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# *FS Business Update*

PwC Indonesia Financial Services

13 October 2010





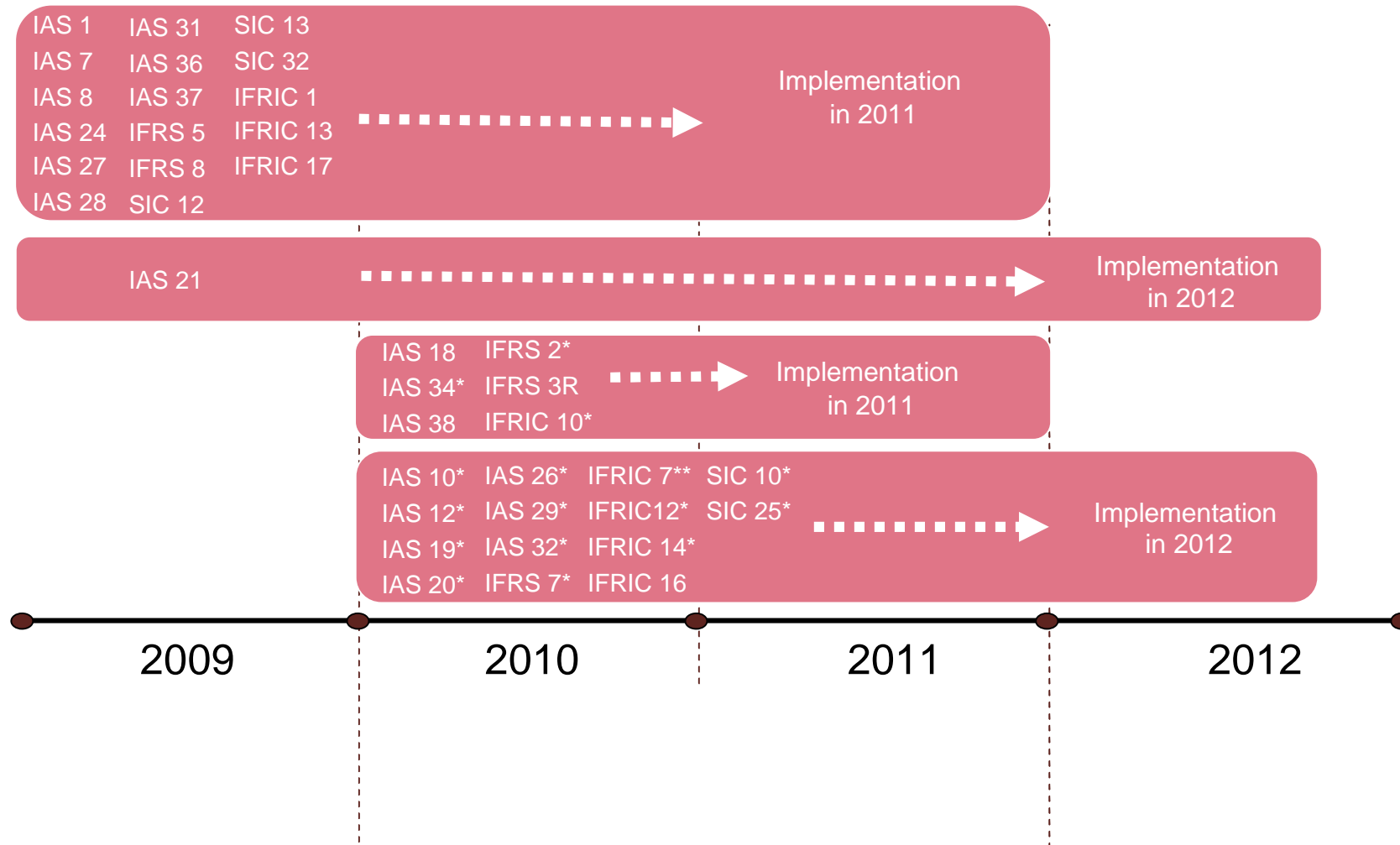
Jusuf M Wibisana  
Partner  
Assurance Services

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# *Agenda*

- Path to adoption of IFRS in Indonesia
- New PSAKs
- Tax Session
- Islamic Finance
- IT- How do you prepare for PSAK Implementation

# ***Path to adoption of IFRS in Indonesia***



\* Still in exposure draft

\*\* Tentatively proposed to be effective in 2012



Dudi M. Kurniawan  
Associate Partner  
Assurance Services

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# ***Agenda***

- Path to adoption of IFRS in Indonesia
- New PSAKs
- Tax Session
- Islamic Finance
- IT- How do you prepare for PSAK Implementation

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## ***New PSAKs***

- PSAK 4 (Revised 2009) - Consolidated and separate financial statements (IAS 27R)
- PSAK 5 (Revised 2009) - Operating segment (IFRS 8)
- ISAK 10 - Customer loyalty programs (IFRIC 13)
- PSAK 25 (Revised 2009) - Accounting policies, changes in estimates and errors) (IAS 8)

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## ***PSAK 4 (Revised 2009) - Consolidated & Separate F/S Comparison with previous standard***

Differences with the previous version of PSAK 4, among others:

- Potential voting rights considered in determining control
- A subsidiary is not excluded from consolidation just because the investor is a venture capitalist or mutual fund
- Guidance when reporting date of the parent is different from that of the subsidiary
- Non-controlling interest can be negative
- Disposal of interests in a subsidiary that does not result in loss of control -> equity transaction
- Separate financial statements of the parent:
  - as a supplementary information to the consolidated F/S
  - investment in subsidiary at cost or in accordance with PSAK 55



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## ***PSAK 5 (Revised 2009) - Operating Segments***

- An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates
- Operating segments are “components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance”

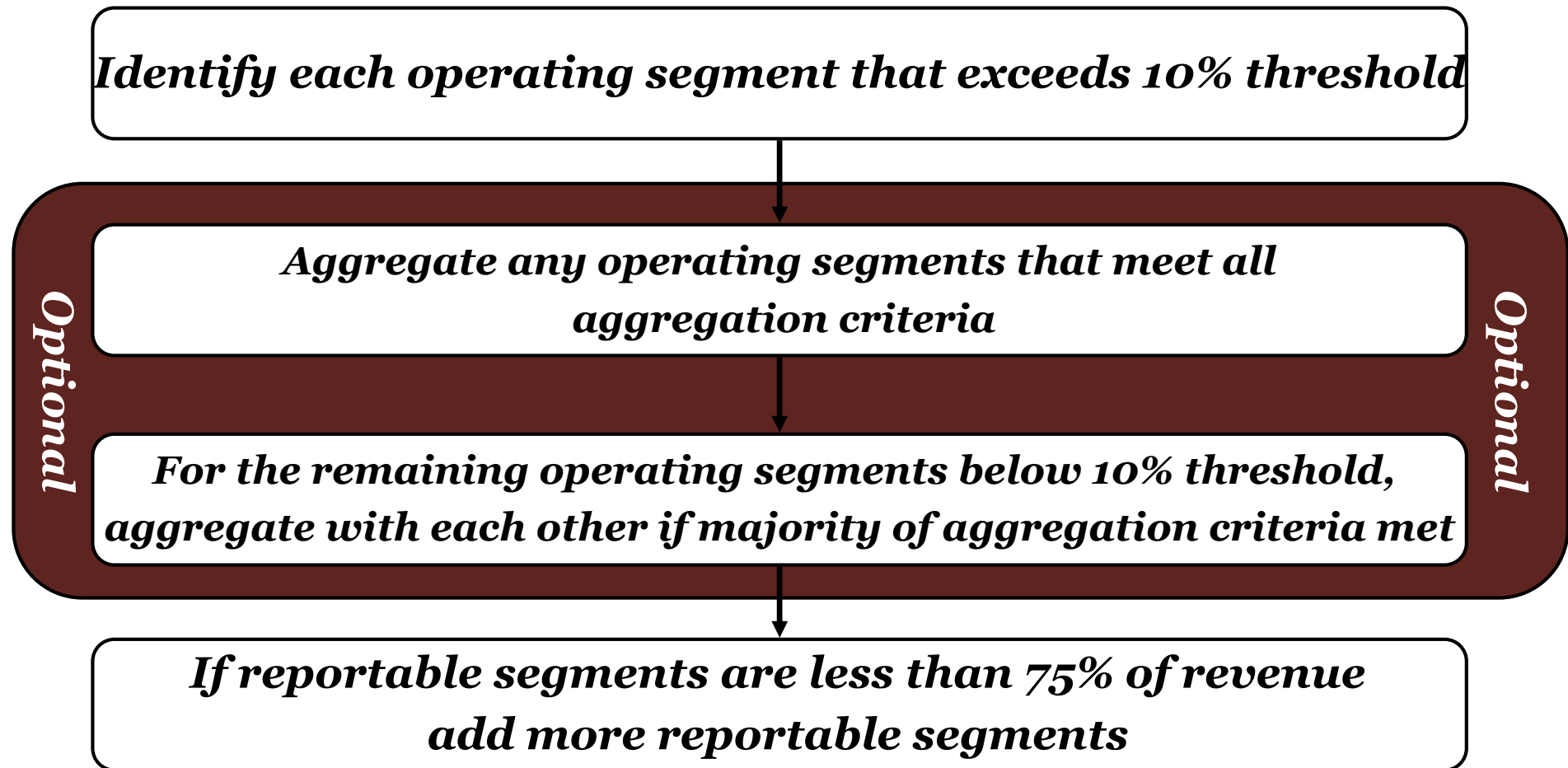
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***PSAK 5 (Revised 2009) - Operating Segments***  
***What are the key features of an operating segment?***

