

**PHILIPPINE DEPOSIT INSURANCE CORPORATION
TERMS OF REFERENCE
FAIR VALUATION SERVICES FOR CAPITAL NOTES**

I. BACKGROUND

In 2009, the ₱12 billion outstanding financial assistance granted to a sequestered bank was converted to the bank's Capital Notes. These notes are valued in PDIC's books at cost, since these are deemed fully recoverable given the bank's continuing improvements in financial condition.

Philippine Accounting Standard (PAS) 39, on Financial Instruments: Recognition and Measurement, requires fair valuation for this type of instrument. The fair valuation of the asset is also required by Philippine Financial Reporting Standards (PFRS) 9, the standard that would replace PAS 39 in 2015. PDIC will do an early adoption of this standard in 2013.

The standard further requires that the fair value of the asset should be compared with the book value or carrying amount to determine if there is a need to book impairment loss. The Commission on Audit (COA) has issued a qualified opinion on the Financial Statements of PDIC for the years 2009-2012 for the non-recognition of impairment loss on the Capital Notes.

2. OBJECTIVE OF THE ENGAGEMENT

The main objective of this engagement is to seek professional assistance from a highly qualified accounting firm in the fair valuation of the ₱12 billion Capital Notes issued by a sequestered bank.

PDIC will do an early adoption of PFRS 9 in 2013 (mandatory date for compliance is 2015). The early adoption will address the swings in the balance of the Deposit Insurance Fund, the capital account of the Corporation, brought about by the upward/downward effect on income of the mark-to-market valuation of investments. Total investments comprise about 80% of the Corporation's Total Assets as of August 31, 2013. With this early adoption, the fair valuation of the Capital Notes should be determined to enable full compliance with the requirements of the standard.

3. SCOPE OF SERVICES

The valuation of the Capital Notes shall be based on latest available records of the bank but not earlier than December 31, 2012. Specifically, the accounting firm shall provide the following services:

- 3.1 Adopt at least two (2) appropriate methods to use in the estimation of the fair value of the Capital Notes, considering that the bank is operating on a going concern and given the key features of the notes. Detailed description of the proposed methods shall be provided in the technical proposal.

- 3.2. Provide report on the valuation results of the methods used including copies (soft and hard) of supporting computations, if any.
- 3.3 Assist in the determination of the necessary accounting entry/ies to book the valuation.
- 3.4 Provide pro-forma Notes to Financial Statements, which includes disclosures required by the standard on the booking of the impairment on the Capital Notes.
- 3.5 Provide advisory assistance to PDIC staff who may be tasked to do the valuation update, as may be necessary.

4. QUALIFICATION AND SELECTION OF ACCOUNTING FIRM

The accounting firm shall have the following minimum qualifications:

- 4.1 Must possess professional expertise and knowledge on the valuation of financial assets and liabilities as prescribed by existing and updates to provisions of the PFRS.
- 4.2 Must have conducted not less than three (3) engagements in the valuation of financial instruments.
- 4.3 The engagement partner/leader and other members of the project team must be Certified Public Accountants (CPA), with no less than 10 years of experience in the practice of profession for the engagement partner and not less than two years of experience for other members.

Bidders must provide CVs of their proposed staff clearly showing the relevant skills, work experience and professional certifications. Bidders should also provide in their technical proposal the number and expertise of staff to be deployed in the engagement.

5. DISQUALIFICATION

- 5.1 The accounting firm who was engaged as auditor or a consultant of the bank who issued the Capital Notes from the time of the issuance of the Capital Notes (2009) to present shall not be considered in this engagement.
- 5.2 The accounting firm shall not include as part of the engagement team, a member acting as Legal Counsel or Advisor either as partner or associate in a firm or as a private practitioner to any person or corporation which has a case or claim against the PDIC, the bank who issued the Capital Notes or any closed bank under PDIC's administration.

