued a Temporary Restraining Order (TRO) effective immediately and for a period of sixty (60) days enjoining: a) the ERC from implementing its December 9, 2013 letter and acting further on the letter-request of MERALCO, and b) MERALCO from increasing the rates it charges to its customers based on the matters it raised in its December 5, 2013 letter. Oral arguments were conducted before the SC.

On February 18, 2014, the SC extended its TRO for another sixty (60) days until April 22, 2014. The SC enjoined the Company and other generation companies "from demanding and collecting the deferred amounts representing costs based on the matters raised in MERALCO's December 5, 2013 letter". On April 22, 2014, the SC issued a Resolution extending the effectivity of the TRO indefinitely.

MERALCO manifested before the SC, ERC and the DOE that in deference to the SC TRO, the January 2014 billing month (December 2013 supply period) charges shall be pegged at November 2013 billing month levels (October 2013 supply period). As a result, MERALCO filed with the ERC an Application to collect the differential generation charge for the December 2013 supply period (ERC Case No. 2014-013RC).

Meanwhile, on March 3, 2014, the ERC issued an Order in ERC Case No. 2014-021 MC as follows:

1. Luzon WESM prices are void. Regulated prices shall be imposed in lieu thereof;
2. Regulated prices shall be calculated based on load-weighted average ex-post nodal energy prices and Metered Quantity (MQ) of the same day same trading interval that have not been administered covering the period December 26, 2012 - September 25, 2013;
3. Oil-based plants may apply for additional compensation following the procedure for computing additional compensation under the Administered Price Determination Methodology (APDM), to cover fuel and variable O&M costs;
4. The Company shall within 7 days from receipt calculate regulated prices and implement the same in revised WESM Bills to the concerned Dus, for their immediate settlement, except for MERALCO whose November 2013 bill shall be maintained in compliance with the SC TRO;
5. Within 90 days from receipt of the Order, the Company shall conduct an investigation on possible breach of the Must-Offer Rule pursuant to the ERC-PEMC Protocol. Result of the investigations of the ECO shall be submitted directly to the ERC with recommended sanctions and penalties, as the case may be.



The Company calculated regulated prices for the November and December 2013 supply months in compliance with the ERC's March 3, 2014 Order. Revised WESM Bills for Luzon WESM trading participants, reflecting the adjustments in their Total Trading Amounts (TTAs), were issued on March 18, 2014. These were originally due for payment on March 28, 2014.

MERALCO amended its Application for the collection of differential generation charges (ERC Case No. 2014-013RC) in view of the recalculation conducted by the Company pursuant to the ERC's March 3, 2014 Order in ERC Case No. 2014-021 MC. In its Amended Application, MERALCO sought approval of an incremental generation charge of P0.0751/kWh for six (6) months until the unrecovered amount of P1.310 billion is recovered. Jurisdictional hearing on MERALCO's Application was conducted on May 26, 2014. However, further proceedings were suspended by the ERC until further notice.

On March 27, 2014, the ERC issued an Order directing the Company to provide the market participants an additional period of forty-five (45) days (until May 12, 2014) to comply with the settlement of their respective adjusted WESM Bills. On May 9, 2014, the ERC issued another Order directing the Company to provide market participants a "non-extendible period" of thirty (30) days within which to settle their adjusted Bills. As a result of this latest extension, the adjusted WESM Bills are due for payment on June 11, 2014. Several generators filed motions for reconsideration with the ERC.

On June 5, 2014, the Company received a copy of the motion filed by Angeles Electric Cooperative (AEC) contesting the manner of computation pursuant to the March 3, 2014 Order of the ERC. On June 6, 2014, the ERC issued an order holding in abeyance the implementation of the March 3, 2014 Order, as well as directing the Company to file a comment on AEC's motion. Both parties have already submitted position papers as regards this matter.

On October 15, 2014, the ERC issued an order, which among others, denied the various motions for reconsideration as regards the March 3, 2014 Order. Several generators filed for petitions for review on this matter with the CA, impleading the Company as a necessary party (San Miguel et. al. v. ERC and PEMC, TPEC v. ERC etc.). These cases were consolidated through various order from the CA, and parties were required to file their respective Memoranda in a Resolution dated October 11, 2016. The Company filed its Memorandum on December 7, 2016.

On November 23, 2017, the Company received a Notice of Decision dated November 7, 2017, granting the petitions, and thus declaring null and void and set aside the assailed ERC Orders. Accordingly, the prices for November and December 2013 supply months in the WESM for Luzon are reinstated and declared valid. Motions for intervention and reconsideration were filed by various parties.