- a. Engages in business activities
- b. Operating results are regularly reviewed by CODM to assess performance and make decisions
- c. Discrete financial information available

## ***PSAK 5 (Revised 2009) - Operating Segments***

### ***Determining reportable segment***



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## ***PSAK 5 (Revised 2009) - Operating Segments***

### ***Determining reportable segments***

Aggregation criteria:

Aggregation is consistent with core principle



Segments have similar economic characteristics



Segments similar on each of five specified criteria\*\*\*



# ***PSAK 5 (Revised 2009) - Operating Segments***

## ***Disclosure considerations***

Disclosure of certain minimal information

	<b><u>Must disclose</u></b>	<b><u>Disclose if provided in some manner to CODM</u></b>
<b>Non-GAAP Measures</b>	Measure of assets	Segment liabilities
	Measure of profit	Significant items like depreciation, interest, revenue
	Reconciliation of totals to primary financial statements	Associates and capex

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## ***PSAK 5 (Revised 2009) - Operating Segments***

### ***Reportable segment***

<b>Operating segment</b>	<b>Segment reporting</b>
Corporate banking	Banking
Retail banking	
Investment banking	
Sharia banking	Sharia banking
Securities	Securities
Others	Others

---

## ***ISAK 10 - Customer Loyalty Program***

How to treat an entity's obligation to provide free or discounted goods or services ("awards") in the future:

- Allocate some of the consideration received or receivable to award credits and defer revenue
- Amount of consideration allocated based on Fair Value of the award credit

*Reward points  
programmes*

*Miles credit  
cards*

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## ***PSAK 25 (Revised 2009) - Accounting Policies, Changes in Estimates and Errors***

- Terminology: fundamental errors → errors
- Hierarchy of accounting policies
  - Specifically applicable PSAK
  - Accounting policies to produce information that is relevant and reliable
  - PSAKs applicable for similar items
  - Framework for the Preparation and Presentation of Financial Statements
  - Pronouncements by other standards-setter
- Mandatory disclosure of new PSAKs not yet effective & potential impact



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## ***PSAK 7 (R 2009) – Disclosures of Related Parties***

- Related parties include, among others:
  - parent
  - subsidiaries
  - fellow subsidiaries
  - associates
  - key management personnel of the entity or its parent (or close family members of their families )
  - post-employment benefit plans

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## ***PSAK 7 (R 2009) – Disclosures of Related Parties***

- Transactions with related parties require certain disclosures, such as:
  - the nature of relationships
  - the amounts of transactions
  - outstanding balances
  - doubtful debt expenses
  - other matters necessary for a clear understanding of the financial statements

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## ***PSAK 7 (R 2009) – Disclosures of Related Parties***

What is new?

- Definition of related parties
- Clarifies that an entity is required to disclose whether the terms of a related party transactions are at arm's length only when the terms can be substantiated

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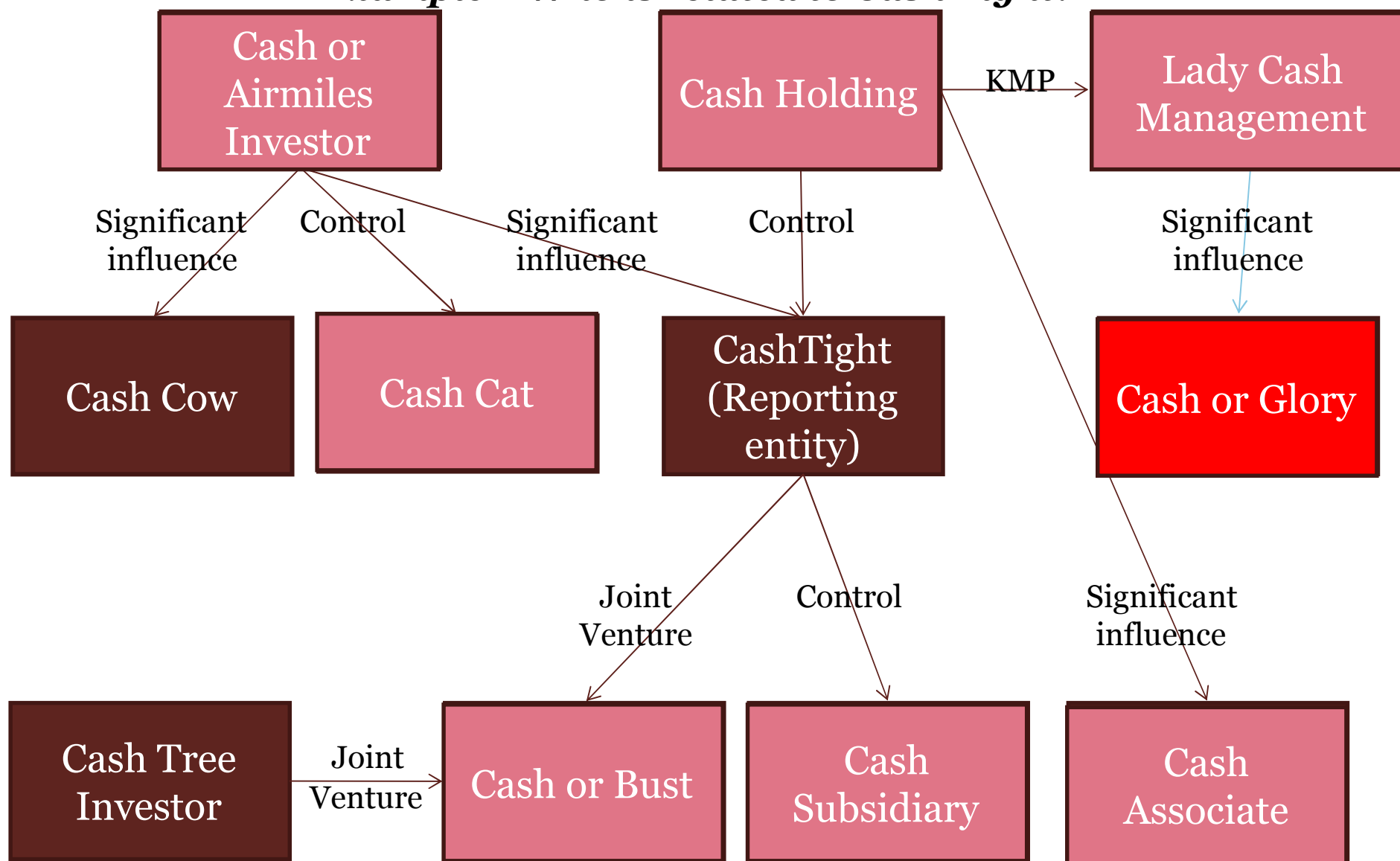
## ***PSAK 7 (R 2009) – Disclosures of Related Parties***

What is new?

