

# Accounting News Flash

April 2017

## ISAK 32 – Clarifying Accounting Policy Conflicts between SAK and Capital Market Pronouncements

ISAK 32 *Definition and Hierarchy of Indonesian Financial Accounting Standards (“SAK”)*, issued in March 2017, clarifies the definition and hierarchy of SAK, particularly where pronouncements issued by capital market regulators are in conflict with the existing requirements in PSAK/ISAK.

ISAK 32 is intended to be an interim solution to resolve perceived inconsistencies between the definition of SAK in PSAK 1 *Presentation of Financial Statements* and the hierarchy of SAK in PSAK 25 *Accounting Policies, Changes in Accounting Estimates and Errors*.

SAK as defined in PSAK 1 is comprised of standards (PSAK) and interpretations (ISAK) issued by the Financial Accounting Standards Board or Syariah Accounting Standards Board (collectively referred to as the “Boards”), as well as “regulations of the capital market regulators for entities under its oversight”. Questions arise as to which standard prevails, if a capital market pronouncement is inconsistent with existing requirements in a PSAK/ISAK e.g. if the capital market pronouncement specifies the application of “form over substance”, while an existing PSAK/ISAK requires the use of “substance over form” principles.

ISAK 32 reiterates that in the hierarchy of SAK (as currently included in PSAK 25), if a PSAK/ISAK is applicable to account for a specific transaction/event, an entity is required to follow the existing requirements in that PSAK/ISAK. In the absence of specific guidance, an entity needs to develop an accounting policy by reference to:

- a. PSAKs/ISAKs applicable for similar transactions/events
- b. the Conceptual Framework, and

- c. standards issued by other standard setters, to the extent that they are built upon a framework that is consistent with SAK and its Conceptual Framework.

Consequently, if capital market authorities issue an accounting pronouncement that is inconsistent with the existing requirements in a PSAK/ISAK, this interpretation requires an entity to follow the requirements in that PSAK/ISAK. Otherwise, the entity will not be able to make an explicit and unreserved statement of compliance with SAK as required by PSAK 1.

ISAK 32 is only applicable if SAK is the basis for the preparation of the financial statements and if an entity makes an explicit and unreserved statement of compliance with SAK. If entities under the oversight of capital market regulators are required to apply a specific financial reporting framework other than SAK, ISAK 32 is not applicable and the entities must follow the hierarchy in the financial reporting framework as defined by the capital market regulators.

ISAK 32 interprets the existing definition of SAK in PSAK 1 and does not attempt to resolve other issues beyond that definition (e.g. whether or not accounting pronouncements of bank regulators are to be considered as part of SAK).

ISAK 32 is effective for annual period beginning on or after 1 January 2017. However, if prior to the effective date of ISAK 32, an entity elects to apply certain regulations/pronouncements by regulators, that specify an accounting treatment inconsistent with an existing PSAK/ISAK, then the effective date of ISAK 32 is the same as the effective application of those regulations/pronouncements.

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