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A Practical Guide to the New Indonesian Financial Accounting Standards for 2015

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Introduction

This publication is a practical guide to the new Indonesian Financial Accounting Standards ("IFAS") and interpretations which come into effect in 2015. In order to further align IFAS with global standards, the Indonesian Financial Accounting Standards Board (“DSAK-IAI”) have amended ten existing standards and are introducing four new Statement of Financial Accounting Standards (“PSAK”). As a result, by 2015 IFAS will be substantially converged with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) up to 2014.

A number of notable changes that will become effective in 2015 include a group of new and revised standards dealing with the control and the scope of reporting entities. PSAK 65, ‘Consolidated financial statements’, changes the definition of control; PSAK 66, ‘Joint arrangements’, reduces the types of joint arrangement to joint operations and joint ventures, and prohibits the use of proportional consolidation. PSAK 67, ‘Disclosure of interests in other entities’, brings together in one standard the disclosure requirements that apply to investments in subsidiaries, associates, joint ventures, structured entities and unconsolidated structured entities. As part of this overhaul of the consolidation standards, PSAK 4 (revised 2013) now deals only with separate financial statements, and PSAK 15 (revised 2013) covers equity accounting for joint ventures as well as associates. These new standards have to be implemented together and will apply from 1 January 2015.

Several PSAKs require entities to measure or disclose the fair value of assets, liabilities or their own equity instruments. These standards do not always clearly articulate the form of measurement or the disclosure objective of fair value requirements. PSAK 68, ‘Fair value measurement’, deals with this issue.

Furthermore, an amendment to PSAK 1, ‘Presentation of financial statements’, makes changes in relation to the disclosure of items presented in other comprehensive income. The revisions made to PSAK 24, ‘Employee benefits’, are significant and will have an impact on most entities. These revisions involve changes to the recognition and measurement of defined benefit pension expense and termination benefits and the disclosures required. In particular, actuarial gains and losses can no longer be deferred using the corridor approach. PSAK 46, ‘Income taxes’, has also been amended to clarify that the standard is only applicable to taxes based on taxable profit. This means that not all taxes are within the scope of PSAK 46 even though such taxes are called *pajak penghasilan* by the taxation authority.

Lastly, it is worth noting that there are two major standards that have been issued but which are not yet applicable at the global level – IFRS 9, ‘Financial instruments’, and IFRS 15, ‘Revenue from contracts with customers’.
It is clear that the intention of the Indonesian standard setters is to reach international convergence. Thus, we can expect that these standards will also be adopted locally in the very near future. Stay tuned!

Jakarta, 22 July 2014

Commonly used terms

IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
IFRIC	IFRS Interpretations Committee
PSAK	*Pernyataan Standar Akuntansi Keuangan* (Statement of Financial Accounting Standards applicable in Indonesia)
ISAK	*Interpretasi Standar Akuntansi Keuangan* (Interpretation of Statement of Financial Accounting Standards applicable in Indonesia)
IAI	*Ikatan Akuntan Indonesia* (Indonesian Institute of Accountants)
DSAK	*Dewan Standar Akuntansi Keuangan dari IAI* (Indonesian Financial Accounting Standards Board of IAI)

Amended Standards

Presentation of financial statements – PSAK 1 (revised 2013)

DSAK has adopted the amendment made to IAS 1, 'Presentation of financial statements'. The amendment changes the disclosure of items presented in other comprehensive income ("OCI").

Effective date
Annual periods beginning on or after 1 January 2015.

What are the key provisions?

The amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled – such as remeasurements of defined benefit plans (i.e. actuarial gains / losses) – must be presented separately from items that may be recycled in the future – such as gains and losses on re-measuring available-for-sale financial assets. Entities that present OCI items before tax will be required to show the amount of tax related to the two groups separately.

The title used by PSAK 1 for the statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income' (i.e. *laporan laba rugi dan penghasilan komprehensif lain*). However, PSAK 1 still permits entities to use other titles.

Who is affected?

All entities with gains and losses presented in OCI are affected by the changes made in relation to the presentation of OCI items.

Employee benefits – PSAK 24 (revised 2013)

DSAK has adopted the amendments made to IAS 19, 'Employee benefits'. The standard makes significant changes in relation to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The changes made could significantly affect a number of performance indicators and might also significantly increase the volume of disclosures.

