



Changes to the Financial Reporting Framework in Indonesia

31 January 2023

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Abbreviations

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| IAI | Institute of Indonesia Chartered Accountants |
| DSAK | Indonesian Financial Accounting Standards Board |
| DSAS | Sharia Financial Accounting Standards Board |
| TF CCR IAI | IAI's Comprehensive Corporate Reporting Task Force |
| PSAK | Indonesian Financial Accounting Standards issued by DSAK IAI |
| ISAK | Interpretation of PSAK issued by DSAK IAI |
| IASB | International Accounting Standards Board |
| IFRS IC | IFRS Interpretations Committee |
| SIC | Standing Interpretations Committee |
| IFRS | International Financial Reporting Standards issued by the IASB |
| IAS | International Accounting Standards issued by the IASB |
| IFRIC | Interpretation of IFRS issued by the IFRS IC |

Introduction

The purpose of this publication is to provide a roundup of recent changes in the Indonesian financial reporting framework which we believe are important to accounting and audit professionals.

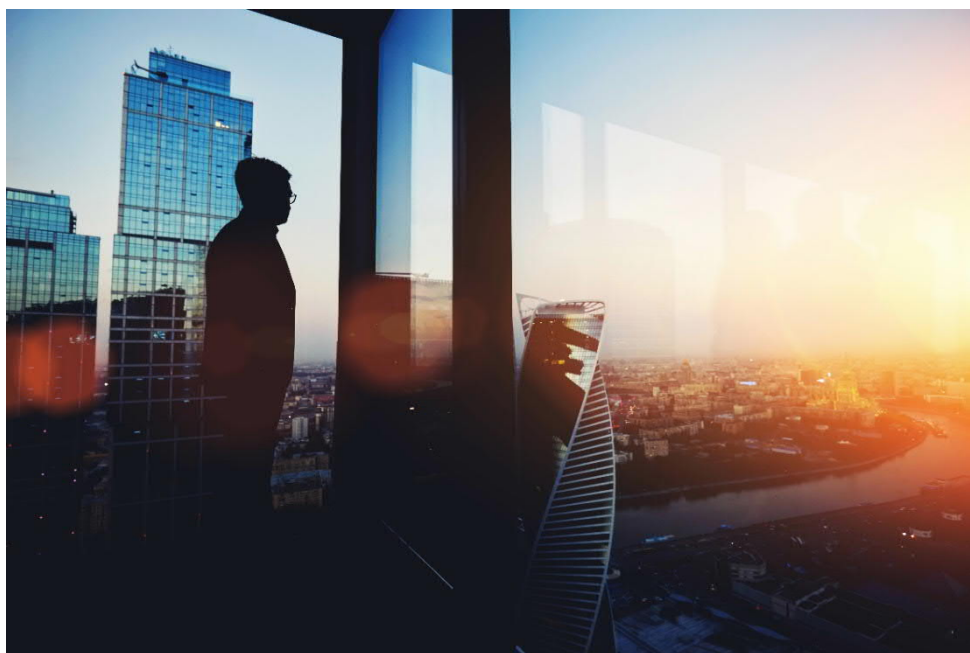
In this edition, we provide:

- Summaries of the new and revised PSAKs issued as at 31 December 2022, organised by effective dates;
- Summaries of other relevant financial reporting matters
- Key emerging areas and financial reporting hot topics

We have retained the relevant summaries of new and revised PSAKs included in the 2021 edition that are effective for 2022 financial year and beyond. New and revised PSAKs issued from our last publication are identified in the summary. For new and revised PSAK issued but are not effective yet, entities will need to consider and disclose in their current financial statements, the possible effects that these new and revised PSAKs might have in the period of initial application.

Other financial reporting matters include some key IFRS IC agenda decisions issued in 2022 that are more likely to be relevant for reporting entities in Indonesia and a list of recent agenda decisions issued by the IFRS IC has been included for reference.

This publication also includes key emerging areas and financial reporting hot topics discussed in our mid-year financial reporting update publication as they continue to be relevant and are important reporting considerations for 2022 annual financial reporting.



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Section 1: Indonesian Financial Reporting Standards

Summary of new and revised pronouncements issued as of 31 December 2022

| PSAK | Title | Effective date* |
|----------------------------------|----------------------------------------------------------------------------------|-----------------|
| Amendments to PSAK 73 | COVID-19-Related Rent Concessions beyond 30 June 2021 | 1 April 2021 |
| Amendments to PSAK 69, 71 and 73 | 2020 Annual Improvements to PSAK | 1 January 2022 |
| Amendments to PSAK 22 | Reference to Conceptual Framework | 1 January 2022 |
| Amendments to PSAK 57 | Onerous Contracts – Costs of Fulfilling a Contract | 1 January 2022 |
| Amendments to PSAK 16 | Property, Plant, and Equipment – Proceeds before Intended Use | 1 January 2023 |
| Amendments to PSAK 1*** | Classification of Liabilities as Current or Non-current | 1 January 2023 |
| Amendments to PSAK 1 | Disclosure of Accounting Policies | 1 January 2023 |
| Amendments to PSAK 25 | Definition of Accounting Estimates | 1 January 2023 |
| Amendments to PSAK 46 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 |
| Amendments to PSAK 107 | Ijara Accounting | 1 January 2023 |
| Amendments to PSAK 109** | Accounting for Zakat, Infaq, and Alms | 1 January 2024 |
| Amendments to PSAK 101** | Sharia Financial Statements Presentation | 1 January 2024 |
| Amendments to PSAK 73** | Lease Liability in a Sale and Leaseback Transaction | 1 January 2024 |
| Amendments to PSAK 1** | Non-current Liabilities with Covenants | 1 January 2024 |
| PSAK 74 | Insurance Contracts | 1 January 2025 |
| Amendments to PSAK 74 | Initial Application of PSAK 74 and PSAK 71—Comparative Information | 1 January 2025 |

* Annual reporting periods beginning on or after

** Issued by DSAK-IAI or DSAS-IAI in 2022

*** Effective date is deferred to 1 January 2024 through the amendment to PSAK 1: Non-current Liabilities with Covenants

Impact and key consideration of each new and revised pronouncement

The following sets out information on the impact of the above pronouncements and relevant key accounting considerations.