6. EVALUATION CRITERIA

6.1 General Guidelines

Pursuant to the provisions of the Government Procurement Act and its Implementing Rules and Regulations, the Technical and Financial Proposals shall be given a weight of 60% and 40%, respectively. The Technical Evaluation of the bids shall be based on the following general criteria:

- 6.1.1 **Staff Qualifications:** Quality of personnel to be assigned to the project, which covers education, training, competence and suitability of experience of key personnel to perform the duties of the particular assignment;
- 6.1.2 **Experience and Capability of the Bidder:** Include records of previous and on-going valuation engagements and quality of performance in similar projects;
- 6.1.3 **Plan of Approach and Methodology:** Clarity, feasibility, innovativeness and comprehensiveness of the plan approach, and the quality of interpretation/appreciation of project problems, risks, and suggested solutions.

Assignment of weights for the evaluation criteria depends on the importance and relevance of the criterion to the service to be provided. For the evaluation of technical proposal, numerical ratings shall be used.

6.2 Detailed Technical Evaluation Criteria

| Technical Evaluation Criterion | Percentage |
|---|-------------|
| I. STAFF QUALIFICATIONS | 30% |
| II. EXPERIENCE & CAPABILITY OF THE BIDDER | 30% |
| III. PLAN OF APPROACH & METHODOLOGY | 40% |
| TOTAL | 100% |

7. TIMETABLE

The accounting firm shall commence work immediately upon signing of the contract and should complete all deliverables not later than two months upon issuance of the notice to proceed.

Any extension or modification in the agreed upon engagement schedule and deadline in the submission of report/s relative to the engagement shall be made only upon prior approval of the PDIC President.

8. DELIVERABLES

The following shall be the deliverables with respect to this engagement:

- 8.1 Detailed report on the fair valuation of the Capital Notes as of the latest available records of the bank but not earlier than December 31, 2012 and based on the methodologies included in the engagement proposal.
- 8.2 Summary of the necessary accounting entry/ies to book the valuation in 2013 and adjustment to prior years' profit as necessary or required by existing accounting standards.
- 8.3 Details of necessary disclosures/pro-forma Notes to Financial Statements, as required by existing accounting standards.
- 8.4 Computations/templates of computations made in the valuation process to aid PDIC personnel who may be tasked to do the valuation update as necessary.

9. APPROVED BUDGET FOR THE CONTRACT

The approved budget for the contract is Pesos: **TWO MILLION (P 2,000,000.00)**.

10. PAYMENT

The cost of the engagement shall be inclusive of applicable taxes, representation, transportation, allowances and out-of-pocket expenses. Payment shall be based on the submission of all the deliverables as mentioned in the SCOPE of services.

11. CONFIDENTIALITY AGREEMENT

The accounting firm and each project team member shall execute and sign a Confidentiality and Non-Disclosure Undertaking upon Notice of Award.

12. PERFORMANCE GUARANTEE/SECURITY

To guarantee the faithful performance of the accounting firm with the terms and conditions of the engagement, the accounting firm, upon signing of the contract, shall post a performance security in any of the following forms: 1) Cash, Manager's / Cashier's Check in the amount equivalent to at least five percent (5%) of the total contract price; 2) Authenticated Bank Guarantee issued and confirmed by a reputable commercial bank in the amount equivalent to at least five percent (5%) of the total contract price; 3) Surety Bond callable on demand issued by the Government Service Insurance System (GSIS) in the amount equivalent to at least thirty percent (30%) of the total contract price.

The performance security shall only be released upon the accounting firm's faithful and complete performance of its obligations under the TOR/Contract. The performance security shall guarantee the payment of any amount due to the PDIC as penalty or for any damage, loss or injury that may be caused by the winning accounting firm to the PDIC in the event it is established that the winning accounting firm is in default of its obligations under the TOR/Contract.

13. RESERVATION

PDIC reserves the right to cancel this project for any reason whatsoever at any time prior to the notice of award.