Effective date
Annual periods beginning on or after 1 January 2015.

The key changes are as follows:

Recognition of actuarial gains and losses (remeasurements):
'Actuarial gains and losses' are renamed 'remeasurements' and will be recognised immediately in OCI. Actuarial gains and losses will no longer be deferred using the corridor approach or recognised in profit or loss. This is likely to increase balance sheet and OCI volatility. Remeasurements recognised in OCI will not be recycled through profit or loss in subsequent periods.

Recognition of past service costs/ curtailment:
Past-service costs will be recognised in the period of a plan amendment; unvested benefits will no longer be spread over a future-service period. A curtailment will now occur only when an entity significantly reduces the number of its employees. Curtailment gains/losses are accounted for as past- service costs.

Measurement of pension expense:
Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the finance charge and expected return on plan assets, and will increase benefit expense for most entities. There will be no change in the discount rate, which will continue to be based on a high-quality corporate bond rate where there is a deep market in such bonds, and a government bond rate in other markets.

Presentation in the income statement:
There will be less flexibility in income statement presentation. Benefit costs will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income.

Disclosure requirements:
Additional disclosures are required to present the characteristics of benefit plans, the amounts recognised in the financial statements, and the risks arising from defined benefit plans and multi-employer plans. The objectives and principles underlying disclosures are provided; these are likely to require more extensive disclosures and greater judgement to determine what disclosure is required.

Distinction between 'short-term' and 'other long-term' benefits:
The distinction between short- and long-term benefits for measurement purposes is based on when payment is expected, not when payment can be demanded. However, the amendment does not alter the balance sheet classification of the liabilities recorded in respect of the benefit obligation. Such classification is

determined in accordance with IAS 1 and reflects whether an entity has the unconditional ability to defer payment for more than a year, regardless of when the obligation is expected to be settled.

Treatment of expenses and taxes relating to employee benefit plans:
Taxes related to benefit plans should be included either in the return on assets or the calculation of the benefit obligation, depending on the nature of those taxes. Investment management costs should be recognised as part of the return on assets; other costs of running a benefit plan should be recognised as period costs when they are incurred.

Termination benefits:
Any benefit that has a future-service obligation is not a termination benefit. This will reduce the number of arrangements that meet the definition of termination benefits. A liability for a termination benefit is recognised when the entity can no longer withdraw the offer of the termination benefit or recognises any related restructuring costs. This might delay the recognition of voluntary termination benefits.

Risk or cost sharing features:
The measurement of obligations should reflect the substance of arrangements where the employer's exposure is limited or where the employer can use contributions from employees to meet a deficit. This might reduce the defined benefit obligation in some situations. Determining the substance of such arrangements will require judgement and significant disclosure.

Who is affected?

These changes will affect most entities that apply PSAK 24. The changes could significantly change a number of performance indicators, including earnings before income taxes and depreciation ("EBITDA"), earnings per share and balance sheet ratios. They might also significantly increase the volume of disclosures.

What do affected entities need to do?

Management should determine the impact of the revised standard and, in particular, any changes in benefit classification and presentation. Management should consider the effect of the changes on any existing employee benefit arrangements and whether additional processes are needed to compile the information required to comply with the new disclosure requirements.

For more information on this topic, please refer to the PwC publication 'A practical guide to IFRS: IAS 19 (revised) significantly affects the reporting of employee benefits'.

Income taxes – PSAK 46 (revised 2014)

DSAK has adopted the amendments made to IAS 12, 'Income taxes'.

Effective date
Annual periods beginning on or after 1 January 2015.

Two major revisions have been made to PSAK 46. First, it has been clarified that not all taxes are income tax within the scope of PSAK 46; and secondly, the standard has been amended to provide an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.

(1) Not all taxes are within the scope of PSAK 46

PSAK 46 applies to accounting for income taxes; that is, taxes based on taxable profit. This implies that not all taxes are within PSAK 46's scope, even though those taxes might be called pajak penghasilan by the taxation authority. Prior to this amendment, taxes calculated on gross sales receipts, which are often referred to as final tax, were considered to be income tax within the scope of PSAK 46 (2010). Through this amendment, however, DSAK has emphasised that the concept of 'taxable profit' implies a net rather than gross taxable amount. Thus, all references to final tax within the superseded version of PSAK 46 (2010) have been removed to align the standard with principles of IAS 12.