PSAK 73 - COVID-19-Related Rent Concessions beyond 30 June 2021

In May 2020, the DSAK-IAI amended PSAK 73 Leases (PSAK 73) to provide lessees with a practical expedient that relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification. As a result of the practical expedient, the lessee may elect not to assess whether a COVID-19-related rent concession is a lease modification. Among other conditions, this amendment in 2020 permits a lessee to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021.

Due to the ongoing nature of the pandemic, the Board has extended that date to permit a lessee to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due **on or before 30 June 2022**, in a 2021 amendment.

The new amendment (March 2021) is effective for annual reporting periods beginning on or after 1 April 2021. The entity applies the amendment retrospectively.

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| Key consideration: | <ul style="list-style-type: none"> Consider the applicability of rent concessions that spans between the period of 30 June 2021 to 30 June 2022, and determine whether the practical expedient is available to the entity. This may require judgement and is also driven by the entity's choice of adoption made for the earlier May 2020 amendments. The amendment does not allow a lessee to elect to apply the practical expedient if the lessee has previously elected not to apply it to eligible rent concessions. A lessee must also apply the practical expedient consistently to eligible contracts with similar characteristics and in similar circumstances. |
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The amendments are generally adopted from the amendments to IFRS 16 - COVID-19-Related Rent Concessions beyond 30 June 2021 as issued by the IASB.

For more information: [IFRS in Focus Newsletter](#)

Amendments to PSAK 69, 71 and 73 – 2020 Annual Improvements to PSAKs

The Annual Improvements comprise three (3) amendments to the PSAKs:

(a) PSAK 71 Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities

This amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph PP3.3.6 of PSAK 71 in assessing whether to derecognise a financial liability when there is an exchange between an existing borrower and the lender of debt instruments with substantially different terms (including a substantial modification of the terms of an existing financial liability or part of it). An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

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| Key consideration: | The amendment clarifies that the entity includes only fees paid or received between the entity (the borrower) and the lender in the '10 per cent' test. Entities will need to ensure identification of the party or parties to whom the fees are paid or received are between the entity and the lender and not those that are collected on behalf of third parties by the entity or the lender (e.g. legal fees collected by lender on behalf of the lender's lawyers). |
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(b) Illustrative Examples accompanying PSAK 73 – Lease Incentives

This amendment removes the illustration of the reimbursement of leasehold improvements by the lessor from the example in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. The example does not clearly explain the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PSAK 73.

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| Key consideration: | <ul style="list-style-type: none"> • Where previous reference was made to the Illustrative Example to account for certain reimbursement relating to leasehold improvements, entities should reassess whether those reimbursement meet the definition of a lease incentive. • If it is determined that the reimbursement is a payment for work carried out for the benefit of the lessor, such payments do not meet the definition of lease incentive and is accounted for applying other applicable Standards. • Judgement should be exercised to evaluate the nature of the leasehold improvements in respect of whether they represent an asset of the lessee or the lessor. |
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(c) PSAK 69 Agriculture – Taxation in Fair Value Measurements

The amendment removes the requirement in PSAK 69 Agriculture (PSAK 69) for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in PSAK 69 with the requirements of PSAK 68 to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

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| Key consideration: | Entities shall now apply judgement to determine whether a pre-tax or post-tax cash flows and the corresponding pre-tax or post-tax discount rate would be more appropriate for its fair value measurement. In addition, entities are to ensure consistency in the application i.e. when a pre-tax cash flows is used, a pre-tax discount rate is used and vice versa when a post-tax basis is used. |
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The amendments are generally adopted from the amendments to IFRSs - Annual Improvements to IFRS Standards 2018 – 2020 as issued by the IASB, except for the amendments to IFRS 1 First-time adoption of International Financial Reporting Standards which had not been adopted by DSAK IAI.

For more information: [IFRS in Focus Newsletter](#).

Amendments to PSAK 22 - Reference to the Conceptual Framework

The amendments update PSAK 22 Business Combinations (PSAK 22) so that it refers to the 2020 Conceptual Framework instead of the 2016 Framework. They also added to PSAK 22 a requirement that, for obligations within the scope of PSAK 57, an acquirer applies PSAK 57 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of ISAK 30 Levies, the acquirer applies ISAK 30 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the DSAK IAI adds to PSAK 22 an explicit statement, that an acquirer does not recognise contingent assets acquired in a business combination.

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| Key consideration: | Acquirers would need to carefully consider whether a present obligation exists as a result of past events based on guidance in PSAK 57 or ISAK 30. This will affect the corresponding goodwill that would be recognised from the acquisition of business within PSAK 22. |
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The amendments are generally adopted from the amendments to IFRS 3 - Reference to Conceptual Framework issued by the IASB.

For more information: [IFRS in Focus Newsletter](#)

Amendments to PSAK 57 - Onerous Contracts – Costs of Fulfilling a Contract

Before this, PSAK 57 did not provide any guidance on which costs an entity should consider when assessing whether a contract is onerous, which resulted in varied practices. In this amendment, the DSAK IAI amended PSAK 57 Provisions, Contingent Liabilities and Contingent Assets (PSAK 57) by specifying that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (e.g. direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Key consideration: Consider whether existing contracts currently assessed as not being onerous, under the current accounting requirements, may potentially be onerous when the amendments take effect. These amendments are to be applied to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments.