- Relationships between parents and subsidiaries are disclosed irrespective of whether there have been transactions between them
- New disclosures, among others:
  - Total compensation of key management personnel by types of employee benefits
  - Classification of transactions with related parties into different categories of related parties
- Simplified disclosures for government-related entities

## ***PSAK 7 (R 2009) – Disclosures of Related Parties***

### ***Example – Who is related to Cash Tight?***







Angelique Daryanto  
Partner,  
Assurance Services



Samuel Ong  
Technical Advisor,  
Assurance Services



Triono Soedirdjo  
Director,  
Advisory Services



Hendra Lie  
Director,  
Tax Services

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## ***New PSAKs***

- PSAK 4R – Consolidated and Separate Financial Statements (IAS 27R)
- ISAK 7R - Consolidation of Special Purpose Entities (SIC 12)
- PSAK 22R – Business Combinations (IFRS 3R)
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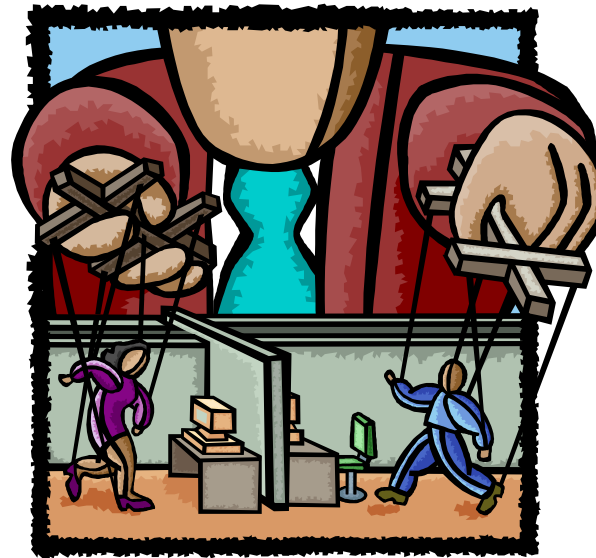
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## ***What is control?***

Control is the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.



## ***Factors influencing control***

Equity  
shareholding

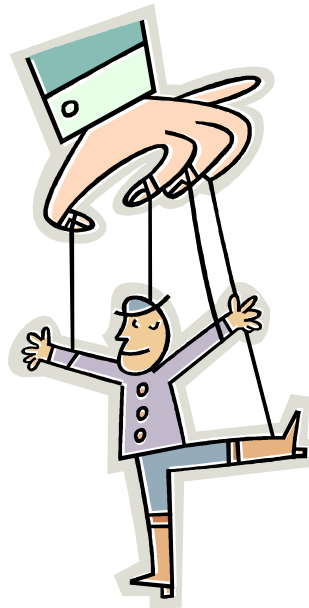
Ability to appoint  
directors to the  
board

Potential voting  
rights

Control  
agreement

*De facto* control

Special purpose  
entities (SPEs)



**A combination of all these factors needs to be considered**

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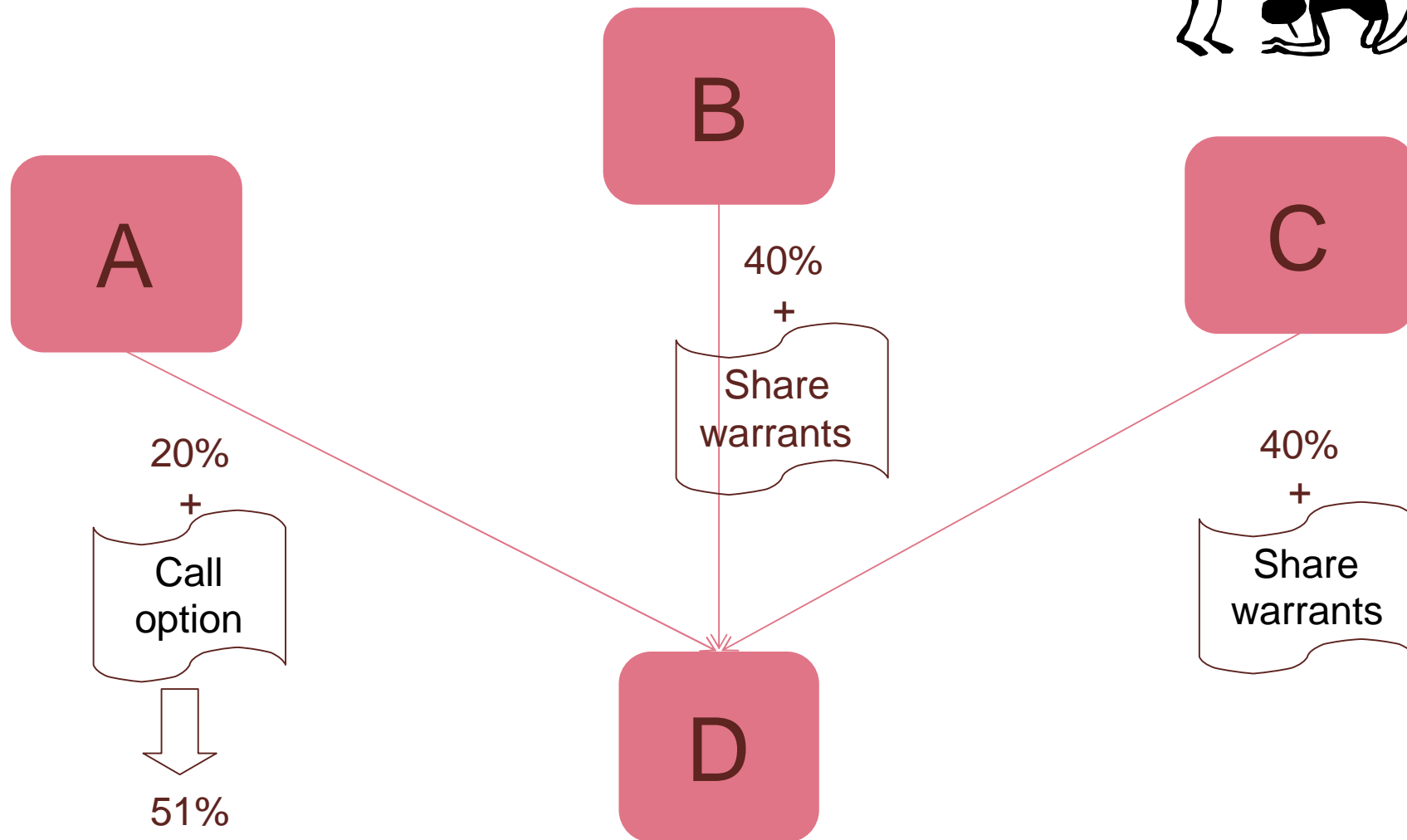
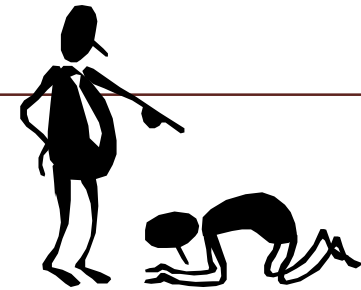
## ***Potential voting rights***

This is when an entity owns instruments that, if exercised or converted, give the entity power over the financial and operating policies of another entity e.g. share warrants, share call options, debt or equity instruments etc.

**ALL FACTS AND CIRCUMSTANCES SHOULD BE EXAMINED**

PSAK 4 (revised) requires all potential voting rights that are CURRENTLY exercisable or CURRENTLY convertible be considered.