The net taxable amount notion starts with the presumption that income taxes are calculated based on a certain tax rate applied to revenues less expenses (an income tax structure) and thus they differ from arrangements that assess tax based on sales or gross receipts (a non-income tax structure). In the former case, the tax is an income tax, and PSAK 46 (2014) applies. On the other hand, taxes that are based on gross sales receipts are outside the scope of PSAK 46 (2014) and will be accounted for using PSAK 57 "Provisions, contingent liabilities, and contingent assets' instead.

This will significantly affect deferred tax accounting as well as the presentation of taxes in statements of financial position and comprehensive income.

What are the implications?

The most significant impact of the revision relates to deferred tax accounting. Only income taxes within the scope of PSAK 46 (2014) will result in the recognition of a deferred tax asset / liability in the balance sheet. This means that no deferred tax asset / liability should be recorded on items that are wholly subject to the final tax regime because the eventual realisation of the assets and liabilities does not affect the amount of taxes payable in the future. The determination of taxes payable under the final tax regime solely depends on gross sales receipts made in the period, without any consideration for asset depreciation or timing difference whatsoever.

The other equally important consequence relates to the presentation of other taxes that are not income tax. The standard is not prescriptive on this matter, but the income tax line in the profit or loss is usually reserved for income tax expense within the scope of PSAK 46. It is therefore sensible to present non-income tax charge together with other expenses making up the pre-tax profit of the entity. Alternatively, PSAK 1 paragraph 96 encourages an entity to present a material item separately when it provides information that is reliable and more relevant.

Management should apply its judgement in order to develop a sensible approach for its income statement presentation so that expenses are fairly presented to the readers.

What is the next step?

Every reporting entity should carefully evaluate each type of taxes paid. Not all of them will fall within the scope of PSAK 46 (2014). Value added sales and payroll taxes are only two of the most obvious examples of taxes that are not income tax. Likewise, taxes paid for sale of property, receipt of interest income, and sales of shares of publicly listed entities on the Indonesian stock exchange, are all calculated based on gross receipts and are therefore not considered to be income taxes.

Based on our initial observation, we believe there are many other types of similar pajak penghasilan (taxes) that do not fall within the revised scope of PSAK 46 (2014), especially those that are subject to the final tax regime. Taxes collected in the shipping and construction industries, for example, may also be affected.

To start with, we encourage you to consult with your respective tax advisor to gain an understanding of the basis of tax collection in your industry. The tax attributes should be assessed based on the overall tax system, not on the basis of individual tax payers. For further reading on the scope of PSAK 46, and its equivalent IAS 12, please refer to the PwC Manual of Accounting chapter 13, ‘Taxation’.

(2) Why do we need an amendment to deferred tax on investment property?

The current principle in PSAK 46 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way that management expects to recover or settle the carrying amount of the entity’s assets or liabilities. For example, management may expect to recover an asset by using it, by selling it or by a combination of use and sale. Management’s expectations can affect the measurement of deferred taxes when different tax rates or tax bases apply to the profits generated from using and selling the asset.

Entities holding investment properties that are measured at fair value sometimes find it difficult to estimate how much of the carrying amount will be recovered through rental income (that is, through use) and how much will be recovered through sale, particularly when there is no specific plan for disposal at a particular time. This can be very subjective. It is for this reason that this amendment in relation to deferred tax on investment property has been made.

What is the exception provided for investment property?

DSAK has added another exception to the principles in PSAK 46: the rebuttable presumption that investment property measured at fair value is recovered entirely by sale. The rebuttable presumption also applies to the deferred tax liabilities or assets that arise from investment properties acquired in a business combination, if the acquirer subsequently uses the fair value model to measure those investment properties.

The presumption of recovery entirely by sale is rebutted if the investment property is depreciable (for example, buildings, and land held under a lease) and is held within a business model the objective of which is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The presumption cannot be rebutted for freehold land that is an investment property, because land can only be recovered through sale.

This is consistent with the approach taken by the IASB in amending IAS 12.

Who does the amendment affect?

Based on our initial observation, property sales taxes in Indonesia are subject to the final tax scheme, calculated based on gross receipts. As discussed above, this type of tax is not an income tax within PSAK 46 and no deferred tax is provided.