The amendments are generally adopted from the amendments to IAS 37 – Onerous Contracts – Costs of Fulfilling a Contract as issued by the IASB.

For more information: [IFRS in Focus Newsletter](#)

Amendments to PSAK 16 – Property, Plant, and Equipment – Proceeds before Intended Use

There has been diversified treatment on proceeds from selling items produced by property, plant and equipment before it is available for its intended use. In this amendment, the DSAK IAI decided to amend PSAK 16 Property, Plant, and Equipment to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with PSAK 14 Inventories.

Clarification is also made to the meaning of 'testing whether an asset is functioning properly' by specifying this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or administrative purposes.

Key consideration:

- Consider whether an entity's existing accounting policy requires revision to align with the amendments which prohibits deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced before that asset is available for use. These may require significant judgement.
- An entity applies the amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The amendments are generally adopted from the amendments to IAS 16 - Property, Plant, and Equipment – Proceeds before Intended Use as issued by the IASB.

For more information: [IFRS in Focus Newsletter](#)

Amendments to PSAK 1 - Classification of Liabilities as Current or Non-current

In October 2020, the DSAK-IAI issued amendments to PSAK 1 Presentation of Financial Statements titled Classification of Liabilities as Current or Non-current with an effective date for annual reporting periods beginning on or after 1 January 2023. The amendments:

- Clarifies the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period.
- Specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability.
- Explains that rights are in existence if covenants are complied with at the end of the reporting period.
- Introduces a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets, or services.

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| Key consideration: | <ul style="list-style-type: none"> • Consider whether existing classification of liabilities requires reclassification to align with the amendments. • Consider transition adoption requirements of the 2022 amendments to PSAK 1: Non-current Liabilities with Covenants. |
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The amendments are generally adopted from the amendments to IAS 1 - Classification of Liabilities as Current or Non-current as issued by the IASB in January 2020. In response to feedback and enquiries from some stakeholders, the IFRS Interpretations Committee published a tentative agenda decision about how an entity applies the IAS 1 amendments to particular fact patterns. Respondents to that tentative agenda decision provided information about situations the Board did not specifically consider when developing the 2020 amendment. In November 2022, the IASB decided to address these stakeholder concerns and issued amendments to IAS 1 - Non-current Liabilities with Covenants. And in December 2022, DSAK-IAI has issued further amendments to the amendments to PSAK 1 - Non-current Liabilities with Covenants and deferred the effective date of this amendment to 1 January 2024.

For more information: [IFRS in Focus Newsletter](#)

Amendments to PSAK 1 - Disclosure of Accounting Policies

The amendments change the requirements in PSAK 1 with regard to disclosure of accounting policies. In applying the amendments, an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments to PSAK 1 are made to explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added.

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| Key consideration: | Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. With the introduction of the concept of 'material accounting policy', entities would need to apply judgement to consider whether a particular accounting policy under its circumstances would be considered as material. |
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Although not mandatorily required to apply, and are not adopted by DSAK IAI, entities are encouraged to refer to IFRS Practice Statement 2, as it provides guidance to entities on how to make those judgements on material accounting policies disclosures.

The amendments are adopted from the amendments to IAS 1 - Disclosure of Accounting Policies as issued by the IASB. To support the amendments, the IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. IFRS Practice Statements have not been adopted by DSAK IAI.

For more information: [IFRS in Focus Newsletter](#)

Amendments to PSAK 25 - Definition of Accounting Estimates

Before the amendments, PSAK 25 Accounting Policies, Changes in Accounting Estimates and Errors (PSAK 25) included definitions of accounting policies, and a change in accounting estimates, but entities found it difficult to distinguish between accounting policies and accounting estimates. The combination of a definition of one item (accounting policies) with a definition of a change in another item (change in accounting estimates) obscured the distinction between both items. To make the distinction clearer, the Board decided to replace the definition of a change in accounting estimates with a definition of accounting estimates.

PSAK 25 is amended to replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”.

The DAK IAI also clarifies that a change in accounting estimates that result from new information or new developments is not the correction of an error. In addition, the effects of a change in input or a measurement technique used to develop accounting estimates are changes in accounting estimates if they do not result from the correction of prior period errors.

Key consideration: Identifying accurately whether a change is arising from a change in accounting estimates or accounting policy is critical as the former entails a prospective accounting application whilst the latter is to be applied retrospectively.

The amendments are generally adopted from the amendments to IAS 8 - Definition of Accounting Estimates as issued by the IASB.

For more information: [IFRS in Focus Newsletter](#)

Amendments to PSAK 46 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Before this amendment, it was not clear whether PSAK 46 required recognition of deferred taxes for the offsetting temporary differences arising from simultaneous recognition of asset and liability or whether the initial recognition exemption can be applied. That exemption prohibits an entity from recognising deferred tax assets and liabilities on initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting nor taxable profit.

In this amendment, the DSAK IAI amends PSAK 46 to provide a further exception from the initial recognition exemption. An entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. This is applicable to taxable and deductible temporary differences associated with right-of-use assets and lease liabilities, and decommissioning obligations and corresponding amounts recognised as assets at the beginning of the earliest comparative period presented. The amendments also apply to transactions that occur on or after the beginning of the earliest comparative period presented.

Key consideration: Consider whether an entity's existing accounting policy requires revision to align with the amendments and the need to recognise related deferred tax assets and deferred tax liabilities arising from simultaneous recognition of asset and liability.

The amendments are generally adopted from the amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction as issued by the IASB.

