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NAVIGATING THROUGH UNCERTAINTIES: **APPLYING FINANCIAL REPORTING STANDARDS UNDER COVID-19**

As businesses continue their assessment of the impact of COVID-19 to their operation and more importantly going concern, stakeholders start to pick up the pieces and prepare for life with the pandemic. Accountants as trusted advisors are expected to play an important role in among others providing assurance over accountability of financial relief introduced by the Government and assistance to businesses in putting their numbers into accounts and accessing loans made available as part of the Government stimulus.

IAI recognises the importance of maintaining a robust, transparent, and accountable financial reporting ecosystem under the uncertainties that come with COVID-19. Financial stability is a key component of the Government's economic recovery plan and serve as a foundation for the nation's journey in dealing with the many challenges that come with the pandemic.

IAI as the recognised professional body for professional accountants also ensure that accountants and stakeholders in Indonesia are aware of the many COVID-19 resources issued by IFAC and its networks of accountancy bodies. IAI published a dedicated COVID-19 page (<http://iaiglobal.or.id/v03/iai-covid19/#>), frequently updated with curated list of resources that Indonesian stakeholders can use to learn more about how the profession worldwide is dealing with COVID-19.

Together with the Indonesian Financial Accounting Standards Board (*Dewan Standar Akuntansi Keuangan – DSAK IAI*), IAI is working closer with governing authorities to provide preparers and users of financial information with guidance and clarifications on implementation of certain aspects of key financial reporting standards potentially affected by COVID-19. These are further supplemented by continuous virtual activities (i.e. webinars, conferences, hearings, etc) to provide members and stakeholders with comprehensive exploration of the considerations behind issuance of the guidance and clarifications.

Events after the Reporting Period

As the World Health Organization (WHO) announced COVID-19 as a global pandemic in January 30, 2020, Indonesia's first confirmed case was not announced (by the President of the Republic of Indonesia) until March 2, 2020.

Considering the facts available and the above timeline, DSAK IAI believes the pandemic is not an adjusting event for amounts presented and recognised in the 2019 financial statements. Entities need to ensure that measurement of its assets and liabilities reflects existing conditions on the date of financial reporting.

Nonetheless, if the entity believes that there are significant events after the reporting period that could threaten its going concern in the foreseeable future – *paragraph 14 of PSAK 8*, the entity should use its judgment to determine whether COVID-19 may affect its going concern by considering all relevant facts and information, including measures introduced by the Government as part of its financial relief.

Financial Instruments

Considering the facts that knowledge and information about COVID-19 in Indonesia were not available as of December 31, 2019, entities cannot use this as basis in measuring Expected Credit Losses (ECL) nor in the modelling scenarios according to the probability-weighting estimates as at the date of initial application of PSAK 71 *Financial Instruments* (i.e. January 1, 2020).

Under normal conditions, the rescheduling or restructuring of receivables by lenders (for example, banks and other financial institutions) indicates the existence of Significant Increase in Credit Risk (SICR) and is followed by provision of lifetime ECL. However, under current condition, wherein relevant governing authorities issued policies that encourage or allow payment moratorium or restructuring, it may not be appropriate for entities to immediately assume



that the restructuring indicates that the receivables experienced SICR as they were in normal conditions before the pandemic.

Debtors whose business is significantly affected by COVID-19 may be able to recover during the pandemic due to Government measures. Conversely, it is possible for debtors who have even received a payment holiday or restructuring facility due to the pandemic to remain unable to survive and experience default after the pandemic ends. Entities shall identify and assess, and apply judgments in assessing whether debtors impacted by COVID-19 can recover and fulfil their contractual obligations after the end of the restructuring period, so that SICR does not occur for the remaining expected life of the receivables.

On the other hand, entities are reminded that measurement of ECL based on PSAK 71 requires the entities to consider the impact of time value of money [PSAK 71 paragraph 5.5.17 (b)]. For example, an increase in ECL will still occur even when the entity expects full payment for the loan, but there is a delay in the payment of the loan and interest is not considered during the deferral of payment. This happens because there is a loss in terms of the present value of cash flow.