On 08 May 2019, the Company received a copy of the Court of Appeal's Omnibus Resolution dated 29 March 2019 denying, among other things, the Motions filed by intervenors and the Motions for Reconsideration dated 08 December 2017 and 12 December 2017 filed by intervenor Manila Electric Company and public Respondent Energy Regulatory Commission respectively. In the same Resolution, the CA ruled that the assailed Decision dated 07 November 2017 and Resolution dated 22 March 2018 shall both stand.

PEMC received a copy of the Energy Regulatory Commission (ERC) Petition for Review with the Supreme Court where it sought to reverse and set aside both the Decision dated 07 November 2017 and Omnibus Resolution dated 29 March 2019 of the Court of Appeals and to reinstate the ERC Order dated 03 March 2014, ERC Order dated 27 March 2014, ERC Order dated 09 May 2014 and ERC Order dated 15 October 2014 in ERC Case No. 2014-021 MC.



Imposition of penalties pursuant to breaches of the must-offer rule

Pursuant to the March 3, 2014 Order of the ERC and the WESM Rules, the Company's Enforcement and Compliance Officer (ECO) commenced investigations against participants for breaches of the Must-Offer Rule. On December 1, 2014, the PEM Board approved the imposition of financial penalties, after undergoing a review process. Accordingly, in February 2015, notice of the approval of financial penalties were sent to Therma Mobile, Inc. (TMO), PSALM and Pan Asia Energy Inc. TMO however, obtained a protective order from the Regional Trial Court (RTC) of Pasig enjoining the collection of the penalties.

After hearing, the RTC issued an Order dated April 1, 2015 granting in favor of TMO a writ of preliminary injunction preventing the Company from (a) demanding the financial penalties (b) charging interest on the financial penalties and (c) transmitting ECO's investigation report to ERC.

On April 27, 2015, the Company filed a petition with the CA with prayer for Temporary Restraining Order and/or Writ of Preliminary Injunction seeking to set aside the decision of the RTC. In a Decision dated December 14, 2015, the CA upheld the ruling of the RTC. The Company filed a motion for reconsideration, however the same was denied.

On June 6, 2016, the Company elevated the matter to the Supreme Court. The case remains pending as at December 31, 2019.

Line rental segregation case

On December 11, 2014, the Company received a Decision dated December 1, 2014, issued by the CA, dismissing the Petition for Certiorari which assailed the ERC Orders dated March 4, 2013, and July 1, 2013. The assailed Orders issued by the ERC resolved as follows:

1. The approval of the methodology proposed by MERALCO and the Company in computing the double charge amount on line losses by deducting 2.98% from the NPCTOU covering the period November 2006 to August 2012;
2. The computed double charge amount to be recovered by MERALCO from NPC is P5,176,147,099 covering the period November 2006 to August 2012 and such other additional payments received by latter from former for the period subsequent to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the NPC-TOU rates; and MERALCO to submit the amount of over-recoveries for the said period;
3. NPC to refund to MERALCO the over-recoveries by remitting to the latter per month the mount of P73,944,959, until the same has been fully refunded;
4. MERALCO to refund to its customers the amount it received from NPC until such time that the aforesaid over recoveries are fully refunded by way of automatic deduction of the amount of refund to the computed monthly generation rate;
5. NPC, if applicable, to provide a discount to MERALCO equivalent to 2.98% line loss embedded in the NPC-TOU rates prospectively;
6. MERALCO to settle the line loss cost of the LRTA with PEMC prospectively;
7. The Company to conduct an information dissemination pertaining to the WESM Manual on the Segregation of Line Trading Amount to all WESM registered participants; and
8. MERALCO to file a petition against the following SGCs: MPPCL, APRI, TLI, SMEC and SCPC to recover the line loss collected by them; otherwise, the former shall be liable to refund the said amount to its customers.

On February 2, 2015, the Company received PSALM's Motion for Reconsideration, assailing the decision dated December 1, 2014, however the same was denied. PSALM thereafter filed a petition with the Supreme Court. The case remains pending as at December 31, 2019.



22. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments not measured at fair value

The fair values of the Company's financial assets and liabilities at December 31 are shown below:

	2019		2018		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial Assets					
Cash and cash equivalents	P714,173,283	P714,173,283	P707,434,331	P707,434,331	Level 3
Market fees and other receivables	39,583,901	39,583,901	31,712,634	31,712,634	Level 3
Guarantee deposits	6,233,223	6,233,223	13,724,415	13,724,415	Level 3
	P759,990,407	P759,990,407	P752,871,380	P752,871,380	
Financial Liabilities					
Accrued expenses and other payables	P441,350,498	P441,350,498	61,719,505	61,719,505	Level 3
	P441,350,498	P441,350,498	P 61,719,505	P 61,719,505	

Accrued expenses and other payables are net of government payables such as withholding taxes, output VAT, and accrued interest and surcharges which are not considered financial liabilities.