For more information: [IFRS in Focus Newsletter](#)

Amendments to PSAK 107 Ijara Accounting

The amendments to PSAK 107 Ijara Accounting (PSAK 107) were issued on 7 October 2021. In summary, the amendments to PSAK 107 (2021) are as follows:

| Scope | Ijarah asset and ijarah service |
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| Ijarah asset | <ul style="list-style-type: none"> Ijarah income is recognized evenly from when the ijarah asset is made available until the end of the contract. Ijarah expense is recognized evenly when the ijarah asset is made available until the end of the contract. |
| Direct service | <ul style="list-style-type: none"> Ijarah income is recognized during the period the service is provided Ijarah expense is recognized during the period the service is received |
| Indirect service | <ul style="list-style-type: none"> Ijarah income is recognized during the period the service is provided if the entity's contract (Akad) and the end of musta'jir are shorter or equal to the entity's contract (Akad) and the start of Ajir. Ijarah income is recognized from the delivery of services until the end of the contract if the entity's contract and the final musta'jir are longer than the entity's contract and the initial ajir. The burden of ijarah is recognized during the service acceptance period. |

The amendments are applied prospectively. Retrospective application is allowed, but not required.

Key consideration: These amendments are issued as a basis and guidance on recognition and measurement of multi-services ijarah i.e., ijarah on asset and ijarah on service, for ijarah conducted by both financial sector and non-financial sector. This multi-services ijarah was previously not covered by PSAK 107 (2009).

Amendments to PSAK 109 Accounting for Zakat, Infaq, and Alms

PSAK 109 Accounting for Zakat, Infaq, and Alms (PSAK 109) is applicable only to "amil" entities or entities which manage Zakat and are established for the purpose of collecting and distributing zakat and infaq or alms.

The amendments to PSAK 109 set out that:

- Changes in fair value of Zakat assets, Infaq and Alms are recognized as income/expense
- Difference from the cash proceeds from sale of non-cash zakat, Infaq and Alms assets and their recognized amounts are recognized as income/expense
- Receipt of discounts on purchase of assets or services constitute receipt of alms and are recognized as income if there is a written statement from the seller of the asset or service provider

Key consideration: The scope of the amendments is limited only to "amil" entities or entities which manage Zakat and infaq or alms.

For more information: [DSAK-IAI Newsletter](#)

Amendments to PSAK 101 Sharia Financial Statements Presentation

The amendments to PSAK 101 Sharia Financial Statements Presentation (PSAK 101) are applicable only to “amil entities” or entities which manage Zakat and are established for the purpose of collecting and distributing zakat and infaq/alms.

The amendments to PSAK 101 remove the “statement on changes in assets under management” as one of the components of the financial statements (face of financial statements) of amil entities. Such information is disclosed in the notes to financial statements.

Key consideration: The scope of the amendments is limited only to “amil” entities or entities which manage Zakat and infaq or alms.

For more information: [PSAK-IAI Newsletter](#)

Amendments to PSAK 73 - Lease Liability in a Sale and Leaseback

The amendments add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in PSAK 72 Revenue from Contracts with Customers to be accounted for as a sale. The amendments require the seller-lessee to determine ‘lease payments’ or ‘revised lease payments’ such that the seller-lessee does not recognise a gain or loss that relates to the right-of-use retained by the seller-lessee, after the commencement date. The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease.

Without these new requirements, a seller-lessee may have recognised a gain on the right-of-use it retains solely because of a remeasurement of the lease liability (for example, following a modification of the lease or a change in the lease term) applying the general requirements in PSAK 73. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

As part of the amendments, an Illustrative Example in PSAK 73 is amended and a new example is added to illustrate the subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The illustrative examples also clarify that the liability, that arises from a sale and leaseback transaction that qualifies as a sale by applying PSAK 71, is a lease liability.

A seller-lessee applies the amendments retrospectively in accordance with PSAK 25 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied PSAK 73.

Key consideration:

- The amendments would have an impact on an entity that had any sale and leaseback arrangements with variable lease payments or where modifications have been made to the resulting lease liability from lease leaseback and modified lease payments include variable lease payments.
- Consider whether the Company’s existing accounting policy to subsequently measure the resulting leaseback liability is aligned with the amendments to PSAK 73, including the illustrative examples provided as part of the PSAK 73 amendments that do not depend on an index or rate.

The amendments are generally adopted from the amendments to IFRS 16 - Lease Liability in a Sale and Leaseback as issued by the IASB.

For more information: [IFRS in Focus Newsletter](#)

Amendments to PSAK 1 - Non-current Liabilities with Covenants

The amendments to PSAK 1 issued in 2022 (2022 amendments) specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The right to defer settlement is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024 and will need to be applied retrospectively in accordance with PSAK 25. If an entity adopts the 2022 amendments for an earlier period, it is also required to early adopt the 2020 amendments. At the same time, the effective date of the 2020 amendments is aligned to 1 January 2024. An entity that applies the 2020 amendments after the publication of the 2022 amendments is required to also apply the 2022 amendments for that period.

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| Key consideration: | <ul style="list-style-type: none"> Consider that the application of the amendments is retrospective. Entities should evaluate whether the amendments could have an impact on its existing or planned loans arrangements. |
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The amendments are generally adopted from the amendments to IAS 1 - Non-current Liabilities with Covenants as issued by the IASB.

For more information: [IFRS in Focus Newsletter](#)

PSAK 74 Insurance Contracts

PSAK 74 Insurance Contracts which supersedes PSAK 62 Insurance Contracts, establishes the requirements for recognition, measurement, presentation, and disclosure of insurance contracts.

Scope

An entity shall apply PSAK 74 to:

- Insurance contracts, including reinsurance contracts, it issues;
- Reinsurance contracts it holds; and
- Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee. Such issued contracts are in the scope of the standard, unless an entity chooses to apply PSAK 72 to these contracts, provided certain criteria are met.