## *Potential voting rights*

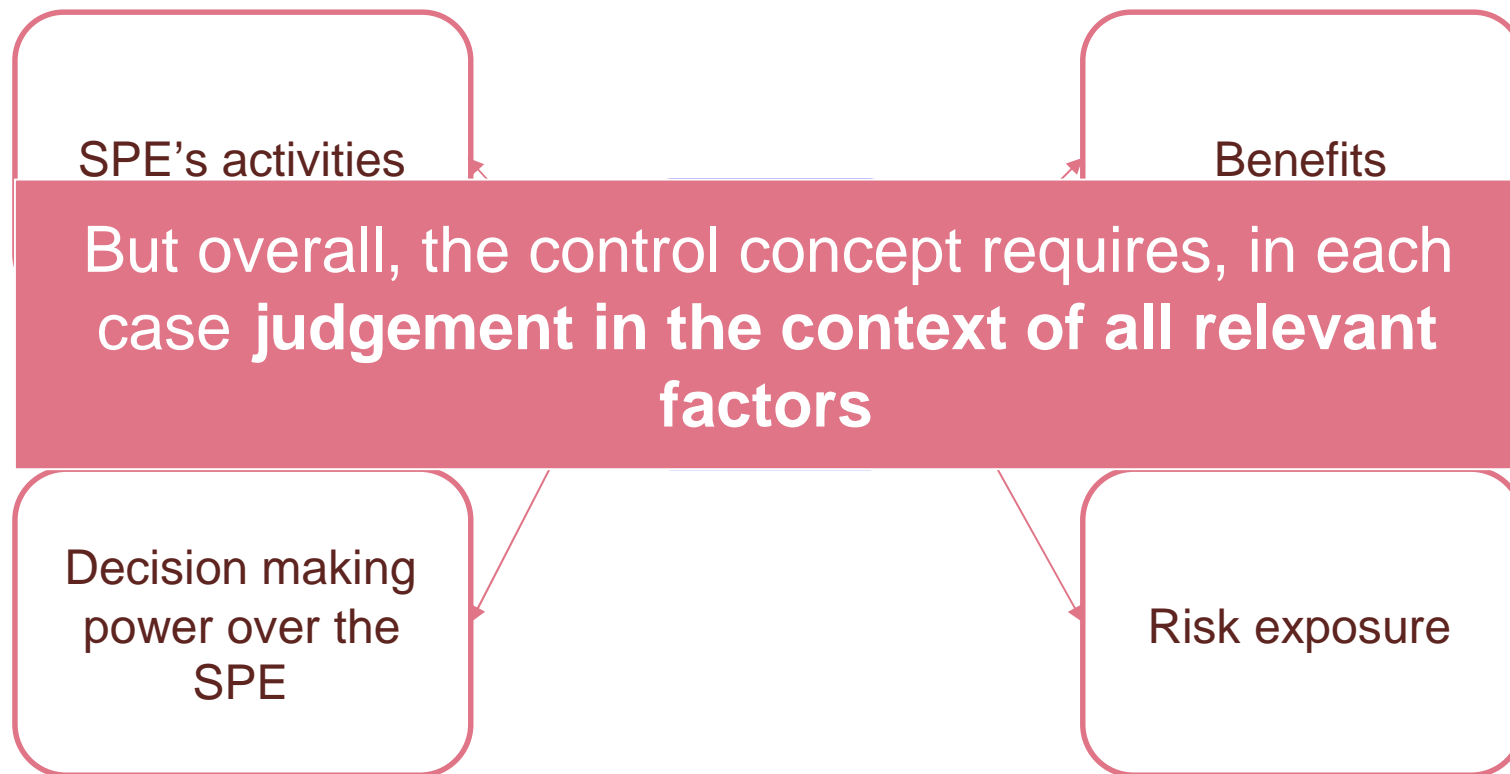


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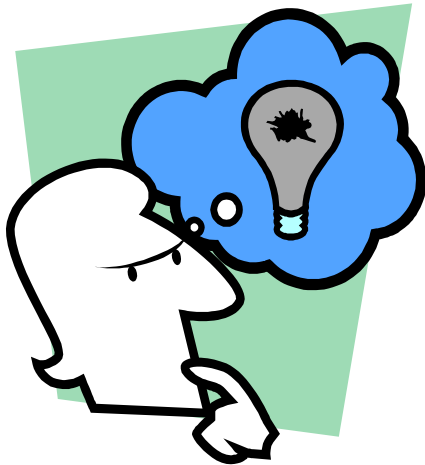
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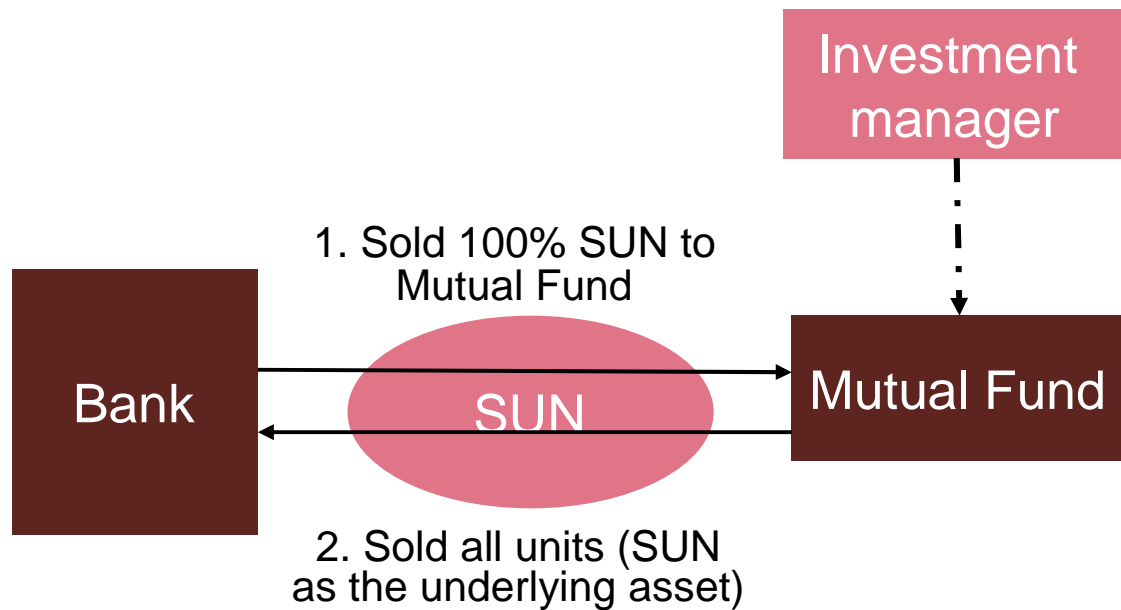
## ***Special purpose entities (SPEs)***



