Changes to the Financial Reporting Framework in Indonesia

31 December 2021

Abbreviations

IAI	Institute of Indonesia Chartered Accountants
DSAK	Indonesian 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 the changes in the Indonesian financial reporting framework which we believe are important to accounting professionals.

This publication includes a high-level overview of new and revised financial reporting requirements that need to be considered for the financial reporting periods ending 31 December 2021.

Sustainability reporting is an upcoming area of interest by investors and stakeholders. With the formation of a new International Sustainability Standards Board (ISSB) by the IFRS Foundation, a set of high-quality sustainability disclosure standards is expected to be available in the near future, which are expected to be adopted locally by the TF CCR IAI. As climate change is a priority area of focus, a discussion of the possible financial reporting impact of climate change under relevant PSAKs has been included for consideration.

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Section 1: Indonesian Financial Reporting Standards

Summary of new and revised pronouncements issued as of 31 December 2021

PSAK	Title	Effective date*
Amendments to PSAK 71, PSAK 55, PSAK 60, PSAK 62, and PSAK 73	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to PSAK 22	Definition of a Business	1 January 2021
Amendments to PSAK 73	COVID-19-Related Rent Concessions and COVID-19-Related Rent Concessions beyond 30 June 2021	1 June 2020 and 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
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

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.

Amendments to PSAK 71, PSAK 55, PSAK 60, PSAK 62 and PSAK 73 - Interest Rate Benchmark Reform – Phase 2

As a result of the interest rate benchmark reform, work is underway in many jurisdictions to transition to alternative benchmark interest rates in response to systemic risk concerns. This is the second part of the two-phase project on Interest Rate Benchmark Reform undertaken by the IASB, that have been adopted by DSAK IAI. The amendments affect the following key areas: changes in the basis for determining the contractual cash flows as a result of benchmark interest rate reform, hedge accounting and disclosures.

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

The amendments provide specific guidance on how to treat financial assets and financial liabilities where the basis for determining the contractual cash flows changes as a result of interest rate benchmark reform. As a practical expedient, the amendments require an entity to apply PSAK 71:PP5.4.5, such that the change in the basis for determining the contractual cash flows is applied prospectively by revising the effective interest rate. This practical expedient only applies when the change in the basis for determining the contractual cash flows is necessary as a **direct consequence of interest rate benchmark reform** and the new basis for determining the **contractual cash flows is economically equivalent** to the previous basis. Similar practical expedient is available for lease liabilities in PSAK 73. Like the practical expedient in PSAK 71, the change in the contractual cash flows is applied prospectively by applying PSAK 73:42.

Hedge accounting

The amendments to PSAK 71 and PSAK 55 introduce an exception to the existing requirements so that changes in the formal designation and documentation of a hedge accounting relationship that are needed to reflect the changes required by interest rate benchmark reform do not result in the discontinuation of hedge accounting or the designation of a new hedging relationship. These changes to the hedge relationship must be made by the end of the reporting period during which a change required by interest rate benchmark reform occurs.

Financial instruments disclosures

The amendments to PSAK 60 require that an entity provide disclosures that enable a user to understand the nature and extent of risks arising from interest rate benchmark reform, how the entity is managing those risks, its progress in completing the transition from interest rate benchmarks to alternative benchmark interest rates and how it is managing the transition.

The amendments apply to all entities and are not optional. Restatement of prior periods is not required, however, the entity may restate prior periods if, and only if, it is possible without the use of hindsight.

Key considerations:

- Consider what are the alternative benchmark interest rates available in your respective jurisdiction and whether there are any specific transitional provisions that are set out by regulators and how they are applied in the context of the PSAK requirements.
- Consider whether the alternative benchmark interest rates will have implication on the SPPI test from lender's perspective as the alternative benchmark interest rates may possess new feature which may affect the compensation of time value of money.

- Consider whether those changes in the basis for determining the contractual cash flows is necessary as a direct consequence of interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis. When the contractual cash flows are re-negotiated or otherwise modified in addition to changes required by the IBOR reform, consider the accounting implications on whether such an event constitutes a modification that does not result in derecognition or a modification that results in derecognition.

- Consider potential effects on the accounting for financial liabilities in the context of IBOR reform, changes resulted by the IBOR reform may affect the economic characteristic and risks of the cash flows of the instrument, include existence of any embedded derivatives which may require bifurcation.

- Consider whether there are any hedge relationships subject to the exception as introduced by the amendments.

The amendments are generally adopted from the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 - Interest Rate Benchmark Reform – Phase 2 as issued by the IASB.