Level of aggregation

PSAK 74 requires entities to identify portfolios of insurance contracts which are subject to similar risks and managed together. Each portfolio shall be divided into a minimum of three groups:

- a group of contracts that are onerous at initial recognition, if any;
- a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
- a group of the remaining contracts in the portfolio, if any

An entity is not permitted to include contracts issued more than one year apart in the same group. Furthermore, if a portfolio falls into different groups only because law or regulation constrains the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics, the entity may include those contracts in the same group.

Recognition

An entity shall recognise a group of insurance contracts it issues from the earliest of the following:

- a) the beginning of the coverage period of the group of contracts;
- b) the date when the first payment from a policyholder in the group becomes due; and
- c) for a group of onerous contracts, when the group becomes onerous.

Measurement

The standard measures insurance contracts either under the general model or a simplified version called the Premium Allocation Approach.

The general model is defined such that at initial recognition, an entity shall measure a group of contracts at the total of:

- the amount of fulfilment cash flows ("FCF"), which comprise probability-weighted estimates of future cash flows, an adjustment to reflect the time value of money ("TVM") and the financial risks associated with those future cash flows and a risk adjustment for non-financial risk; and
- the contractual service margin ("CSM").

An entity shall include all the future cash flows within the boundary of each contract in the group. The estimates of future cash flows shall be current, explicit, unbiased, and reflect all the information available to the entity without undue cost and effort about the amount, timing and uncertainty of those future cash flows.

On subsequent measurement, the carrying amount shall be the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises the FCF related to future services and the CSM of the group at that date. The liability for incurred claims is measured as the FCF related to past services allocated to the group at that date.

An entity may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the premium allocation approach on the condition that, at initial recognition, the entity reasonably expects that doing so would produce a reasonable approximation of the general model, or the coverage period of each contract in the group is one year or less.

Presentation

The new standard is expected to result in significant changes to presentation in the statement of financial performance. It requires more granular and detailed disclosures in financial statements given the high degree of judgement in the standard.

Effective date and transition

PSAK 74 is effective for annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted if PSAK 71 has also been applied. Three possible approaches are introduced to transition to PSAK 74, including Full Retrospective Approach, Modified Retrospective Approach and Fair Value Approach.

- Key consideration:
- Establish a project implementation plan to determine transitional impacts upon initial application.
 - Consider the extent to which substantial changes to processes, IT systems and internal controls would be as a result of both the new measurement model and new disclosure requirements.
 - Consider how the actuarial valuation and financial reporting systems and data warehouses can be adapted to comply with PSAK 74 calculations.
 - Consider whether the reporting timeframes need to be extended or reviewed to accommodate the complex calculations and disclosures required by the new standard.
 - Consider the need for change management and related communication required for analysts and regulators during the transition period and for subsequent reporting.
 - Consider the need of access to additional granular data. E.g. cash flows, discount rates, and risk adjustments (including forward looking projections and past projections).
 - Consider the need of business strategy changes to produce a stronger, less volatile, and growing business as profit drivers change.
 - Consider the potential tax impact arising from the application.

The new standard is generally adopted from the IFRS 17 Insurance Contracts as issued by the IASB, including the amendments to IFRS 17 as issued by the IASB on 25 June 2020, which include:

- The end of the temporary exception in PSAK 62 from applying PSAK 71 is the date of initial adoption of PSAK 74.
- Scope exclusion for credit card contracts and similar contracts and optional scope exclusion for loan contracts with insurance coverage limited to the loan amount.
- Recognition of insurance acquisition cash flows relating to expected contract renewals, including guidance for insurance acquisition cash flows recognised in a business combination.
- Application of PSAK 74 in interim financial statements – Allocation of CSM attributable to investment-return service and investment-related service.
- Risk mitigation option using instruments other than derivatives.
- Recovery of losses from underlying insurance contracts through reinsurance contracts held.
- Presentation in the statement of financial position.
- Transition issues: classification of contracts acquired in their settlement period and guidance on the restatement of the risk mitigation option applied in prior periods.
- Minor application issues.

For more information: [IFRS in Focus Newsletter \(IFRS 17\)](#) and [IFRS in Focus Newsletter \(IFRS 17 amendments\)](#)

Amendments to PSAK 74 Initial Application of PSAK 74 and PSAK 71 - Comparative Information

Many insurers have elected to apply the temporary exemption that allows them to defer the adoption of PSAK 71 Financial Instruments until they apply PSAK 74. However, the two Standards have different requirements with respect of the comparative information presented on initial application. PSAK 74 requires entities to present at least one restated comparative period, while PSAK 71 permits (but does not require) restatement of comparative periods. PSAK 71 prohibits entities from applying PSAK 71 to financial assets derecognised before the date of initial application of PSAK 71.

In December 2021, the DSAK-IAI issued a narrow-scope amendment to the transition requirements of PSAK 74 for entities that first apply PSAK 74 and PSAK 71 at the same time. The amendment relates to financial assets for which comparative information presented on initial application of PSAK 74 and PSAK 71 has not been restated (including financial assets that have been derecognised in the comparative period) under PSAK 71.

Applying the amendment, an entity is permitted to present comparative information about such financial assets as if the classification and measurement requirements of PSAK 71 had been applied to the financial assets. The option is available on an instrument-by-instrument basis. In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of PSAK 71.

The amendment is also available for entities that have applied PSAK 71 before they apply PSAK 74. For these entities, the classification overlay applies to financial assets that have been derecognised in the comparative period and permits an entity to apply the redesignation requirements of PSAK 74 based on how the entity expects the assets would have been designated at initial application of PSAK 74.

Key consideration:

- Consider whether the entity will opt to apply the additional transition option provided in the amendment.
- Identify instruments for which the transition option will be applied, including instruments that have been derecognized before the initial adoption of PSAK 74.
- Consider only reasonable and supportable information available at the transition date to determine how the entity expects such financial assets would be classified applying PSAK 71.