However, Indonesian reporting entities holding investment properties measured at fair value in territories where the capital gains rate is different from the normal income tax rate (for example, Singapore and Hong Kong) will be affected. The amendment is likely to reduce significantly the deferred tax assets and liabilities recognised by these entities.

Offsetting requirements and improved disclosures – PSAK 50 (revised 2014) and PSAK 60 (revised 2014)

An amendment has been made to the guidance regarding the application of IAS 32 'Financial instruments: Presentation'. This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. As a result, DSAK has also published an amendment to PSAK 60 'Financial instruments: Disclosures' to enhance current offsetting disclosures.

Effective date
Annual periods beginning on or after 1 January 2015.

What is the issue?

The amendments do not change the current offsetting model in PSAK 50, which requires an entity to offset a financial asset and financial liability in the statement of financial position only when the entity currently has a legally enforceable right of set-off and intends either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously.

The amendments do, however, clarify that the right of set-off must be available today – that is, it is not contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendments also clarify that gross settlement mechanisms (such as through a clearing house) with features that both

- eliminate credit and liquidity risk; and
- process receivables and payables in a single settlement process,

are effectively equivalent to net settlement; they would therefore satisfy the PSAK 50 criterion in these instances.

Master netting agreements where the legal right of offset is only enforceable on the occurrence of some future event, such as default of the counterparty, continue not to meet the offsetting requirements.

Disclosures for offsetting

The amendments require more extensive disclosures than are currently required. The disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

Who is affected?

These amendments primarily affect financial institutions, as they will be required to provide additional disclosures described above. However, other entities that hold financial instruments that may be subject to offsetting rules will also be affected.

What do affected entities need to do?

Management should begin gathering the information necessary to prepare for the new disclosure requirements. They will also need to investigate whether the clarifications of the offsetting principle in PSAK 50 result in any changes to what they offset in the statement of financial position today. Management may need to work with the clearing houses they use to determine whether their settlement processes comply with the new requirements.

Disclosures of transfers of financial assets – PSAK 60 (revised 2014)

In addition to enhancing offsetting disclosures (as discussed above), PSAK 60 has also been amended to accommodate new fair value disclosure requirements as required by PSAK 68, 'Fair value measurements', and greater disclosure of transferred financial assets.

In this section, we will focus on the disclosure requirement in respect of transferred financial assets.

Effective date
Annual periods beginning on or after 1 January 2015.

What is the issue?

The new disclosure requirements apply to transferred financial assets. An entity transfers a financial asset when it transfers the contractual rights to receive cash flows of the asset to another party – for example, on the legal sale of a bond. Alternatively, a transfer takes place when the entity retains the contractual rights of the financial asset but assumes a contractual obligation to pay the cash flows on to another party, as is often the case when factoring trade receivables.

What are the disclosure requirements for the transferred assets that are not derecognised?

There are a number of disclosures required, including:

- a description of the nature of the relationship between the transferred assets and the associated liabilities should be provided, including restrictions arising from the transfer on the reporting entity's use of the transferred assets; and
- when the counterparty to the associated liabilities has recourse only to the transferred assets, a schedule should be given that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position.

What are the disclosure requirements for the transferred assets that are derecognised?

The new disclosure requirements for derecognised financial assets apply only where the entity has a 'continuing involvement', which may not occur frequently in practice.

This is where, as part of the transfer, the entity retains any of the contractual rights or obligations inherent in the derecognised financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset.

The new disclosures mainly relate to the entity's continuing involvement. They include disclosure of:

- the carrying amount and fair value of the continuing involvement;
- the maximum exposure to loss from the continuing involvement;
- any future cash outflows to repurchase the derecognised assets (for example, the strike price in an option agreement) and a maturity analysis of those cash outflows;
- a description of the nature and purpose of the continuing involvement and the risk the entity remains exposed to; and
- the income and expense recognised from the continuing involvement (current and cumulative).

Financial instruments: recognition and measurement – PSAK 55 (revised 2014)

DSAK has adopted a number of amendments made by the IASB to IAS 39 'Financial instruments: recognition and measurement'.

Effective date
Annual periods beginning on or after 1 January 2015.