For more information: IFRS in Focus Newsletter

Amendments to PSAK 22 – Definition of a Business

The amendments which apply to combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2021 clarify that to meet the definition of a business, an integrated set of activities and assets must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create output.

Assessing whether an acquired process is substantive

To determine whether an acquired process is substantive, different criteria apply, depending on whether there are outputs at the acquisition date.

For integrated sets of activities and assets that **have outputs** at the acquisition date (i.e. those that generate revenue at the acquisition date), an acquired process is substantive in **either one** of the following two scenarios:

a) The process is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with necessary skills, knowledge or experience to perform that process (or group of processes)

b) The process significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs

For integrated sets of activities and assets that **do not have outputs** at the acquisition date, an acquired process is considered substantive if **both** of the following criteria are met:

a) The process is critical to the ability to develop or convert an acquired input or inputs into outputs

b) The inputs acquired include both an organised workforce that has the necessary skills, knowledge or experience to perform that process (or group of processes) and other inputs that the workforce could develop or convert into outputs

Market participant's ability to replace missing elements

The focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs and the reference on whether market participants are capable of acquiring the business and continuing to produce outputs (for example, by integrating the business with their own inputs and processes) has been removed.

Narrowed definition of outputs

These amendments put the focus of outputs on goods and services provided to customers to achieve consistency with the notion of outputs in PSAK 72 Revenue from Contracts with Customers. The amendments remove from the new definitions references to returns in the form of lower costs and other economic benefits provided directly to investors or other owners, members or participants.

Optional test to identify concentration of fair value

An optional test was introduced to provide a simplified assessment of whether an acquired set of activities and assets is not a business (the concentration test). If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, an entity performs the assessment set out above to determine whether or not the acquired set of activities and assets is a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

Key consideration:

- An acquirer should consider if it opts to apply the concentration test. Failing the concentration test would still require the acquirer to evaluate whether the acquired set of activities meets the definition of a business.
- Consider what asset was acquired – is it a single identifiable asset or a group of similar identifiable assets, and how the fair value of gross assets acquired is concentrated (ie whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets). PSAK 22 does not define what percentage constitutes 'substantially all'. An entity may need to establish a policy on what it considers as what constitutes "substantially all". An entity may use by analogy, the meaning of 'substantially all' in the context of other standards, ie classifying a joint arrangement in PSAK 66, and it should generally be presumed that the concentration test is met if 90 per cent of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar asset.
- Consider whether the acquired set of activities and assets have outputs on acquisition date and whether the acquired process is substantive. This assessment requires judgement.

The amendments are generally adopted from the amendments to IFRS 3 – Definition of a business as issued by the IASB.

For more information: IFRS in Focus Newsletter

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

In May 2020, the DSAK-IAI amended 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.

Key consideration:	• 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.

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 (May 2020) and IFRS in Focus Newsletter (April 2021)

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.

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).

(b) Illustrative Examples accompanying PSAK 73 Leases – 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.

Key consideration:	• 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.

(c) PSAK 69 Agriculture – Taxation in Fair Value Measurements

The amendment removes the requirement in 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.

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.

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 Conceptual Framework

The amendments update PSAK 22 so that it refers to the 2018 Conceptual Framework instead of the 1989 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 the DSAK IAI adds to PSAK 22 an explicit statement, that an acquirer does not recognise contingent assets acquired in a business combination.

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.

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 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 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.

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 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.

Key consideration:	• Consider whether existing classification of liabilities requires reclassification to align with the amendments. • Keep abreast of latest update from DSAK IAI on the potential amendments.

The amendments are generally adopted from the amendments to IAS 1 - Classification of Liabilities as Current or Non-current as issued by the IASB.
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.

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. 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 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 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

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 on 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 for 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

In December 2021, the DSAK-IAI issued the 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

TF CCR IAI issues Publication No. 01/XI/2021

TF CCR IAI issued Publication Issue No. 01/XI/2021 on 25 November 2021. The publication was prepared by members of TF CCR IAI and IAI's Technical Team.

The publication provides update on the latest developments at the international and national level, as well as activities that have been carried out by TF CCR IAI. The publication also discusses the establishment of the International Sustainability Standards Board (ISSB) under the IFRS Foundation governance structure.

For further details, please refer to the following:
- IAI's TF CCR IAI issues Publication No. 01/XI/2021

DSAK IAI issues Financial Accounting Standards for Private Entities

On 30 June 2021, DSAK IAI has issued the Financial Accounting Standard for Private Entities (SAK EP) which is generally adopted from IFRS for SMEs, with differences mainly relating to scope and some transitional provisions. SAK EP is effective for annual reporting periods starting from 1 January 2025, early application is permitted. SAK EP will replace Financial Accounting Standard for Entities Without Public Accountability (SAK ETAP).

