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NEW ACCOUNTING STANDARDS: PSAK 38 (REVISED 2004) AND ISAK 7

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Introduction

The Indonesian Accounting Standards Board of the Indonesian Institute of Accountants (or "DSAK – IAI") has recently issued two standards:

- PSAK No. 38(revised 2004): Accounting for Restructuring Transactions between Entities Under Common Control; and
- ISAK no. 7: Interpretation of paragraphs 5 and 19 of PSAK 4 – On Consolidation of Special Purpose Entities

PSAK 38 (revised 2004)

Transfers of assets, liabilities, securities or other ownership instruments conducted for the purpose of restructuring entities under common control in economic substance do not constitute a change in ownership and consequently should not result in the recognition of gains or losses for those entities. Therefore, such transactions should be recorded at their book values as if the pooling of interest method were applied. In addition, the difference between the transfer price and the book values of the assets, liabilities, securities and/or ownership instruments transferred should be recognized in equity under the account "Differences Arising from Restructuring Transactions between Entities Under Common Control".

Under the previous version of PSAK 38, the equity account "Differences Arising from Restructuring Transactions between Entities Under Common Control", does not change even when the related assets, liabilities, securities or other ownership instruments are subsequently transferred to an outside party that is not under common control.

PSAK 38 (revised 2004) now makes it possible for the equity account to be changed or even eliminated under certain circumstances, in particular when:

- there is a reciprocal transaction between the same entities under common control;
- there is a quasi reorganization;
- in substance those entities are no longer under common control (due to restructuring, for example);
- disposal of the assets, liabilities, securities, or other ownership instruments originally transferred between entities under common control to an outside party that is not under common control.

This revised standard is applicable for financial statements prepared commencing on or after 1 January 2005; earlier application is highly recommended.

ISAK no. 7

Para. 5 and 19 of PSAK 4 states that a reporting entity (or a parent company) should consolidate the financial statements of all the companies that it controls. Control is presumed to exist when the reporting entity company owns more than 50 percent of the voting rights of its subsidiary or the reporting entity meets any of the following conditions:

a. has more than 50 percent of the voting rights based on an agreement with other investors;
b. has the right to determine the financial and operating policies of the company;
c. has the right to appoint or remove the majority of the members of the company' s management; and
d. has the ability to control the majority of votes at meetings of the company's management

PSAK 4 does not specifically address the issue of consolidating a Special Purpose Entities (or an "SPE"). An SPE is a vehicle established by a company (or a "sponsor") to conduct well-defined activities (such as securitization, leasing, and research and development activities). These SPEs - which can take many forms, including as a corporation, trust, partnership or unincorporated entity - are often designed with strict and permanent limits on the decision-making ability of the SPE's management. In many cases the operating policies of the SPE can not be modified other than perhaps by its creator or sponsor (as if the SPE is running on autopilot).
The issue is under what circumstances should a company consolidate an SPE?

ISAK 7 determines that an SPE should be consolidated when the substance of the relationship between the reporting entity (or the sponsor) and the SPE indicates that the SPE is controlled by the reporting entity (the sponsor).

The interpretation provides guidance, in addition to that mentioned in PSAK 4, on how to identify whether control over an SPE exists by considering factors such as:

- Whether the activities of the SPE are, in substance, conducted on behalf of the reporting entity that established the SPE to meet its specific business needs.
- Whether the reporting entity in substance has the power to make decisions (or create an autopilot mechanism) to obtain the majority of benefits generated by the activities of the SPE
- Whether the reporting entity in substance has the rights to obtain the majority of benefits generated by, and bears the risks arising from, the SPE's activities

Whether the reporting entity in substance obtains the majority of residual and ownership risks related to the SPE or its assets

For a comprehensive understanding of the standards and interpretations please read the publications issued by DSAK-IAI.

If you have any concern or question regarding matters in this NewsFlash, please contact your engagement partner or Dudi Kurniawan of the PricewaterhouseCoopers Technical Committee at dudi.m.kurniawan@id.pwc.com