Corporate Reporting Watch*

Will there really be convergence of PSAK and IFRS in 2012?

What are the issues?

The Indonesian Institute of Accountants (IAI) has declared its plan to "converge" Indonesian GAAP (PSAK) with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Except for a limited number of standards relating to accounting for financial instruments, the IAI has been in the process of adopting the IFRS as issued by IASB at 1 January 2009. It will make any necessary local amendments and issue them as PSAK that will become effective in 2011 or 2012.

IAI has outlined the roadmap whereby twelve standards will be issued in 2009 and another seventeen standards in 2010. However, IFRS 1 *First Time Adoption of IFRS* is not included in the roadmap.

Meanwhile the IFRS will continue to improve over time through the normal standard setting process, convergence between US GAAP and IFRS, and as the evolution of business necessitates change. The IASB anticipates the completion of several major projects in 2010 and 2011 and many of the proposals represent fundamental changes. For the detailed proposals, please see the Appendix.

One significant change is in the area of financial instruments. As part of the IASB's response to the global financial crisis, IAS 39 will be revisited. The replacement standard, expected to be a significant change, will be exposed in three separate drafts i.e. classification and measurements, impairment and hedging.

The equivalent PSAK (PSAK 50 and 55) is adopted from IAS 32 and 39 (as amended by IASB in August 2005). The new IFRS for financial instruments in 2012 might not be adopted to allow for a period of "bedding down" as PSAK 50 and 55 will only become effective starting 1 January 2010.

With such a wave of change in IFRS, the goal of PSAK to “converge” to IFRS is like chasing a moving target goalpost and it is very likely that in 2012, the PSAK will not be exactly the same as the IFRS issued by then.

What does this mean?

The above developments may have different impacts on different companies. Domestic companies which do not have any IFRS reporting obligation (“domestic reporters”) will generally only need apply new PSAKs as they become effective. For them, the key challenges are to have a clear plan on how to deal with the business, financial and human capital implications arising from the implementation of so many PSAK and to execute the plan on a timely basis.

Domestic companies that are listed in the United States of America (US) have the option to file a full-blown set of IFRS-based financial statements instead of filing PSAK-based financial statements that include additional disclosures regarding the reconciliation between PSAK and the US GAAP.

For these companies, taking this option would mean they need to apply IFRS 1, which presumably would require a greater effort upfront. However, this approach is more aligned to the need to apply the local standards which are moving very fast towards IFRS.

Another important benefit is to be able to use the IFRS-based financial statements when the entities intend to raise capital in the global capital markets, in which IFRS-based financial statements are widely accepted or even required.

While IFRS is not currently accepted as the language for statutory reporting in Indonesia, there is certainly a hope that it will be in the near future, especially for publicly listed companies, to foster more cost-efficient cross-border listings with greater comparability and transparency.

To a certain extent, entities will generally be subject to changes either conversion to new PSAK or conversion to full IFRS (“accounting standard conversion”). Companies that are quick-off-the-mark in making critical strategic and tactical decisions early in the process, and that put the right systems and processes in place to support a smooth transition period, will be the first to scale the barriers and reap the rewards of accounting standard conversion.

Accounting standard conversion is more than a technical accounting issue. IFRS or new PSAK may significantly affect any number of a company’s day-to-day operations and may even impact the reported profitability of the business itself.

It is important to start planning now.

How can PwC help you?

PwC has a proven track record in helping companies understand and work with accounting standard conversion. With our extensive worldwide experience in all major industry sectors, we propose practical solutions to address challenges that companies face when implementing IFRS or new PSAK.

Our specialists bring technical accounting, process improvement, training, communications and change management experience to the project that is equal to the complexity of the task at hand. And while many of the issues are common across all businesses, some have a greater impact on certain sectors so we'll ensure our industry specialists are involved.

If you consider adopting IFRS as issued by the IASB, PwC has developed an IFRS transition methodology which provides a complex framework for efficient and effective conversion, and has been applied in over 1,300 conversion projects. In addition to focusing on getting the numbers right and guiding companies through operational problems, this methodology also promotes effective knowledge transfer to ensure lasting benefits.

IFRS is a strategic change. Is your whole company ready?

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Appendix - A New Wave of Change for IFRS 2009 – 2012 as of August 2009

Standards under review	Overview of proposals
Financial crisis related projects	
Derecognition	Proposals seek to improve ways of assessing whether an entity should derecognise assets or not, and explain the risks related to on- and off- balance sheet financial instruments.
Consolidation	The revised standard will provide a single IFRS on consolidation combining IAS 27 and SIC 12. The proposals revise the definition of controls, and expand disclosure requirements to give an overall view of companies' involvement with consolidated and unconsolidated entities.
Credit risk in liability measurement	The Invitation to Comment is accompanied by a staff paper that describes the most common arguments for and against including credit risk in measuring liabilities.
Fair value measurement guidance	Proposals seek to replace fair value measurement guidance contained in individual IFRS with a single, unified definition of fair value, to provide further authoritative guidance on the application of fair value measurement in inactive markets and to enhance disclosures about fair value.
Financial Instruments: Replacement of IAS 39	
Phase I: Classification and measurement of financial instruments	Financial instruments would be classified into two measurement categories: fair value or amortised cost.
Phase II: Impairment methodology	• One impairment method would be applied to all financial assets measured at amortised cost – a major simplification compared with today's requirements. • The IASB is seeking information on the feasibility of an expected loss model.
Phase III: Hedge accounting	The direction of this project will be decided by the outcome of phase 1 and 2.

New standards	
Revenue recognition	• A single contract-based, asset and liability approach to the revenue recognition model is being proposed. • Revenue is recognised based on increases in contract assets or decreases in contract liabilities. • Contract liability is satisfied and hence revenue is recognised when there is a transfer of control over an asset.
Leases	• All leases are accounted for “on balance sheet” by recognising an asset representing the right to use the leased asset, and a liability for the obligation to pay rent. • The lease obligation is to be re-measured at each balance sheet date. • It is unlikely that accounting for existing leases will be grandfathered.
Income taxes	The objective is to clarify and improve IAS 12 and to reduce the differences between it and US GAAP for income tax, by removing most of the exceptions. It also includes an entirely new model of accounting for uncertain tax positions.
Financial statement presentation	• Performance is reported in a single statement of comprehensive income. • Items in the primary financial statements are classified either as business activities (operating or investing), financing, taxes or discontinued operations. • A line-by-line reconciliation is also proposed between the statement of cash flows and the statement of comprehensive income.
Insurance contracts	The aim is to develop a standard that will replace IFRS 4, *Insurance Contracts* and provide a basis for consistent accounting for insurance contracts in the longer term.
Management commentary	The aim is to provide guidelines on how to prepare or present the management commentary in the annual report or company reporting.
Post-employment benefits (including pensions)	• The option of deferred recognition of actuarial gains and losses (the corridor) is to be removed so that more of the components of pension expense are charged into profit or loss. • A new classification, “contribution-based plans” and the use of a fair value measurement approach for these plans is being introduced.