SAK EP is simpler than the IFRS-based PSAK, such that:

- Topics that are not relevant to private entities are eliminated, such as earnings per share, interim financial statements, and operating segments.
- Simplified accounting policy options, so that private entities will follow a single accounting policy for specific transactions, events or conditions.
- Simplified some recognition and measurement principles.
- Less disclosure and uses simpler language

SAK EP has significant differences with SAK ETAP (i.e. the use of fair value for investment property and biological assets, the use of other comprehensive income concepts, consolidated financial statements, business combinations and goodwill, more detailed requirements for financial assets and liabilities, deferred taxes, etc.)

For further details, please refer to the following:
- SAK Online (accessible by IAI members only)

DSAK IAI issues an educational material on “Disposal of HGB on top of HPL- Sale or Lease Transaction”?

On the adoption of PSAK 73 Lease and the revocation of ISAK 25 Land Rights on 1 January 2020, DSAK IAI has received questions from the public regarding the accounting treatment of a sale transaction of a Building Use Rights (HGB) on top of Management Rights (HPL), whether the transaction should be recorded as a sale transaction or lease transaction.

To ensure consistency of PSAK application, DSAK IAI decided to provide instructions in the form of an educational materials on the application of certain standards relevant to the issue raised.

The educational material which was issued on in February 2021 provides an illustration of how entities apply the provisions in the PSAKs, particularly in distinguishing between a lease transaction and a sale transaction, based on certain fact patterns.

For further details, please refer to the following:

- Educational material on “Disposal of HGB on top of HPL- Sale or Lease Transaction”

Section 3: Emerging Issues

Climate change

Climate change continues to be an area of specific focus for investors, regulators and other business stakeholders who increasingly demand better disclosures on climate change matters and challenging companies who are not factoring the effects of climate change into their critical accounting judgements. Investors want:

- to see how the impacts of climate change have been reflected in the measurement and recognition of assets and liabilities;
- more transparency on the assumptions used and sensitivities to those assumptions; and
- to be confident that there is consistency between climate scenarios included in the narrative in the front end of the annual report and the numbers disclosed in the financial statements.

There are several aspects of IFRS Standards that require an entity to 'predict the future' by developing expectations that affect the items recognised or disclosed in financial statements. These assumptions can be driven by external factors (macroeconomic conditions, government action, etc.), planned actions of the entity itself, or a combination of the two.

The table below sets out possible impacts in relation to relevant PSAK standard due to climate change:

Issue	Relevant PSAK Standards(s)	Possible impacts of climate risks
Asset impairment, including goodwill, and effects on impairment calculations because of increased costs or reduced demand	PSAK 48	The impact of changing policies and technology as we shift to a low-carbon economy may lead to potential impact to cash flow forecasts used in impairments review. Climate-related risks can impact a value in use calculation in a number of ways, including: • Incorporation of expected changes in consumer behaviour and government action into estimates of future cash flows when they represent management's best estimate supported by appropriate evidence. • Incorporation of changes expected to occur beyond the period covered by financial budgets and forecasts via modification to the expected long-term growth rate. Such changes could arise in a variety of ways, for example from decreasing revenues as carbon-intensive production facilities are phased out or increased costs due to the introduction of government levies (cost of compliance), increased cost of resources, or rising cost of insurance. ▪ Consideration of whether a planned restructuring or replacement of assets should be incorporated into forecast cash flows. ▪ Future cash flow forecast incorporating different climate scenarios, for example, the varying degrees of change in temperature due to global warming may produce very different outcome.

Issue	Relevant PSAK Standards(s)	Possible impacts of climate risks
		▪ Changes is forecast periods due to expected changes in policy. Scenario analysis is useful to understand the potential impact of different climate outcome. However, entities are to decide what is considered to be the most likely scenario, as this would form the basis of the cash flow forecasting. Disclosure of the key assumptions on which cash flow projections have been based on and management's approach to determining the value assigned to these key assumptions is also required (particularly for goodwill or indefinite-life intangible assets), with information about how potentially significant effects of climate-related risks have been factored into recoverable amount calculations being relevant for the users of the financial statements.
Changes in the recognition and useful life of assets	PSAK 16, PSAK 19	Climate-related risks could affect the depreciation or amortisation of assets (through a change in their useful lives) or the recognition of those assets (whether expenses satisfy the definition of an asset when incurred). The estimated useful lives of assets could be affected by physical factors (for example, precipitation levels affecting the viability of agricultural operations) or by economic or legislative ones (for example, fossil fuel power generation equipment being taken out of use while still operational). Entities also should not assume availability to dispose the asset at the end of the useful lives at the current equivalent market prices. Therefore, entities should carefully consider the potential impact of climate change risk on existing estimates of asset useful lives and residual values. In either case, a change in the estimated useful life will be accounted for via a prospective change in the depreciation or amortisation rate and should be disclosed and explained. Adaption of an entity's business to address climate issues could also result in additional research and development activities, requiring disclosure and consideration of the criteria for capitalisation.
Changes in the fair valuation of assets	PSAK 68	Fair valuation of assets applying the principles in PSAK 68 is required for a broad range of assets which could be affected by either climate change or actions pursuant to the Paris Agreement and these factors could affect inputs into valuation models in a number of ways (adjustment to the cash flows or discount rate used in a discounted cash flow calculation, to prices when applying the market approach etc.).

