IFRS 9
PSAK 71
Financial instruments
The Indonesian Financial Accounting Standard Board has published PSAK 71, which was adopted from IFRS 9. It will be effective commencing on or after 1 January 2020.

Whilst the changes will significantly impact financial institutions, all entities will be required to consider whether the changes may subsequently affect their financial instruments, and hence their financial statements.

**HOW WILL IT IMPACT ENTITIES THAT ARE NOT FINANCIAL INSTITUTIONS?**

- Financial assets will be classified on the basis of the cash flows associated with the asset and the entity’s business model instead of whether they meet defined criteria for different categories of financial asset, as they are currently. So they may need to be measured differently.

- Fair value gains and losses arising on the re-measurement of certain financial assets previously classified as ‘available-for-sale’ under PSAK 55 (e.g. some investments in debt instruments) will be recognized in profit or loss rather than in other comprehensive income.

- There is no longer the requirement to separate out derivatives embedded in financial assets from host contracts. Instead, it is probable that the host contract will be measured at fair value with movements recognized in profit or loss.

- Due to the implementation of a new impairment loss model, which is based on expected rather than incurred losses, impairment losses will be recognized earlier.

- The new hedging requirements are easier to interpret and are more closely aligned with the risk management objectives and strategies of the business. Specifically, there is more flexibility in applying hedge accounting to groups of items, including net positions, so hedging accounting can be adopted on a more ‘entity wide’ basis. This could make hedge accounting a more accessible and worthwhile approach for some businesses.

- There will be no impact on the recognition and measurement of financial liabilities unless a liability has been designated as fair value through profit or loss in which case changes in the fair value of the liability attributable to changes in credit risk of the borrower are presented in other comprehensive income.

**WHAT ACTION DO YOU NEED TO TAKE?**

- Identify the financial instruments that you have and note how each one is measured.

- For financial assets that were in the scope of PSAK 55, identify the nature of the cash flows associated with them and the business reasons for holding them, as this will impact on their measurement.

- Earlier recognition of impairment losses may impact on key performance indicators and covenant breaches, so it is important to identify how the new model will impact these.

- Consider whether the new hedge accounting requirements could be applied.

- Look at the transitional arrangements and options available and how they should be applied.

**HOW WE CAN HELP**

RSM has the experience and the expertise to help:

- Assess the impact of the new standard on your financial statements, tax cash flows and distributable profits.

- Assess the available options for the presentation of fair value gains or losses, the impact these will have and the actions that will need to be taken.

- Value your financial instruments.

- Assess whether hedge accounting could be applied and if so develop procedures for measuring hedge effectiveness.

RSM Indonesia
Plaza ASIA Level 10
Jl. Jend. Sudirman Kav.59
Jakarta 12190
T: +62 21 5140 1340
E: inquiry@rsm.id

www.rsm.id