## *Special purpose entities (SPEs)*



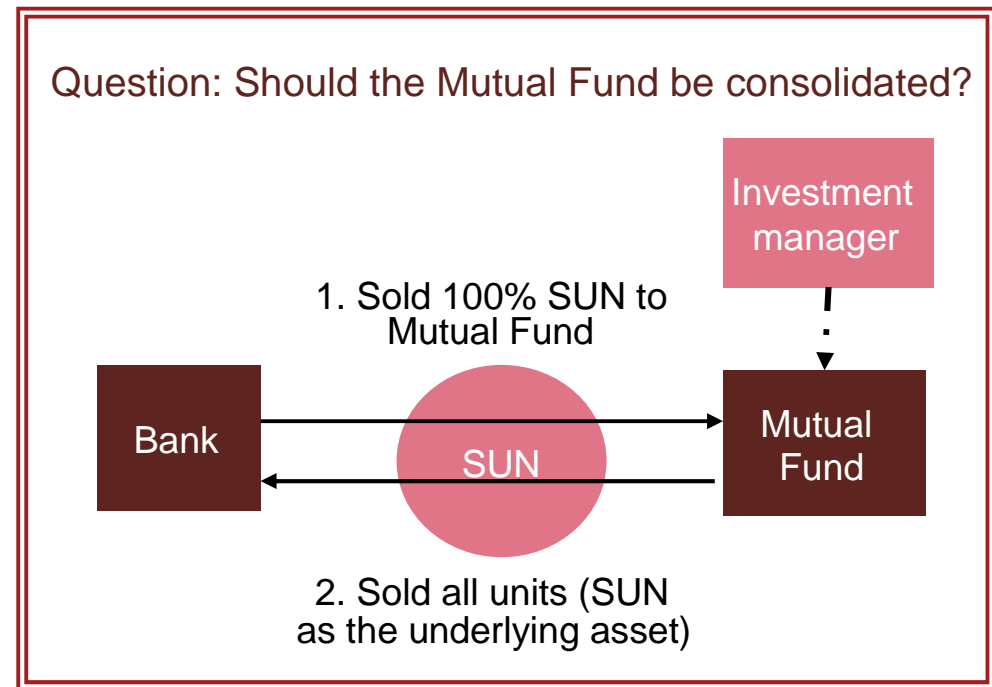
Question: Should the Mutual Fund be consolidated?





## *Special purpose entities (SPEs)*

1. SPE's activities
2. Benefits
3. Risk exposure
4. Decision making power over the SPE



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## ***New PSAKs***

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## *Purchase Price Allocation*

Principles

Example

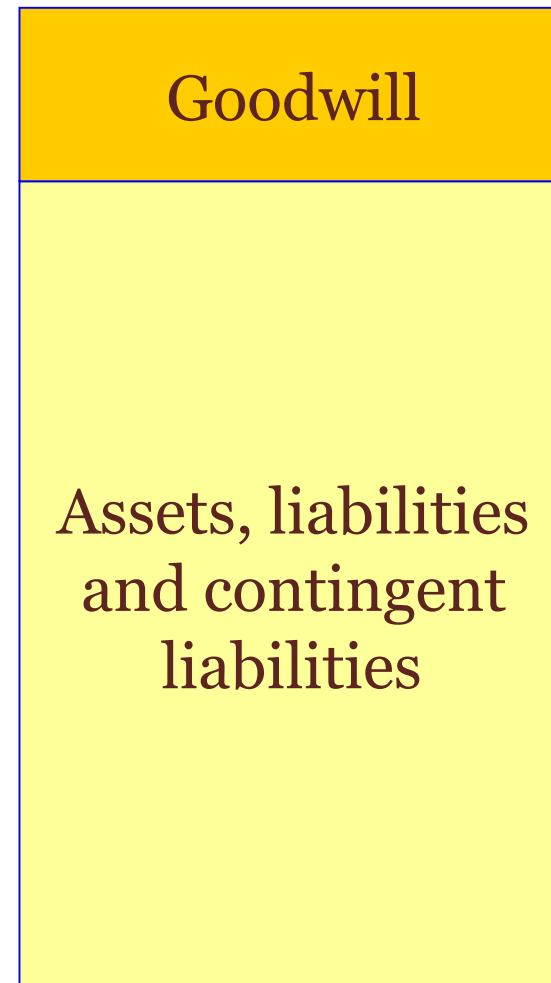
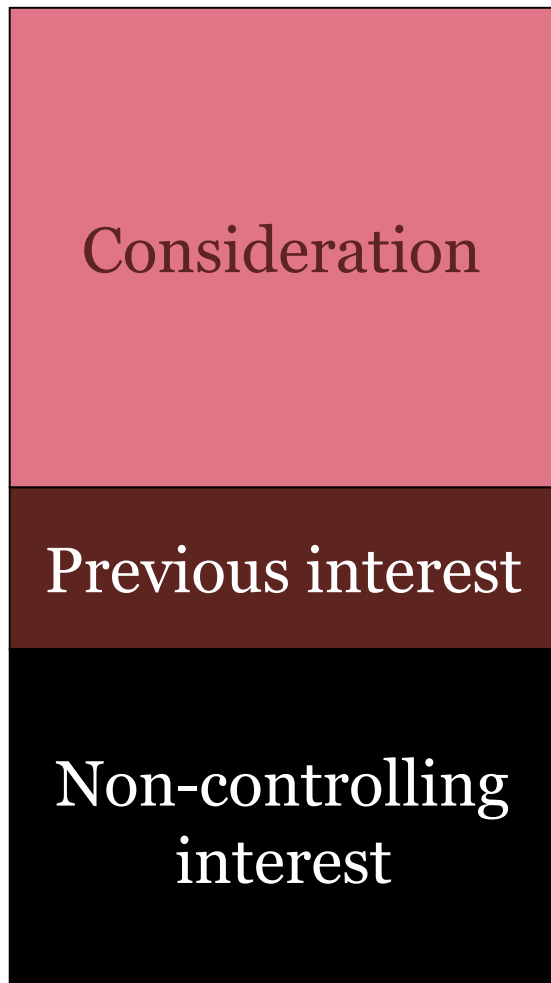
almost

Fair value everything!



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## ***Principles – PSAK 22 (R 2010)***



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# almost Fair value everything!

- Identifiable assets, liabilities and contingent liabilities recognised at fair value (FV).
- Identify and recognise intangible assets at FV: brands, customer list, etc.
- Difference between cost and net FV of identifiable assets, liabilities and contingent liabilities is goodwill.

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## *Example of business combinations*