The amendments are generally adopted from the amendments to IFRS 17 Initial Application of IFRS 17 and IFRS 9 - Comparative Information as issued by the IASB.

For more information: [IFRS in Focus Newsletter](#)

Section 2: Other financial reporting matters

DSAK IAI issues a press release on Attributing Benefits to Periods of Service

In May 2021, IFRS IC has issued an Agenda Decision on attributing the benefits to periods of service in IAS 19 Employee Benefits (IAS 19). It addresses a question raised when an entity starts to attribute benefits to periods of service based on specific fact patterns, particularly where the amount of pension benefits is capped at a certain number of years of service, and the pension benefits are calculated using only the number of consecutive years of service to the entity immediately prior to retirement age. In light of the fact pattern, IFRS IC concludes that the requirements in paragraphs 70-74 of IAS 19, in particular, Illustration 2 in paragraph 73, provide sufficient guidance in determining when an entity should attribute benefits to periods of service.

This IFRS IC Agenda Decision raised a question on whether the fact pattern described in the IFRS IC Agenda Decision is similar to the pension program under the Manpower Act or the Job Creation Law and its implementing regulations (Manpower Act), and if similar, whether the conclusion applies to the pension program in question.

In April 2022, DSAK-IAI has issued a press release on attributing benefits to period of service (PSAK 24 press release) to address such question. The IAI press release:

- is issued as an explanatory material to the related requirements of PSAK 24 Employee Benefits (PSAK 24) and provides insights into how the principles and requirements in PSAK 24 are applied. It does not add, reduce or change any requirements in PSAK.
- applies only to certain fact pattern, in particular, the pension program under the Manpower Act. If an entity has other post-employment benefit plans, an entity shall apply the requirements in paragraphs 70-74 of PSAK 24 to determine the attribution of benefits to the period of service for each of its plans.
- concludes that the pension program under the Manpower Act as described in the press release has a fact pattern similar to the fact pattern described in the IFRS IC Agenda Decision, and that the accounting treatment discussed in the IFRS IC Agenda Decision is relevant.

Prior to the publication of the PSAK 24 press release, if an entity applied certain guidelines that are not part of PSAK or applied an attribution of benefits that is not in accordance with the provisions of PSAK 24, the entity shall make judgments in its selection and application of accounting policies as described in PSAK 25.

The explanation in the PSAK 24 press release may provide an entity with additional insight that may change its understanding of the principles and requirements in PSAK. Therefore, an entity may determine that it needs to change its accounting policies as a result of the publication of this press release. The entity is expected to have sufficient time to make that determination and apply any necessary changes to its accounting policies. Determining how much time is sufficient to make accounting policies changes is a matter of judgment and depends on the facts and circumstances of a particular entity. Nonetheless, entities are expected to implement any changes in a timely manner and, if material, entity should consider whether disclosures regarding those changes are required by PSAK.

Key consideration:

- The application of the DSAK-IAI press release applies not only to pension benefits the under Manpower Act, but it also applies to other defined benefit programs which have the similar fact pattern as follows:
 - Benefit is payable only at the retirement age
 - The amount of the benefit increases in relation to service period
 - There is a maximum period of service (cap on years of service)

- Judgement may be required when evaluating whether the impact of the change in the method of attributing the benefits to the period of service is material.

For further details, please refer to the following:

[IAI Press release - Attributing benefits to periods to service](#)

Significant agenda decisions from the IFRS Interpretations Committee

The IFRS IC is the interpretative body of the IASB and works with the Board to support the understanding and consistent application of IFRS Accounting Standards. IFRS IC projects typically begin as an application question submitted for consideration and the IFRS IC decides whether a standard-setting project should be added to the work plan to address the question submitted.

An IFRS IC Agenda Decision (Agenda Decision) explains why a standard-setting project has not been added to the work plan and may include explanatory materials to improve the consistency of application of IFRS Accounting Standards. Agenda Decisions (and the included explanatory materials) do not add or change requirements in IFRS Accounting Standards. The explanatory material explains how the applicable principles and requirements in IFRS Accounting Standards apply to the transaction or fact pattern described in the Agenda Decision.

Once an Agenda Decision is finalised it becomes a relevant piece of information in applying IFRS Accounting Standards. Explanatory material set out in Agenda Decisions, in essence, affirms the application of existing requirements. Therefore, an entity is required to apply the applicable IFRS Accounting Standard(s), reflecting the explanatory material in an Agenda Decision. An entity would be entitled to sufficient time to implement any necessary change in accounting policy that results from a published Agenda Decision. Nonetheless, it would be expected to implement the change on a timely basis i.e. as soon and as quickly as possible.

PSAKs and ISAKs issued by DSAK-IAI are generally adopted from IFRS standards issued by the IASB. When the IFRS Interpretations Committee publishes an agenda decision providing guidance on the appropriate accounting for specific transactions under existing IFRS standards, local reporting entities should apply judgement and consider the applicability and the impact of the Agenda Decisions on their financial statements. Where a change in accounting policy is required, an entity must account for the change applying PSAK 25 and consider the related disclosures required leading up to the implementation of the change.

Some of the matters addressed in recently issued IFRS IC agenda decisions that might apply more widely are discussed below.

Demand deposits with restrictions on use arising from a contract with a third party

In March 2022, the IFRS IC AD was finalized in response to a submission about whether an entity includes a demand deposit as a component of cash and cash equivalents in the statements of cash flows and financial position when the demand deposit is subject to contractual restrictions on use agreed with a third party.