A number of amendments have been made to the standard because of the introduction of PSAK 68 'Fair value measurement'. For example, the definition of fair value and the explanation of how fair value should be estimated have been amended so that they are now in line with the principles of PSAK 68. Furthermore, two other notable changes have been made:

(1) Calls, puts and prepayment options

The terms of a debt instrument may include an issuer call option (a callable bond), that is, a right of the issuer (but not the investor) to redeem the instrument early and to pay a fixed price (generally at a premium over the par value). There may also be other pre-payment features that cause the whole or part of the outstanding principal to be repaid early. Generally, as interest rates go down and the bond price increases, the bonds are likely to be called back. Previously, the application guidance of PSAK 55 simply stated that these embedded derivatives are not closely related to the host debt contract, unless the option's exercise price is approximately equal on each exercise date to the host debt instrument's amortised cost.

DSAK is now introducing an additional criterion to this assessment. The embedded derivative is also considered to be closely related to the host debt contract when the exercise price of a pre-payment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract [PSAK 55 paragraphPA 43(g.ii)]. Lost interest is the product of the outstanding principal amount multiplied by the interest differential. The interest differential is the difference between the effective interest rate on the host contract less the effective interest rate that could be obtained by the lender if it invests the principal at the repayment date for the host contract's remaining term in a similar contract.

Who is affected?

A reporting entity that issues debt instrument may well have these embedded derivatives built into the contract without actually realising the potential accounting implications. Therefore, it is important to carefully assess each debt contract to determine whether the prepayment option (if any) needs to be bifurcated and marked-to-market. A derivative that is not closely related to the debt host needs to be marked-to-market every period end with fair value changes being recognized as a profit or loss.

(2) Novation of derivatives and continuation of hedge accounting

Widespread legislative changes have been introduced to improve transparency and regulatory oversight of over-the-counter (OTC) derivatives. As a result, entities are novating derivative contracts to central counterparties (CCPs) in an effort to reduce counterparty credit risk. Under the existing standard, an entity is required to discontinue hedge accounting for a derivative that has been designated as a hedging instrument where the derivative is novated to a CCP; this is because the original derivative no longer exists. The new derivative with the CCP is recognised at the time of the novation.

The IASB, however, was concerned about the financial reporting effects that would arise from novations that are a consequence of laws or regulations. As a result, it has amended the standard to provide relief from discontinuing hedge accounting when novation of a hedging instrument to a CCP meets specified criteria.

Who is affected?

These amendments are beneficial to all entities applying hedge accounting that are subject to novation of OTC derivatives.

Reassessment of embedded derivatives – ISAK 26 (revised 2014)

DSAK has adopted the annual improvements made to IFRIC 9, 'Reassessment of embedded derivatives'.

Effective date
Annual periods beginning on or after 1 January 2015.

When does an embedded derivative need to be re-assessed for separation from the host contract?

ISAK 26 re-confirms the treatment in PSAK 55 that an entity should assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. This initial assessment is not revised, unless (a) the contractual terms change and the change significantly modifies the expected future cash flows associated with the embedded derivative, the host contract or both relative to the previously expected cash flows on the original contract; or (b) the financial assets have been reclassified out of the fair value through profit or loss category.

The interpretation also clarifies that ISAK 26 does not apply to embedded derivatives in contracts acquired in a business combination or as part of the formation of a joint venture. This is because an acquirer needs to re-assess all contracts of the acquired entity for embedded derivatives at the acquisition date. This is so that all such contracts (to which the acquirer becomes a party as a result of the acquisition) are accounted for in the same way as if the acquirer had taken them out individually at the time of acquisition. Generally this will result in more embedded derivatives being separated from host contracts in the group's consolidated financial statements, as compared with the acquired entity's stand-alone financial statements. This is because the embedded derivative guidance links some of the criteria for separating embedded derivatives to market conditions existing at initial recognition of the host contract. These separated embedded derivatives will be accounted for at fair value through profit or loss in the consolidated financial statements, after the acquisition (unless they are designated in a valid hedge relationship in accordance with PSAK 55).

Who is affected?

A number of commonly seen embedded derivatives include inflation-linked interest and pre-payment options of debt contracts, contingent rentals based on sales of the store in lease contracts, and price adjustment features in sales contracts (e.g. commodity contracts). These embedded derivatives may need to be re-assessed for separation if they are not closely related to the host contracts and to be accounted for using fair value through profit or loss.