Issue	Relevant PSAK Standards(s)	Possible impacts of climate risks
		Equity premiums may change depending on the assumed future climate scenario and its impact on the underlying asset. Equity volatility may be affected by the uncertainty of climate change. When fair value, rather than value in use, is used in an impairment test under PSAK 48, the prohibition on including the effects of future restructurings (PSAK 48:44) does not apply. The effect of a restructuring is relevant to a fair value calculation if, and only if, a third party purchaser would factor that into the price they would be willing to pay for the asset (or cash-generating unit). The entity's own intentions are not directly relevant. The broad scope of PSAK 68's requirements could also mean that the effects of climate risks on fair values becomes significant for entities whose own business might not be thought of as being directly affected by the more apparent physical and economic risks of climate change. For example, the plan assets of a defined benefit scheme and the investments held by an investment entity are required to be measured at fair value under PSAK 68 and those values should reflect the risks (including climate) to which the underlying investee is exposed. Demographic assumptions and investment performance can vary under different climate scenarios.
Changes in provisions and contingent liabilities arising from fines and penalties or in provisions for onerous contracts because of increased costs or reduced demand	PSAK 57	Climate-related risks could affect: • The recognition of provisions (if reductions in revenue or increases in cost mean that a customer contract becomes onerous, due to regulatory requirements to remediate environmental damage, restructurings or redesigning products or services to achieve climate-related targets). • The measurement of provisions (if regulatory changes or shortening of project lives affect the timing or amount of expenses of decommissioning assets or rehabilitating environmental damage). Cash flows and discount rates used in measuring provisions needs to take into account the risks and uncertainties of climate change and accompanying regulations. • The recognition of liabilities or disclosure of contingent liabilities for potential fines or penalties under environmental regulations or where litigation is brought by another interested party. This entails not only identifying new obligations, but also a reassessment of existing obligations and its probability for provisions and a shift from previously considered remote obligation becoming possible, that require disclosures.

Issue	Relevant PSAK Standards(s)	Possible impacts of climate risks
		It should also be noted that liabilities under PSAK 57 or levies accounted for under ISAK 30 are recognised only when incurred under enacted legislation. In contrast, it is not necessary to wait for the enactment or substantive enactment of a change in environmental or other regulation before it is incorporated into a value in use calculation for the purposes of impairment testing. The consequences of such expected government action should be factored in when they reflect management's best estimate of future cash flows (based on reasonable and supportable assumptions).
Changes in expected credit losses for loans and other financial assets	PSAK 71	Application of the expected credit loss approach requires lenders to consider whether any actual or expected adverse changes in a borrower's regulatory, economic or technological environment has significantly changed the borrower's ability to meet its debt obligations (and, therefore, whether credit risk has increased significantly since initial recognition). For example, a climate disaster may have a dramatic impact on unemployment, economic strength and property values, thus significantly affecting the recoverability of mortgages. As such, banks with loans to businesses (or investments in projects) affected by climate-related risk will need to consider how those risks affect the expected credit losses on those loans or investments. Uncertainty over the physical effects of climate change and the introduction of policy and regulatory measures means that when determining expected credit losses (ECLs), there is a variety of possible adverse economic scenarios that might exist in the future. Each of these scenarios may have potentially differing degrees of adverse economic conditions that could affect the probability of borrowers defaulting and the extent of losses that the lender may incur in the event of borrower default. Specifically: • There may be a greater range of downside economic scenarios to consider. • The credit losses under each of these scenarios could be more severe than previously estimated with the potential increase in the probability of individual loans defaulting or in the loss in the event of default as a result of falling collateral values due to asset write-downs or stranded assets.
Accounting for financial instruments	PSAK 71	Investors are increasingly demanding that businesses set climate targets which they use in making their investment decision directly affecting the availability and cost of capital.