Due to the short-term maturities of cash and cash equivalents, market fees and other receivables and accounts payable and accrued liabilities, their carrying amounts of these financial instruments approximate their fair values.

Loans payable is measured using the discounted cash flow method with credit adjusted zero coupon rates as discount rate.

23. FINANCIAL RISK MANAGEMENT

Financial Risk Management Objectives and Policies

The Company's activities expose it to a variety of financial risks: market risk (which includes foreign exchange risk and interest rate risk), credit risk, and liquidity risk.

The Company's risk management is coordinated in close cooperation with the Philippine Electricity Market (PEM) Board and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets. The Company's overall risk management seeks to minimize potential adverse effects on the financial performance of the Company. The policies for managing specific risks are summarized below:

Market risk

Market risk happens when the changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's revenue or the value of its holdings of financial instruments. The Company focuses on two market risk areas - interest rate risk and foreign currency risk. The objective and management of these risks are discussed below:

Foreign exchange risk

Foreign exchange risk arises when an investment's value change is due to changes in currency exchange rate. The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise with respect to transactions denominated in US Dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities that are denominated in a currency that is not the Company's functional currency. Significant fluctuation in the exchange rates could significantly affect the Company's financial position.



The Company has no established policy in managing foreign exchange rate risk. Any favorable or unfavorable movements of foreign currency exchange rates are absorbed by the Company.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest. The Company has no established policy in managing interest rate risk. The primary source of the Company's interest relates to cash in banks and cash equivalents only which earn interest at prevailing bank deposit. Due to this, the Management believes that fluctuations on the interest rates will not have significant effect on the Company's financial performance.

Credit risk

Credit risk is the risk that the Company will incur a loss because the trading participants failed to discharge their contractual obligation. The Company's financial assets which are exposed to credit risk include its cash and cash equivalents and market fees and other receivables with a maximum exposure equal to the carrying amount of these assets.

The Company trades only with recognized, credit worthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company seldom encounters default of counterparties but should it happen, it continuously monitors defaults of such counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Company considers the reputation and financial standing of every bank it does business with as part of its policy. To ensure the effective operation of the spot market by providing a level of comfort that WESM members will meet their obligations to make payments as required under the WESM Rules, each WESM member must satisfy the prudential requirements.

A trading participant wishing to participate in the market transactions shall provide and maintain a security acceptable to the Company which is either:

- i. A bank guarantee in a form and from a bank;
- ii. Another immediate, irrevocable and unconditional commitment in a form and from a bank or other institution;
- iii. Surety bond issued by a surety or insurance company duly accredited by the Office of the Insurance Commission (c) of the Philippines; or,
- iv. Such other forms of security or guarantee acceptable to the Company.

In respect of market fees and other receivables, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Market fees and other receivables are neither past due nor impaired. Management believes that there is no change in the credit quality of financial assets from the date credit was initially granted up to the end of each reporting period.

Liquidity risk

Considering the nature of its operations, the Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities, as well as cash outflows due in the day-to-day operations of the WESM. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for one-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 60-day period. As at December 31, 2019 and 2018, the Company's financial liabilities have contractual undiscounted maturities which are summarized below and further compared with financial assets based on contractual undiscounted maturities as at December 31, 2019 and 2018.



The table includes both interest and principal cash flows.

	On demand	Within 1 year	More than 1 year	Total
2019				
Financial Assets				
Cash and cash equivalents	P714,173,283	P -	P -	P714,173,283
Market fees and other receivables	-	39,583,901	-	39,583,901
Guarantee deposits	-	-	6,233,223	6,233,223
	P714,173,283	P39,583,901	P6,233,223	P759,990,407
Financial Liabilities				
Accounts payable and other current liabilities*	P -	P441,350,498	P -	P441,350,498
	P -	P441,350,498	P -	P441,350,498
	P714,173,283	(P401,766,597)	P6,233,223	P318,639,909
2018				
Financial Assets				
Cash and cash equivalents	P707,434,331	P -	P -	P707,434,331
Market fees and other receivables	-	31,712,634	-	31,712,634
Guarantee deposits	1,763,974	16,000	11,944,441	13,724,415
	P709,198,305	P 31,728,634	P11,944,441	752,871,380
Financial Liabilities				
Accounts payable and other current liabilities*	-	61,719,505	-	61,719,505
	-	61,719,505	-	61,719,505
	P709,198,305	(P 29,990,871)	P11,944,441	P691,151,875

*Excluding government payables

Operational risk

The Company's exposure to significant operational risk exposure is related to its primary purpose as the governing body of the WESM. Also, the Company is under the regulation of the ERC. Management is aware that the Company will always have operational risk, but seeks to minimize the probability and impact of such in its operations and financial statements.

