KPMG

Accounting News Flash

Are you ready?

PSAK 119: *Subsidiaries without Public Accountability: Disclosures* – Reduced disclosures for subsidiaries

PSAK 119 allows eligible subsidiaries to reduce their financial statements' disclosures substantially. PSAK 119—which adopts IFRS 19—responds to concerns of disclosures burden encountered by subsidiaries, resulting in disclosures that are lacking focus on information needs of financial statements' primary users. Because the simplification is solely confined to disclosures, an entity electing to apply PSAK 119—subject to eligibility criteria as below—will have to apply the recognition, measurement, and presentation requirements in SAK Indonesia.

Now it is time for subsidiaries to assess if they will benefit from transitioning to PSAK 119.

Scope and eligibility criteria

An entity may elect to apply PSAK 119 in its consolidated, separate or individual financial statements, provided that at the reporting date:

- it is a subsidiary;
- it does not have public accountability[1]; and
- its parent produces consolidated financial statements that are available for public use under SAK Indonesia, SAK Internasional or IFRS Accounting Standards.

Throughout this publication, "eligible subsidiary" refers to an entity which meets all of the abovementioned criteria.

Although applying PSAK 119 will result in reduced disclosures, an eligible subsidiary may provide additional disclosures if it is necessary for understanding of the users. Conversely, an eligible subsidiary does not have to provide a specific disclosure required by PSAK 119 if such information is not material to the overall financial statements.

KPMG observation

Final version of PSAK 119 expands its scope to allow subsidiaries of IFRS reporters to apply PSAK 119, provided that all other eligibility criteria are met—while the draft version limits its scope solely to subsidiaries of SAK Indonesia reporters. Eligible subsidiaries of multinational companies reporting under IFRS Accounting Standards will likely get benefits from applying reduced disclosures requirements in PSAK 119.

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[1] A subsidiary generally has public accountability if it is listed on a public market or holds assets in a fiduciary capacity as one of its primary businesses (e.g. banks, mutual funds etc.). Refer to the standard for the full definition.

Electing and revoking PSAK 119 election

Because the application of PSAK 119 is voluntary, an eligible subsidiary that elects to apply PSAK 119 in current reporting period may revoke that election in future reporting period. It may also choose to re-apply the standard in subsequent periods based on changing needs.

Opportunity to eliminate unnecessary reporting costs

An eligible subsidiary currently preparing its financial statements under SAK Indonesia for Private Entities ("SAK EP", that is largely based on IFRS for SMEs) may also consider transitioning its accounting policies from SAK EP into SAK Indonesia, while providing disclosures proportionate to the information needs of primary users of its financial statements. Such transition will eliminate the necessity to maintain dual accounting records (i.e. one set for its general purpose/statutory reporting applying SAK EP, and another set for group consolidation package under SAK Indonesia) and simplify reporting systems and processes.

The benefits for those subsidiaries transitioning to SAK Indonesia through PSAK 119 will vary depending on their specific facts and circumstances, including whether the subsidiaries have relatively simple and straightforward transactions, such that potential differences between applying SAK Indonesia and SAK EP might be limited. Upon initial application, those subsidiaries may need dedicated resources to evaluate their existing accounting policies and assess the impact from transition away from SAK EP, but later on will benefit from subsequent reporting costs savings after applying PSAK 119.

PSAK 119 for intermediate parent

An intermediate parent with intention to apply PSAK 119 in its separate financial statements shall assess its eligibility, regardless of whether other entities within the group, or the group as a whole, have public accountability. In other words, if the group (to which the parent entity is a part of) has public accountability, but the parent entity itself does not have public accountability and meets other eligibility criteria, it may apply PSAK 119 in its separate financial statements.

KPMG observation

However, because PSAK 227: *Separate Financial Statements* only allows separate financial statements of the parent entity as an appendix to the consolidated financial statements, it appears that the circumstance of an eligible intermediate parent applying PSAK 119 may be rare. Our observations of existing practice appear to indicate that when separate financial statements are attached as an appendix to the consolidated financial statements, the appendix rarely includes disclosures. As a result, reduced disclosures requirements in PSAK 119 may not be appealing to an eligible intermediate parent.