Due to high level of uncertainty regarding the effect of COVID-19, even it's difficult, entities still have to estimate ECL and must carefully consider the nature and level of disclosure that needs to be included in the financial statements in relation to the pandemic in order to provide users with financial statements information about the risks arising from financial instruments and how the entities are managing those risks.

Fair Value Measurement

The Board aware of how the pandemic is affecting the volatility and volume of transactions in stock exchanges around the world, including Indonesia. DSAK IAI issued a clarification without any intention of changing the contents of PSAK 68 *Fair Value Measurement*, as a guidance for entities in applying the principle-based financial reporting standards.

DSAK IAI understands the purpose of measuring fair value is to determine the price at which orderly transactions will occur between market participants in conditions at the measurement date. PSAK 68 specifies hierarchy of fair value measurements, i.e. measurements with observable input information (quoted price in an active market – Level 1), and with other valuation techniques (Level 2 and Level 3).

Paragraph 77 of PSAK 68 requires that quoted prices in active markets are the most reliable evidence of fair value and are used without any adjustments to measure fair value. However, when the volume of transactions or the level of trading activities on the stock exchange significantly decreases, it is not easy to determine whether a transaction is orderly or not. Therefore, if a quoted price is available, it is not appropriate to make an adjustment to the quoted price or ignore a transaction that results in a quoted price, unless the transaction is determined as a transaction that is not orderly.

Paragraph PP43 of PSAK 68 provides examples of situations that indicate transactions are not orderly, among others, a seller is experiencing or on the verge of bankruptcy or under the supervision of a curator, a seller is required to sell by force to meet regulatory or legal requirements.



The screenshot shows the top section of the IAI website. It features a blue header with the IAI logo and navigation links for 'HOME' and 'BERITA IAI'. Below the header is a large banner with the title 'IAI - Antisipasi Profesi Atas Pandemi COVID-19' and an illustration of people wearing face masks. Underneath the banner is a 'Panduan' (Guidance) section containing a grid of links to various press releases and statements related to COVID-19 measures and financial reporting.

In general, it is not easy to conclude that a transaction is not an orderly transaction according to PSAK 68. Although paragraph PP43 of PSAK 68 explains circumstances that can indicate that a transaction is not orderly, but implicitly there is an irrefutable assumption that observable transactions between non-related parties are orderly.

PSAK 68 includes a guidance in paragraph PP44(c) in case if the entity does not have sufficient information to conclude whether a transaction is orderly. Paragraph PP44(c) explains that an entity cannot ignore observable information at the reporting date, but the entity shall put less weight to the market price that occurs when a transaction is deemed not orderly, when compared to market prices that have occurred previously when the transaction is considered orderly.

Therefore, the fair value of financial assets in an active market will continue to be calculated as a result of the multiplication between the quoted price of the financial asset and the quantity held (usually referred to as “price multiplied by quantity”), even in the event of significant market volatility.

In the event that government authorities have deemed a crisis and provide guidelines on self-developed model supported with adequate information, the entity may consider this as one of the inputs in determining the fair value at the level of individual transaction. DSAK IAI and government authorities always consult each other in policies relating to financial reporting in order to promote accountability and transparency.

PSAK 68 also requires additional disclosures if an entity does not use quoted prices to measure the fair value of assets or liabilities traded on an active market. Entities should pay attention to the detailed disclosure information required in PSAK 68 in order to meet the disclosure objective, which is to help users of financial statements understand the impact of measurements using Level 3 inputs on profit or loss or other comprehensive income in the reporting period (paragraph 91).

IAI understands the importance for supporting and equipping accountants in Indonesia with the latest skills, information, and know-how on how to deal with various challenges brought by the pandemic. The message is clear: the profession needs to maintain its integrity and professionalism in the midst of uncertainties. Together with regulators as well stakeholders IAI continues contribute to the nation's collective efforts in recovering from the impact of COVID-19.

IAI's official statement on COVID-19 (in English):
<http://iaiglobal.or.id/v03/berita-kegiatan/detail-berita-1234-ikatan-akuntan-indonesia-iai--statement-on-covid19-measures>.