New standards and the related amendments

Consolidated financial statements – PSAK 65 and Separate financial statements – PSAK 4 (revised 2013)

PSAK 65 is an adoption of IFRS 10, 'Consolidated financial statements'. It is part of the group of five new standards that address the scope of the reporting entity. PSAK 65 replaces all of the guidance on control and consolidation in PSAK 4, 'Consolidated and separate financial statements', and ISAK 7, 'Consolidation – special purpose entities'. The revised definition of control and associated guidance replaces not only the definition and guidance in PSAK 4 but also the four indicators of control in ISAK 7.

PSAK 4 has been renamed 'Separate financial statements'; it continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements remains unchanged.

Effective date
Annual periods beginning on or after 1 January 2015.

What are the key provisions?

PSAK 65 changes the definition of control so that the same criteria are applied to all entities when determining control. This definition is supported by extensive application guidance that addresses the different ways in which a reporting entity (investor) might control another entity (investee). The changed definition and application guidance is not expected to result in widespread change in the consolidation decisions made by IFRS reporting entities, although some entities could see significant changes.

All entities will need to consider the new guidance. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single entity remains unchanged, as do the mechanics of consolidation. PSAK 65 excludes consolidation requirements specifically for investment companies. An investment entity is required to account for its subsidiaries at fair value through profit or loss in accordance with PSAK 55.

The revised definition of control focuses on the fact that, for control to be present, both power and variable returns are required. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. The determination of power is based on current facts and circumstances and is continuously assessed. The fact that control is intended to be temporary does not obviate the requirement to consolidate any investee under the control of the investor. Voting rights or contractual rights may be evidence of power, or a combination of the two may give an investor power. Power does not have to be exercised. An investor with more than half the voting rights would meet the power criteria in the absence of restrictions or other circumstances.

The application guidance includes examples illustrating when an investor may have control with less than half of the voting rights. When assessing if it controls the investee, an investor should consider potential voting rights, economic dependency and the size of its shareholding in comparison to other holdings, together with voting patterns at shareholder meetings. This last consideration will bring the notion of 'de facto' control firmly within the consolidation standard.

PSAK 65 also includes guidance on participating and protective rights. Participating rights give an investor the ability to direct the activities of an investee that significantly affect the returns. Protective rights (often known as veto rights) will only give an investor the ability to block certain decisions outside the ordinary course of business.

The new standard includes guidance on agent/ principal relationships. An investor (the agent) may be engaged to act on behalf of a single party or a group of parties (the 'principals'). Certain power is delegated to the agent – for example, to manage investments. The investor may or may not have control over the pooled investment funds. PSAK 65 includes a number of factors to consider when determining whether the investor has control or is acting as an agent.

Who is affected?

PSAK 65 has the potential to affect all reporting entities (investors) that control one or more investees under the revised definition of control. The determination of control and consolidation decisions may not change for many entities. However, the new guidance will need to be understood and considered in the context of each investor's business. Management should consider whether PSAK 65 will affect their control decisions and consolidated financial statements.

For further reading on the new control assessment, please refer to the PwC Manual of Accounting chapter 24A, 'Consolidated financial statements'.

Joint arrangements – PSAK 66 and Investment in associates and joint ventures – PSAK 15 (revised 2013)

PSAK 66 is an adoption of IFRS 11, 'Joint arrangements'. PSAK 66 superseded PSAK 12 for the accounting of joint arrangements. Changes made to the definitions have reduced the 'types' of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. Entities that participate in joint operations will need to follow accounting much like that for joint assets or joint operations today.

Effective date
Annual periods beginning on or after 1 January 2015.

What are the key provisions?

Underlying principles

A joint arrangement is defined as being an arrangement where two or more parties contractually agree to share control. Joint control exists only when the decisions about activities that significantly affect the returns of an arrangement require the unanimous consent of the parties sharing control. All parties to a joint arrangement should recognise their rights and obligations arising from the arrangement. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement.

The structure and form of the arrangement is only one of the factors to consider in assessing each party's rights and obligations. The terms and conditions agreed by the parties (for example, agreements that may modify the legal structure or form of the arrangement) and other relevant facts and circumstances should also be considered.

Types of joint arrangement and their measurement

PSAK 66 classifies joint arrangements as either joint operations or joint ventures. The 'jointly controlled assets' classification in PSAK 12, 'Interests in joint ventures', has been merged into joint operations, as both types of arrangements generally result in the same accounting outcome.