### Case 1 Consolidated

Bank A



100%



Bank B



### Case 2 Stand alone

Bank A



Purchase group of  
assets/business

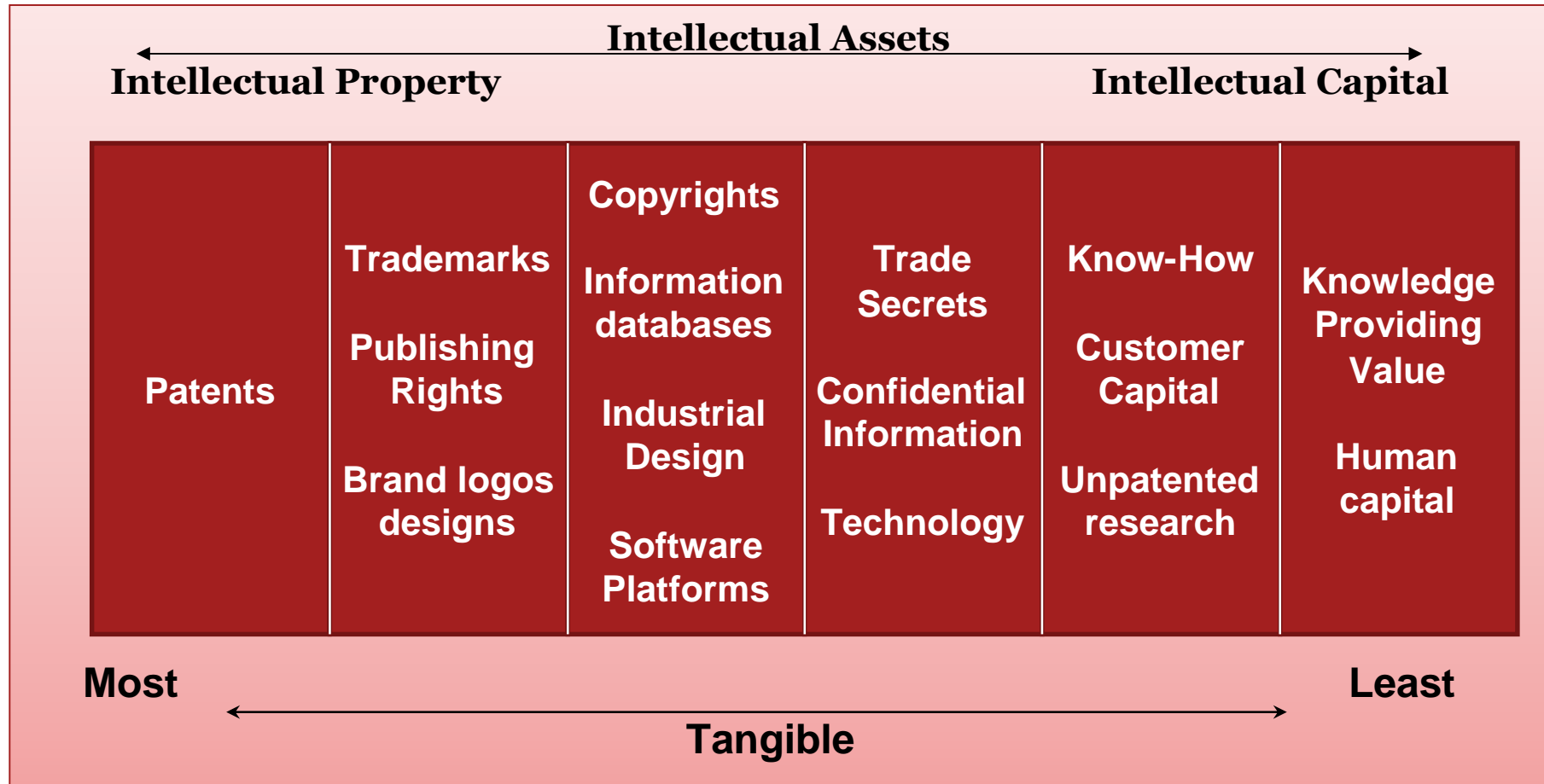


Division of Bank B  
(commercial  
banking)

## ***Example of business combinations***

	<b>Book value</b>	<b>Fair value</b>
<b>Assets</b>		
Intangible assets	0	162
Fixed assets	3	2
Financial investments	5	5
All other assets	260	262
	268	431
<b>Liabilities</b>		
Provisions	5	24
Deferred tax liabilities	0	54
All other liabilities	178	178
	183	256
Net assets	85	175
Purchase price		696
Goodwill		521

# ***What are Intangible Assets?***





# *Typical intangibles by Industries*

## **Financial Institutions**

Customer Relationships  
Internet-Platform  
Core Deposit Intangibles  
Core Overdraft Intangibles

Brands  
Software  
Call Center

## **Pharmaceutical Industry**

IPR&D  
Brands  
Licenses  
Backlog  
Technology

Trade Secrets  
Patents  
Order

## **Telecommunication**

Licenses (eg UMTS/GSM)  
Customer Relationships  
Brands  
Software (eg Billing)  
Roaming Agreements (Inbound, Outbound)  
Interconnection Agreements  
Infrastructural Rights

## **Retail & Consumer Industry**

Customer Relationships  
Brands  
Technologies  
Favorable Contracts

The Intangible Assets mentioned above are examples. In performing a PPA facts and circumstances must be considered!

## ***Typical intangibles by Industries***

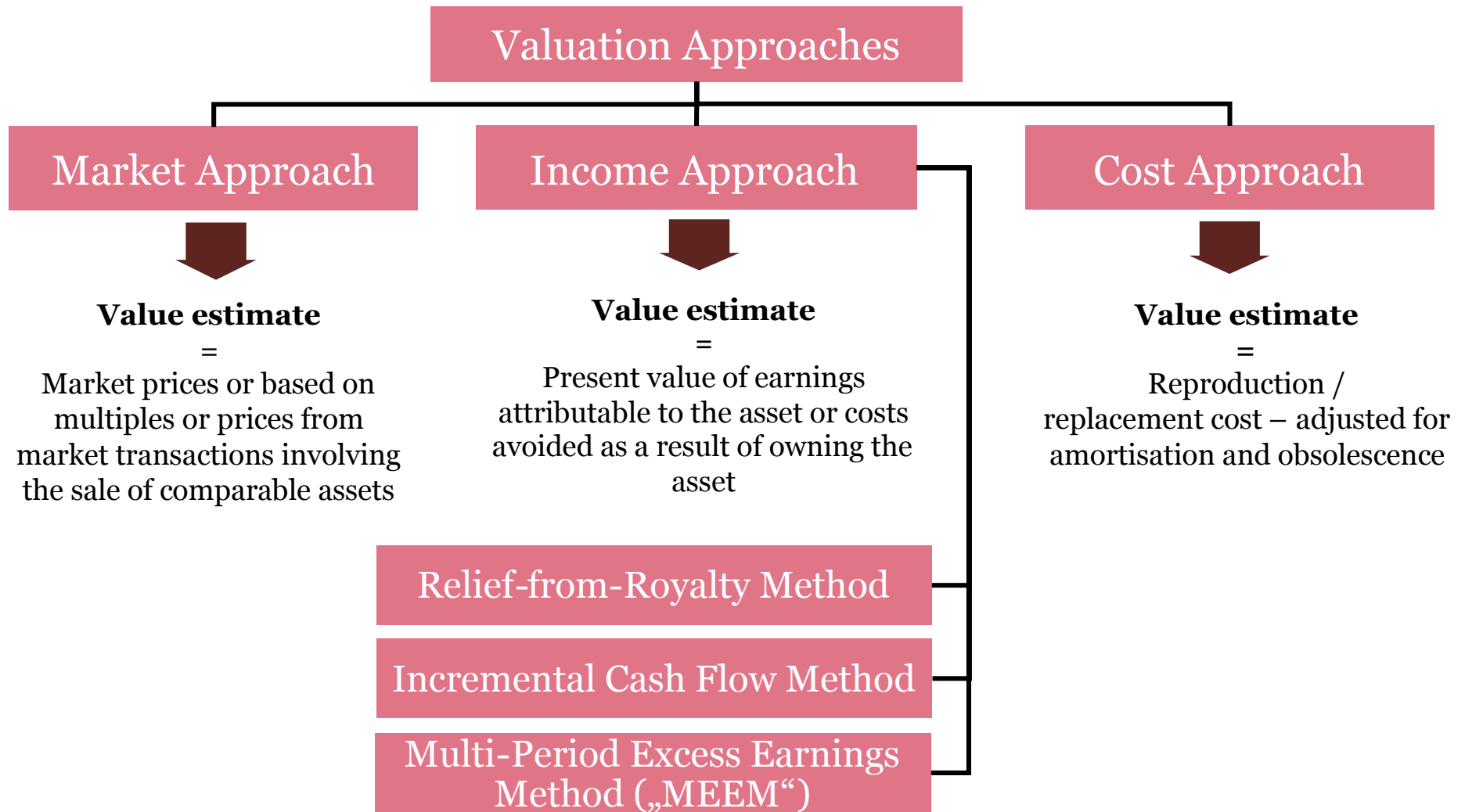
### **Financial Institutions**

Customer Relationships  
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Core Deposit Intangibles  
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Brands  
Software  
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The Intangible Assets mentioned above are examples. In performing a PPA facts and circumstances must be considered!