The Company manages this risk through applicable controls, processes and procedures, including effective Company structure and good corporate governance. Internal controls ensure compliance with laws and regulations, including the WESM Rules and ERC directives, and the overall protection of the Company's resources.

24. FUND MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company aims to manage operational and strategic objectives. The PEM Board has overall responsibility for monitoring of fund balance in proportion to risks. The primary objective of the Company's capital management is to ensure that the Company has available funds in order to support its operating activities and pay existing obligations.

The Company manages its fund structure and makes adjustments to it, in the light of changes in economic conditions, approvals of the ERC and the risk characteristics of the underlying assets. No changes were made in the objectives, policies or processes in 2019 and 2018.

25. OTHER MATTERS

Transfer of Assets and Liabilities to IEMOP

Pursuant to the Operating Agreement dated September 19, 2018 between the Company and IEMOP, all existing assets pertaining to the performance of market operations functions, including the associated liabilities will be transferred by the Company to IEMOP.



Below are the assets and liabilities which were transferred to IEMOP in 2019 and 2018.

	2019	2018
Assets		
Cash	P 506,969,900	P777,882,481
Office supplies	-	1,604,222
Guarantee deposits	8,233,286	-
Property and equipment – net	128,361,451	-
Intangible assets – net	721,512,244	-
	P1,365,076,881	779,486,703
Liabilities		
Advances from PSALM	-	808,901,804
Total	P1,365,076,881	P 29,415,101

Cash includes funds allocated to IEMOP amounting to P390,069,607, which is still under the custody of the Company.

Correction of Prior Year Balances

In 2018, depreciation and amortization of property and equipment and intangible assets account were corrected. In previous years, property and equipment and intangible assets were recorded under "Clearing Account", which should have been capitalized in previous years.

Amount below pertains to the depreciation & amortization of assets, which were adjusted at the beginning of 2018:

System hardware	P2,452,381
Office equipment	2,066,627
Other system software	1,430,403
Leasehold improvements	1,219,319
	P7,168,730

26. EVENTS AFTER THE REPORTING PERIOD

The Company has evaluated subsequent events through the date of preparation of financial statements. On March 11, 2020, the World Health Organization declared the Novel Corona Virus – Covid-19 outbreak a public health emergency.

Management considers the spread of the coronavirus, the resulting actions by government to contain the spread, and the resulting direct impact on the Company to constitute a non-adjusting subsequent event. Management is conducting regular assessments and regularly updating the assumptions for the financial year 2020 forecasts and determining the appropriate measures and actions to be implemented. However, given the uncertainty regarding the spread of this coronavirus, the related financial impact for the financial year 2020 cannot be reasonably estimated at this time.



27. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR) UNDER REVENUE REGULATIONS NOS. 15-2010

The following supplementary information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

Output VAT

In 2019, the Company declared output VAT as follows:

	Tax Base	Output VAT
Market fees	P227,240,000	P27,268,800
Other revenues	39,476,883	4,737,226
	P266,716,883	P32,006,026

The Company has no VAT exempt receipts for 2019.

The tax bases for market fees and other revenues are based on the Company's gross receipts for the year, hence, may not be the same with the amounts presented in the 2019 statement of revenue and expenses. The VAT amounting to P439,819 related to accruals is recognized as deferred Output VAT.

The output VAT in 2019 is as follows:

Output VAT	P32,006,026
Payments:	
Input VAT applied	32,005,526
Creditable tax certificates applied	500
	P -

Input VAT

The movements of input VAT claimed in 2019 is summarized below.

Balance, beginning	P10,160,525
Services lodged under other accounts	10,550,637
Input tax on sale to government	(978)
Capital goods subject to amortization	21,183,624
Goods other than for resale or manufacture	573,127
Capital goods not subject to amortization	95,331
Applied against output VAT	(32,005,526)
Balance, end	P10,556,740

Taxes and licenses

Taxes and licenses are broken down as follows for the year ended December 31, 2019:

Fringe benefit tax	P1,506,426
Licenses and business tax	175,298
Community tax	510
Others	71,681
	P1,753,915

Taxes and licenses are presented as part of "Others" in 2019 statement of receipts and expenses.



Withholding taxes

Details of the Company's withholding tax paid or accrued in 2019 are as follows:

Withholding taxes on compensation and benefits	P26,933,968
Expanded withholding taxes	5,097,790
Final	-
	P32,031,757

Deficiency tax assessment and tax cases

As at December 31, 2019, the Company has no deficiency tax assessments and cases outstanding.

28. APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company were approved and authorized for issuance by the PEM Board on June 24, 2020.

* * *