A joint operation is a joint arrangement that gives parties to the arrangement direct rights to the assets and obligations for the liabilities. A joint operator will recognise its interest based on its involvement in the joint operation (that is, based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement.

A joint operator in a joint operation will therefore recognise in its own financial statements:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output of the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

A joint venture, in contrast, gives the parties rights to the net assets or outcome of the arrangement. A joint venturer does not have rights to individual assets or obligations for individual liabilities of the joint venture. Instead, joint venturers share in the net assets and, in turn, the outcome (profit or loss) of the activity undertaken by the joint venture. Joint ventures are accounted for using the equity method in accordance with PSAK 15, 'Investments in associates and joint ventures'. Entities can no longer account for an interest in a joint venture using the proportionate consolidation method.

Who is affected?

Entities with existing joint arrangements or that plan to enter into new joint arrangements will be affected by the new standard. Upon adoption of the new standard or upon entering into the arrangement, these entities will need to assess their arrangements to determine whether they have invested in a joint operation or a joint venture. Entities that have been accounting for their interest in a joint venture using proportionate consolidation will no longer be allowed to use this method; instead they will account for the joint venture using the equity method or account for their share of assets and liabilities if it is assessed as a joint operation. In addition, there may be some entities that previously equity- accounted for investments that may need to account for their share of assets and liabilities now that there is less focus on the structure of the arrangement. The transition provisions of PSAK 66 require entities to apply the new rules at the beginning of the earliest period presented upon adoption. When transitioning from the proportionate consolidation method to the equity method, entities should recognise their initial investment in the joint venture as the aggregate of the carrying amounts that were previously proportionately consolidated. In transitioning from the equity method to accounting for assets and liabilities, entities should recognise their share of each of the assets and liabilities in the joint operation, with specific rules detailing how to account for any difference from the previous carrying amount of the investment.

What do affected entities need to do?

Management of entities that are party to joint arrangements should evaluate how the requirements of the new standard will affect the way they account for their existing or new joint arrangements. The accounting may have a significant impact on entities' financial results and financial position, which should be clearly communicated to stakeholders as soon as possible.

Management should also carefully consider the planned timing of their adoption. If they wish to retain the current accounting for existing arrangements, now is the time to consider how the terms of these arrangements can be reworked or restructured to achieve this.

For further reading on joint arrangements, please refer to the PwC Manual of Accounting chapter 28A, 'Joint arrangements (IFRS 11)'.

Disclosure of interests in other entities – PSAK 67

PSAK 67 sets out the required disclosures for entities reporting under the two new standards, PSAK 65, 'Consolidated financial statements', and PSAK 66, 'Joint arrangements'.

Effective date
Annual periods beginning on or after 1 January 2015.

What are the key provisions?

PSAK 67 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet this objective, disclosures are required in the following areas

Significant judgements and assumptions

Significant judgements and assumptions made in determining whether the entity controls, jointly controls, significantly influences or has some other interests in other entities include:

- an assessment of principal-agent relationships in consolidation;
- determination of the type of joint arrangement; and
- any override of presumptions of significant influence and control when voting rights range from 20% to 50%, and exceed 50%, respectively.

Interests in subsidiaries

This includes information about:

- group composition;
- interests of non-controlling interests ("NCI") in group activities and cash flows, and information about each subsidiary that has material NCI, such as its name, principal place of business and summarised financial information;
- significant restrictions on access to assets and obligations to settle liabilities;
- risks associated with consolidated structured entities, such as arrangements that could require the group to provide financial support;
- accounting for changes in the ownership interest in a subsidiary without a loss of control - a schedule of the impact on parent equity is required;
- accounting for the loss of control – detail of any gain/loss recognised and the line item in the statement of comprehensive income in which it is recognised; and
- subsidiaries that are consolidated using different year ends.

Interests in joint arrangements and associates

Detailed disclosures include:

- the name, country of incorporation and principal place of business;
- proportion of ownership interest and measurement method;
- summarised financial information;
- fair value (if published quotations are available);
- significant restrictions on the ability to transfer funds or repay loans;
- year-ends of joint arrangements or associates if different from the parent's; and
- unrecognised share of losses, commitments and contingent liabilities.

Who is affected?