In the fact pattern described in the request, the entity:

- holds a demand deposit whose terms and conditions do not prevent the entity from accessing the amounts held in it (that is, were the entity to request any amount from the deposit, it would receive that amount on demand).
- has a contractual obligation with a third party to keep a specified amount of cash in that separate demand deposit and to use the cash only for specified purposes. If the entity were to use the amounts held in the demand deposit for purposes other than those agreed with the third party, the entity would be in breach of its contractual obligation.

The IFRS IC concluded that restrictions on use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7. The entity shall present the demand deposit as cash and cash equivalents in its statement of financial position. When relevant to an understanding of its financial position, the entity would disaggregate the cash and cash equivalents line item and present the demand deposit subject to contractual restrictions on use separately in an additional line item. In terms of disclosure, the entity shall disclose, together with commentary by management, 'the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group'.

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| Key consideration: | <ul style="list-style-type: none"> • The restriction on use clause should be critically assessed to determine if it would result in a change of nature of the deposit and that it no longer meets the definition of cash under IAS 7 • Consider if additional disclosure needed to enable users of financial statements to understand the impact of the restrictions on the entity's financial position |
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For more information: [IFRS IC Updates March 2022](#)

Lessor Forgiveness of Lease Payments

In October 2022, the IFRS IC AD was finalised in response to a submission on how the lessor in an operating lease accounts for a particular rent concession under IFRS 9 and IFRS 16. In particular, the request asked:

- a) how the lessor applies the expected credit loss model in IFRS 9 to the operating lease receivable before the rent concession is granted when it expects to forgive payments due from the lessee under the lease contract; and
- b) whether the lessor applies the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 in accounting for the rent concession.

In the fact pattern described in the request, the lessor agreed to legally release the lessee from its obligation to make specifically identified lease payments:

- some of these lease payments are amounts contractually due but not paid (which the lessor had recognised as an operating lease receivable); and
- some of these lease payments are not yet contractually due.

No other changes were made to the lease contract.

The IFRS IC clarified that:

- On the lease payments contractually due but not paid, in reporting periods before the forgiveness of lease payments have been granted, the lessor should measure the ECL on a probability-weighted basis, by evaluating a range of possible outcomes, including its expectation of forgiving such lease payments. When the lease payments are forgiven, the lessor should apply the derecognition requirements in IFRS 9.
- On the lease payments that are not yet contractually due, the lessor should apply lease modification requirements in IFRS 16. The lessor accounts for the modified lease as a new lease from the date the rent concession is granted.

The IFRS IC concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis to account for the rent concession described in the request. Consequently, the IFRS IC decided not to add a standard-setting project to the work plan.

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| Key consideration: | <ul style="list-style-type: none"> • The AD clarifies the scope and the application of IFRS 9 requirements to payments that are contractually due but not paid (recognized as operating lease receivables). Consideration should be made to ensure that IFRS 9 is applied to the forgiven lease payments that are currently due and payable by the lessee (as operating lease receivables). |
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For more information: [IFRS IC Updates September 2022](#)

IFRS IC Agenda decisions issued in 2022

The Agenda Decisions published by the IFRS IC are available at the [IFRS website](#). A list of Agenda Decisions finalised in 2022 has been included below for reference.

| IFRS | Agenda decision | Effective date* |
|-----------------|------------------------------------------------------------------------------------------------------------------|-----------------|
| IFRS 9, IAS 20 | Targeted Longer-Term Refinancing Operations (TLTRO) III Transactions | 28 March 2022 |
| IAS 7 | Demand Deposits with Restrictions on Use arising from a Contract with a Third Party | 28 April 2022 |
| IFRS 15 | Principal versus Agent: Software Reseller | 30 May 2022 |
| IFRS 17 | Transfer of Insurance Coverage under a Group of Annuity Contracts | 21 July 2022 |
| IAS 32 | Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity | 21 July 2022 |
| IAS 37 | Negative Low Emissions Vehicle Credits | 21 July 2022 |
| IFRS 2, IAS 32 | Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition | 24 October 2022 |
| IFRS 17, IAS 21 | Multi-currency Groups of Insurance Contracts | 24 October 2022 |
| IFRS 16 | Lessor Forgiveness of Lease Payments | 24 October 2022 |

Section 3: Key Emerging Areas and Financial Reporting Hot Topics

Financial reporting considerations related to the Russia-Ukraine War

The geopolitical situation in Eastern Europe intensified on 24 February 2022, with Russia's invasion of Ukraine. The war between the two countries continues to evolve as military activity proceeds and additional sanctions are imposed.

This IFRS in Focus discusses some of the key impacts of the Russia-Ukraine war that entities need to consider, which include:

- Interruptions or stoppage of production in affected areas and neighbouring countries
- Damage or loss of inventories and other assets
- Closure of roads and facilities in affected areas
- Supply-chain and travel disruptions in Eastern Europe
- Volatility in commodity prices and currencies
- Disruption in banking systems and capital markets
- Reductions in sales and earnings of business in affected areas
- Increased costs and expenditures
- Cyberattacks

It is important that entities consider their direct and indirect exposures to the impacts of the war and consider the financial accounting and reporting implications. Entities with significant suppliers, vendors, or customers in Ukraine or Russia, as well as organisations that lend to or borrow from entities in those countries, also may experience accounting challenges. Even entities that do not have direct exposure to Ukraine or Russia are likely to be affected by the overall economic uncertainty and negative impacts on the global economy and major financial markets arising from the war.

For further details, please refer to the following:

[IFRS in Focus – Financial reporting considerations related to the Russia-Ukraine War](#)

Investor demand for corporate reporting in line with the Paris Agreement on climate change
This publication is an update to 'A Closer Look' first published in December 2020 and addresses output of the November 2021 COP26 conference in Glasgow and further expressions from stakeholders of their expectations in respect of climate-related information in financial statements, examining perceived information gaps and how they might be addressed under current IFRS Accounting Standards.