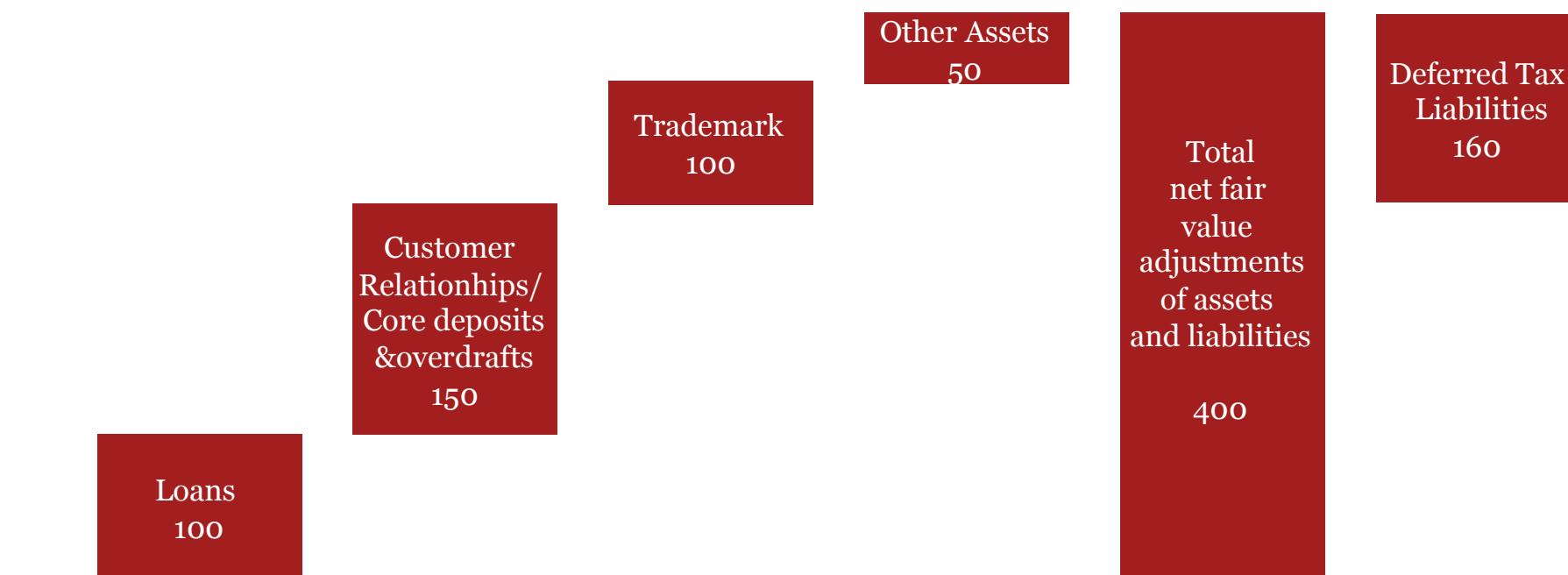
# Valuation Approaches



## ***Relief-from-Royalty Method***

Valuation of brand Valuation date: 1 January 2008		
Brand valuation		from
Fair value		2008
<b>Brand-specific sales</b>		<b>2000</b>
Royalty rate @	4%	
<b>Pre-tax royalty savings</b>		<b>80.0</b>
Corporate taxes @	40%	32.0
<b>After-tax royalty savings</b>		<b>48.0</b>
Discount rate @	10%	
Growth rate @	2%	
Residual multiple		11.918
Discount factor		
<b>Present value after-tax royalty savings</b>		<b>572</b>
Tax amortisation benefit		114
<b>Fair value</b>		<b>686</b>
Step-up factor TAB		1.2

## *Fair value adjustments – an example*



Share Deal, Purchase Price USD 550 Mio. for 100% of shares, Net Book Value USD 100 Mio  
Corporate Tax Rate 40%

## *How tax treats the intangible assets ?*

- Amortisable?
- VAT-able?

	Book value	Fair value
<b>Assets</b>		
Intangible assets	0	162
Fixed assets	3	2
Financial investments	5	5
All other assets	260	262
	268	431
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	183	256
Net assets	85	175
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## ***Amortisation of intangible assets based on Income Tax Law***

Amortisation upon expenditures to acquire intangible assets ..., including goodwill that has useful life of more than 1 year which is utilised to obtain, collect, and maintain income shall be calculated using a straight-line or declining balance method ...

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## ***VAT Imposition on intangible assets***

VAT Law reference:

- Article 4(1)(a):  
The delivery of taxable goods within the Indonesia customs area.
- Article 16D:  
The delivery of taxable goods in the form of asset initially not for sale.



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## ***Subsequent measurement***

Goodwill

CGU & impairment



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## ***New PSAKs***

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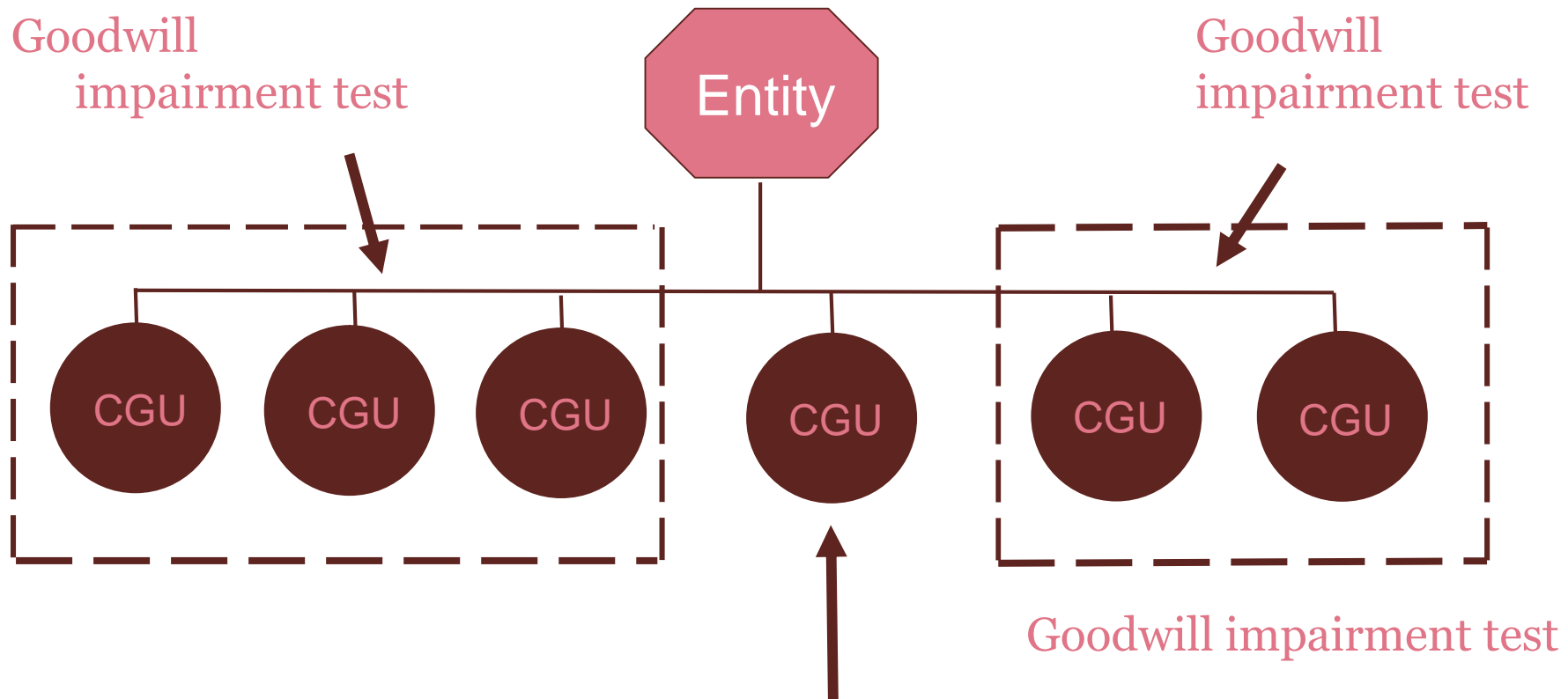
# ***Goodwill***



- Not amortised
- Test annually for impairment and when indicators arise
- Goodwill allocated to cash generating units (“CGUs”) or groups of CGUs