All entities that have interests in subsidiaries, associates, joint ventures or unconsolidated structured entities are likely to face increased disclosure requirements. Management should therefore consider whether it will need to implement additional processes to be able to compile the required information.

Fair value measurement – PSAK 68

PSAK 68 is an adoption of IFRS 13, 'Fair value measurement', which explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements.

Effective date
Annual periods beginning on or after 1 January 2015.

What are the key provisions?

The guidance in PSAK 68 does not apply to transactions within the scope of PSAK 53, 'Share-based payment', or PSAK 30, 'Leases', or to certain other measurements that are required by other standards and are similar to, but are not, fair value (for example, value in use in PSAK 48, 'Impairment of assets').

Definition of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value of a liability therefore reflects non-performance risk (that is, own credit risk).

Principal or most advantageous market

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal market is the market with the greatest volume and level of activity for the asset or liability that can be accessed by the entity.

Market participant assumptions

Fair value is measured using the same assumptions and taking into account the same characteristics of the asset or liability as market participants would. Fair value is a market-based, not entity- specific measurement.

Highest and best use

For non-financial assets only, fair value is determined based on the highest and best use of the asset as determined by a market participant.

Bid and ask prices

The use of bid prices for asset positions and ask prices for liability positions is permitted if those prices are most representative of fair value in the circumstances, but it is not required.

Fair value hierarchy

Fair value measurements are categorised into a three-level hierarchy, based on the type of inputs to the valuation techniques used, as follows:

- level 1 inputs are quoted prices in active markets for items identical to the asset or liability being measured. Consistent with current literature, if there is a quoted price in an active market (that is, a Level 1 input), an entity uses that price without adjustment when measuring fair value;
- level 2 inputs are other observable inputs; and
- level 3 inputs are unobservable inputs, but that nevertheless must be developed to reflect the assumptions that market participants would use when determining an appropriate price for the asset or liability.

Each fair value measurement is categorised based on the lowest level input that is significant to it.

Disclosures

The guidance includes enhanced disclosure requirements that could result in significantly more work for reporting entities. These requirements are similar to those in PSAK 60, 'Financial instruments: Disclosures', but apply to all assets and liabilities measured at fair value, not just financial ones.
The required disclosures include:
- information about the hierarchy level into which fair value measurements fall;
- transfers between Levels 1 and 2; and
- methods and inputs to the fair value measurements and changes in valuation techniques.

Additional disclosures for Level 3 measurements that include a reconciliation of opening and closing balances, quantitative information about unobservable inputs and assumptions used, a description of the valuation processes in place, and qualitative discussion about the sensitivity of recurring Level 3 measurements.

Who is affected?

Almost all entities use fair value measurements and will therefore be subject to the new requirements. Some changes may be required (for example the inclusion of own credit risk) to those fair value measurements today. There are also enhanced disclosure requirements that will be required by all entities. Therefore, preparers should begin by evaluating the nature and extent of the fair value measurements that they are currently required. Management will need to determine which, if any, of the measurement techniques used will have to change as a result of the new guidance, and what additional disclosures will be necessary.

For further reading on fair value measurement, please refer to the PwC Manual of Accounting chapter 5, 'Fair value'.

Impairment of assets – PSAK 48 (revised 2014)

DSAK has adopted the amendments made to IAS 36, 'Impairment of assets'.

Effective date
Annual periods beginning on or after 1 January 2015.

This is a consequential amendment to the introduction of PSAK 68, 'Fair value measurement'. The standard re-emphasises the principle that for the purpose of impairment testing, the cash generating unit (CGU) or groups of CGUs to which goodwill is allocated should not be larger than an operating segment (as defined by PSAK 5 'Operating segments') before aggregation.

What are the new disclosure requirements?

The revised standard requires additional disclosure of information about the recoverable amount of a CGU that is measured based on the fair value less costs of disposal. The notable new requirements are:

- to require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognised or reversed;
- to require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognised or reversed;
- to require disclosure of the fair value hierarchy within which the fair value measurement of the CGU is categorised; and
- to require disclosure of valuation technique, key assumptions, including the discount rate used to measure the fair value less costs of disposal of a CGU.

Who does the amendment affect?

All reporting entities carrying out impairment testing of non-financial assets will be affected, be it the annual impairment testing of goodwill or other tangible / intangible assets (for example, mining properties and oil and gas properties).

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