Statement of compliance

An eligible subsidiary applying PSAK 119 is required to make an explicit statement that it has applied the standard. Whilst PSAK 119 does not include examples on such an explicit statement, the following wording may be appropriate:

> "These [consolidated/separate/individual] financial statements have been prepared in accordance with SAK Indonesia and the reduced disclosure requirements of PSAK 119: *Subsidiaries without Public Accountability: Disclosures.*"

Example: Reduced disclosure requirements

The application of PSAK 119 is expected to result in substantial reduction of disclosures. Let's look at an example of how PSAK 119 will reduce disclosures for employee benefits under PSAK 219: *Employee Benefits*, one that is expected to widely applies to subsidiaries across industries. From a total of 37 disclosures requirements[2] of PSAK 219, 19 disclosures requirements are reduced[3] by PSAK 119, while remaining 18 disclosures are retained. Examples of reduced disclosures, among others, encompasses the following: reconciliation of opening and ending balances (PSAK 219.140) for comparative information, key management disclosures (PSAK 219.54 and 219.151(b)), and sensitivity analysis (PSAK 219.145).

How will PSAK 119 be maintained?

Reduced disclosures in PSAK 119 are developed based on disclosure requirements from other PSAKs/ISAKs applicable at the date of when the draft standard is exposed for public comments. Going forward, as standards are evolving, it is generally understood that PSAK 119 is to be periodically updated to catch up with future amendments of existing standards or the new standards.

Circumstances where eligible subsidiaries may not apply PSAK 119

Although eligible subsidiaries may benefit from applying PSAK 119, care must be taken in case the subsidiaries' financial statements are to be included as part of the Group's regulatory filing with the authorities (e.g. for a corporate action). Whilst the prevailing OJK Regulation[4] does not require subsidiaries' financial statements to be filed as part of the Group's registration statement with the OJK, there might be specific circumstances necessitating their inclusion in the registration statement filing with the OJK (e.g. in light of OJK's consideration that providing such information is important for public interest). In that case, providing reduced disclosures under PSAK 119 might not be appropriate, as it might be argued that information needs from that subsidiaries would be similar to the needs of investors in a company with public accountability, and therefore additional disclosure may be needed.

Due to lack of clarity in these instances, the Group (that is an existing or potential registrant) might consider consulting its advisers on the application of PSAK 119 by its subsidiaries in connection with Group's filings with the OJK.

Effective date and transition

PSAK 119 is effective for reporting periods beginning on or after 1 January 2027, and earlier application is permitted.

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[2] Based on total line item of disclosure requirements of IAS 19 (the equivalent of PSAK 219), as summarized in Disclosure Tracker (an education material published by the IASB in May 2024 concurrent with issuance of IFRS 19).

[3] PSAK 219.25, 219.33, 219.34, 219.54, 219.135, 219.136, 219.137, 219.139(b)-(c), 219.140(a)(iii), 219.141(c)(ii)-(iv), 219.141(e), 219.141(h), 219.145, 219.146, 219.147(c), 219.148(a)-(c),(d)(iii),(v), 219.151, 219.158, 219.171. For impact of reduced disclosures of other standards, refer to Disclosure Tracker via this link.

[4] OJK Regulation No. 8/POJK.04/2017

Differences with IFRS 19: *Subsidiaries without Public Accountability: Disclosures*

PSAK 119 adopts all requirements in IFRS 19, except for those from standards that are yet to be adopted into SAK Indonesia (IFRS 1 or IFRS 14) or those dealing with specific paragraphs that are carved-out, e.g. requirements in IFRS 19.173-174 and IFRS 19.B2-B3 on fair presentation override (for departure from IFRS Accounting Standards) that are not adopted into SAK Indonesia.

In addition, there are no reduced disclosure requirements for SAK Indonesia which has no equivalent IFRS Accounting Standards, such as PSAK 338: *Business Combinations of Entities Under Common Control* and PSAK 370: *Accounting for Tax and Amnesty Assets and Liabilities*.

Key takeaways:

Preparing disclosures is often a pain point in the drafting of financial statements. By reducing the volume of required disclosures, PSAK 119 may save eligible subsidiaries time and effort in this area when preparing its financial statements. However, each subsidiary would need to determine if adopting PSAK 119 makes sense under its circumstances, in light of current and future information needs of its stakeholders or its planned transactions or corporate actions.

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