Issue	Relevant PSAK Standards(s)	Possible impacts of climate risks
		Innovative finance products such as green finance are emerging. For example, green bond interest rate favour green behaviour and green activities. Loan contracts might include terms linking contractual cash flows to a company's achievement of climate-related targets. Those targets may affect how the loan is classified and measured (i.e. the lender would need to consider those terms in assessing whether the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding). For the borrower, those targets may affect whether there are embedded derivatives that need to be separated from the host contract.
Disclosure of market risks over financial assets	PSAK 60	PSAK 60 requires disclosure of an entity's exposure to market risks arising from financial instruments, its objectives in managing these risks and changes from the previous period. This could be relevant to entities (for example investment funds and insurance companies) holding investments in industries that may be affected by climate-related risk. Quantitative information, such as an analysis of investments by industry or sector, could specifically identify sectors exposed to climate-related risks and explain the company's policy of managing its exposure to those sectors. Disclosures of this nature could also be relevant as investors look to assess the strategies of large institutional investors from a sustainability point of view and for consistency with any commitments made to divert capital away from carbon intensive sectors.
Presentation of financial statements	PSAK 1	**Sources of estimation uncertainty and significant judgements** The requirement of PSAK 1:125 to disclose information about the assumptions management has made about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Issue	Relevant PSAK Standards(s)	Possible impacts of climate risks
		This means disclosure of assumptions about climate-related matters may be required, for example when those matters create uncertainties that affect assumptions used to develop estimates, such as which climate scenario management considers to be the most likely in the preparation of its cash flow forecast. Companies must present that disclosure in a manner that helps investors understand the judgements that management makes about the future. PSAK 1:122 also requires disclosure of the judgements (apart from those involving estimations) that management has made that have the most significant effect on the amounts recognised in the financial statements. For example, a company operating in an industry particularly affected by climate-related matters might test an asset for impairment applying PSAK 48 Impairment of Assets but recognise no impairment loss. That company would be required to disclose judgements management has made, for example, in identifying the asset's cash-generating unit if such judgements are among those that have the most significant effect on the amounts recognised in the company's financial statements. **Going concern** PSAK 1 requires management to assess a company's ability to continue as a going concern when preparing financial statements. In assessing whether the going concern basis of preparation is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. If climate-related matters create material uncertainties related to events or conditions that cast significant doubt upon a company's ability to continue as a going concern, PSAK 1 requires disclosure of those uncertainties. When management has concluded that there are no material uncertainties related to the going concern assumption that require disclosure but reaching that conclusion involved significant judgement (for example, about the feasibility and effectiveness of any planned mitigation), PSAK 1 requires disclosure of that judgement.
Valuation of inventories	PSAK 14	Climate-related matters may cause a company's inventories to become obsolete, their selling prices to decline or their costs of completion to increase. When estimating net realisable value, entities are required to consider all relevant facts and circumstances. Estimates of net realisable value could be materially affected by, for example, a regulatory change that renders

Issue	Relevant PSAK Standards(s)	Possible impacts of climate risks
		inventories obsolete, a significant weather event that causes physical damage to inventories, a decrease in demand for an entity's goods resulting from changes in consumer behaviour or an increase in completion costs because of raw material sourcing constraints. If, as a result, the cost of inventories is not recoverable, PSAK 14 requires the company to write down those inventories to their net realisable value. Estimates of net realisable value are based on the most reliable evidence available, at the time that estimates are made, of the amount the inventories are expected to realise.
Recognition of deferred tax assets	PSAK 46	PSAK 46 generally requires companies to recognise deferred tax assets for deductible temporary differences and unused tax losses and credits, to the extent it is probable that future taxable profit will be available against which those amounts can be utilised. Climate-related matters may affect a company's estimate of future taxable profits and may result in the company being unable to recognise deferred tax assets or being required to derecognise deferred tax assets previously recognised.
Insurance contracts	PSAK 74	Climate-related matters may increase the frequency or magnitude of insured events, or may accelerate the timing of their occurrence. Examples of insured events that could be affected by climate-related matters include business interruption, property damage, illness and death. Climate-related matters may, therefore, affect the assumptions used to measure insurance contract liabilities applying PSAK 74. Climate-related matters may also affect required disclosures about (a) the significant judgements and changes in judgements made in applying PSAK 74, and (b) a company's exposure to risks, concentrations of risk, how it manages risks and sensitivity analysis showing the effect of changes in risk variables.

For further details, please refer to the following:

- Climate-related Resources
- Deloitte's Climate Change Website

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:

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