For further details, please refer to the following:

[A Closer Look – Investor demand for corporate reporting in line with the Paris Agreement on climate change](#)

ISSB exposure draft of general requirements of sustainability reporting

The Chair and Vice-Chair of the International Sustainability Standards Board (ISSB) have published the exposure draft 'General Requirements for Disclosure of Sustainability-related Financial Information' that builds on the Technical Readiness Working Group (TRWG) prototype of the same name.

The main proposals in ED/2022/S1 General Requirements for Disclosure of Sustainability-Related Financial Information generally reflect the proposals in the prototype with some changed titles and strengthened definitions and some changes to the order of proposals. They cover the following aspects of sustainability reporting:

- Objective
- Scope
- Core content
- General features
- Reporting entity
- Connected information
- Fair presentation
- Materiality
- Comparative information
- Frequency of reporting
- Location of information
- Sources of estimation and outcome uncertainty
- Errors
- Statement of compliance

The deadline for submitting comments on these proposals is 29 July 2022.

The ISSB has also developed a survey to support stakeholders in responding to the proposals in the exposure draft as an alternative or in addition to a comment letter.

For further details, please refer to the following:

[ISSB exposure draft of general requirements of sustainability reporting](#)

ISSB exposure draft of climate-related disclosures

The Chair and Vice-Chair of the International Sustainability Standards Board (ISSB) have published the exposure draft 'Climate-related Disclosures' that builds on the Technical Readiness Working Group (TRWG) prototype of the same name. The resulting standard would be the first thematic standard of the ISSB.

The main proposals in ED/2022/S2 Climate-related Disclosures generally reflect the proposals in the prototype and are structured around the four Task Force on Climate-Related Financial Disclosures (TCFD) pillars of governance, strategy, risk management, and metrics and targets. Some changes were made to improve specificity and clarity with some added disclosure requirements. One noticeable change regards the internationalisation of metrics that referred to specific jurisdictions. The proposals cover the following aspects of climate-related disclosures:

- Objective
- Scope
- Governance

- Strategy
- Risk management
- Metrics and targets

The deadline for submitting comments on these proposals is 29 July 2022.

The ISSB has also developed a survey to support stakeholders in responding to the proposals in the exposure draft as an alternative or in addition to a comment letter.

For further details, please refer to the following:

[ISSB exposure draft of climate-related disclosures](#)



Section 4: Deloitte Resources

IASPlus – <http://www.iasplus.com/> provides Deloitte IFRS e-Learning modules, newsletters, IAS/IFRS model financial statements, disclosure checklist and a wealth of information on IAS/IFRS projects and issues.

<http://www.deloitte.com/> provides a links to websites of member firms around the world.

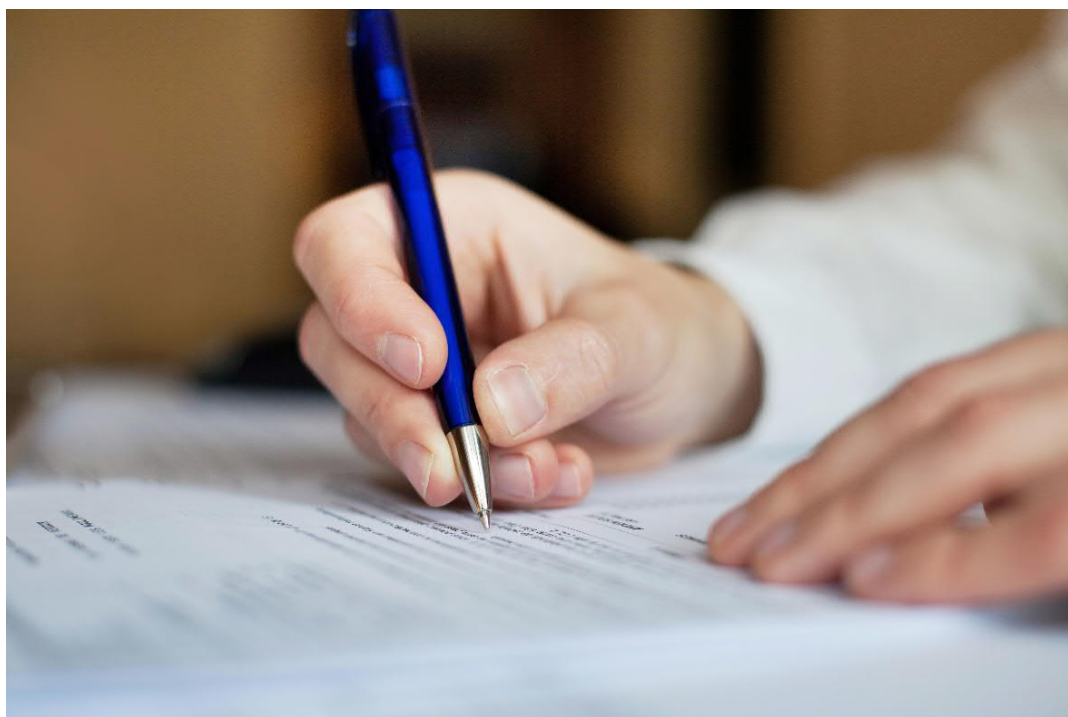
[Deloitte Accounting Research Tool](#) is Deloitte's comprehensive web-based library of accounting and financial disclosure literature, available on subscription basis.

This booklet has been prepared by Audit Quality Assurance Department of Imelda & Rekan for general information purposes. Users of the information may wish to contact the Audit Quality Assurance Department of Imelda & Rekan for further information:

Imelda & Rekan

The Plaza Office Tower 32nd Floor, Jakarta Indonesia

Tel: +62 21 5081 8000





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