

# Accounting News Flash

April 2017

## POJK 6 – OJK Pronouncement on Accounting for Sales and Purchases of Electricity

Indonesian Financial Services Authority (“OJK”) Regulation No. 6 POJK.04/2017 (“POJK”), specifying the accounting treatment for sales and purchases of electricity, was issued in March 2017.

This POJK sets out the accounting treatment for sales and purchases of electricity under so-called Power Purchase Agreements (“PPAs”) and is applicable to:

- a. listed or public companies engaged in the provision of electricity for public services (including its designation by a Presidential Decree for the acceleration in the development of electricity infrastructure), and
- b. other listed or public companies producing or supplying electricity (commonly known as Independent Power Producers or “IPPs”) to listed or public companies as specified in point a).

This POJK overrides the accounting analysis on rights and obligations specified in PPAs and concludes that PPAs are to be accounted for as sales and purchases of electricity. For entities subject to the requirement of this POJK, the existing accounting treatments under PPAs, which generally fall under ISAK 8 *Determining whether an Arrangement contains a Lease* or ISAK 16 *Service Concession Arrangements*, are overruled.

This POJK applies not only to listed or public companies directly engaging in producing or supplying electricity under PPAs (IPPs), but also to the consolidated financial statements of listed or public companies which have IPPs subsidiaries. Because this POJK does not extend to companies other than listed or public companies, as so defined, the accounting records of a subsidiary that applies

either ISAK 8 or ISAK 16 must be unwound by its parent company for the purpose of preparing consolidated financial statements of listed or public entities; the PPA transactions are to be accounted for as sales and purchases of electricity transactions in the consolidated financial statements of listed or public companies. This POJK is silent on whether or not similar adjustment should be applied by a listed or public companies having equity-accounted investments in non-listed/non-public IPP investees.

This POJK also clarifies that “generally accepted accounting principles” are the applicable financial reporting framework for listed or public companies subject to this POJK. The “generally accepted accounting principles” comprise of:

- a. standards and interpretations issued by the Financial Accounting Standards Board or Syariah Accounting Standards Board (collectively referred to as the “Boards”) of the Institute of Indonesia Chartered Accountants (IAI), and
- b. financial accounting pronouncements issued by the OJK. The OJK pronouncements shall prevail if there are differences between the two standards. The reference to and hierarchy of “generally accepted accounting principles” in this POJK is akin to those described in the elucidation of Capital Market Law No 8/1995.

Nonetheless, it is not clearly indicated in the POJK whether “generally accepted accounting principles” shall also be the applicable financial reporting framework for all listed or public companies in Indonesia (other than IPPs), although the perception is that it is also applicable for all listed or public companies in Indonesia.

This POJK is effective for annual periods beginning on or after 1 January 2017, with a prospective transitional provision. Nonetheless, early adoption is permitted and can be applied prospectively from annual periods beginning on or after 1 January 2016. This POJK clarifies that, if mandates from the aforementioned Presidential Decree for acceleration in the development of electricity infrastructure elapse or cease to exist, listed or public companies are required to revert back to apply standards and interpretations issued by the Boards and to prospectively account for PPA transactions under those standards or interpretations.



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