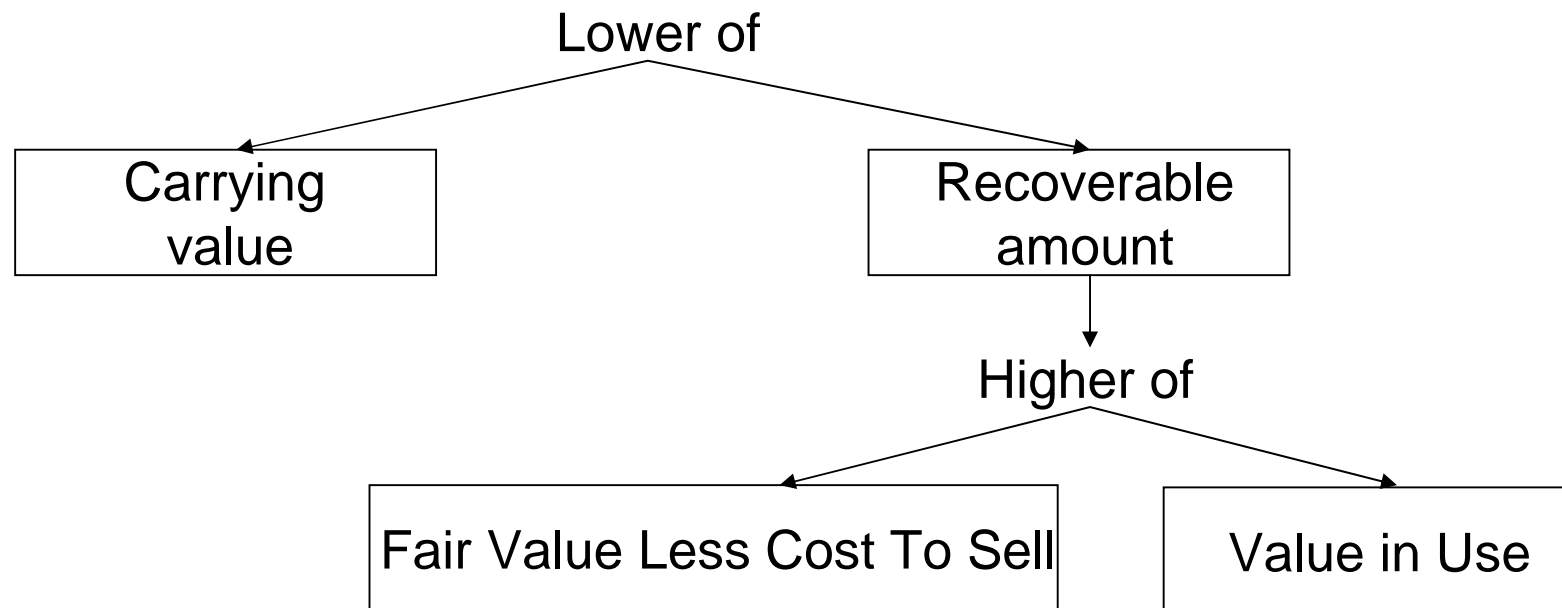
# *Cash generating units & impairment of goodwill*

## Goodwill impairment



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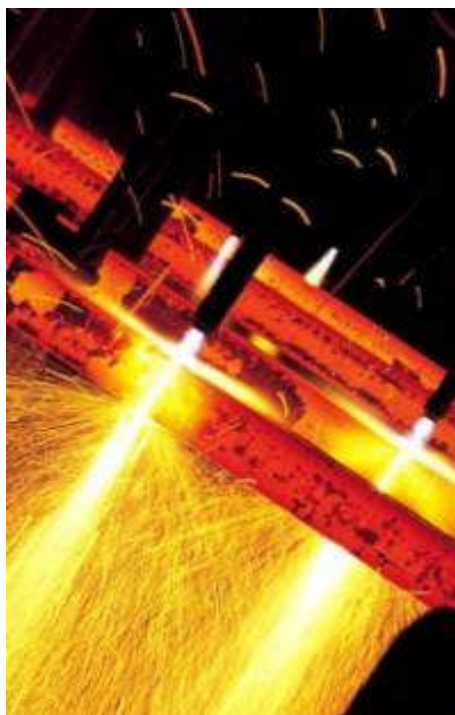
## *Measurement of goodwill*



# *Value in Use*

## *Value Concept*

### Value in use



“The present value of the future cash flows expected to be derived from the continuing use an asset or CGU and its disposal at the end of its economic useful lifetime.”

### Key elements:

Internal value - company perspective

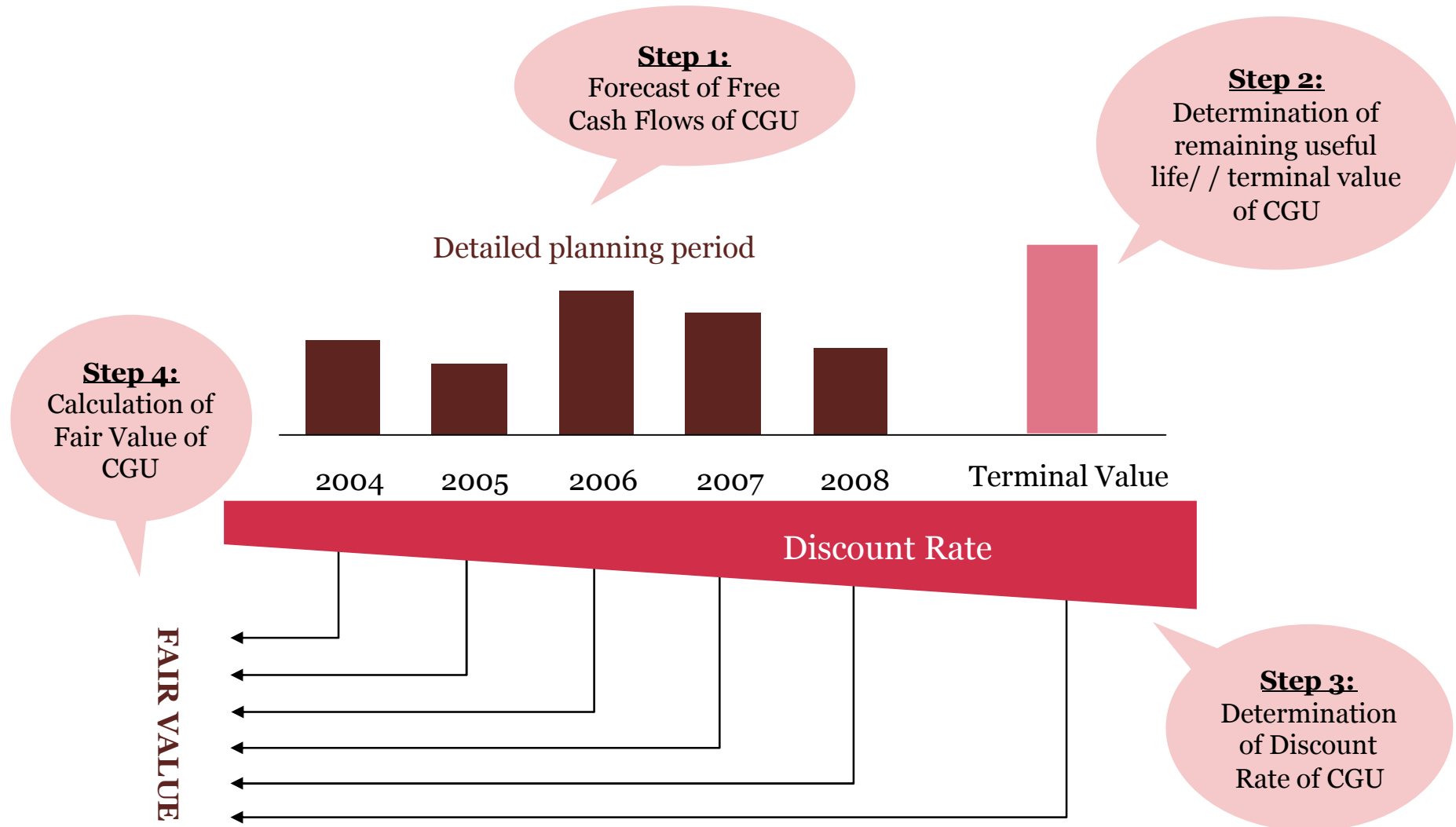
Company-related valuation parameters

Recognition of all synergies

Use pre-tax cash flows and discount rate

More detailed specifications in IAS 36

# Value in Use of CGU Based on Income Approach



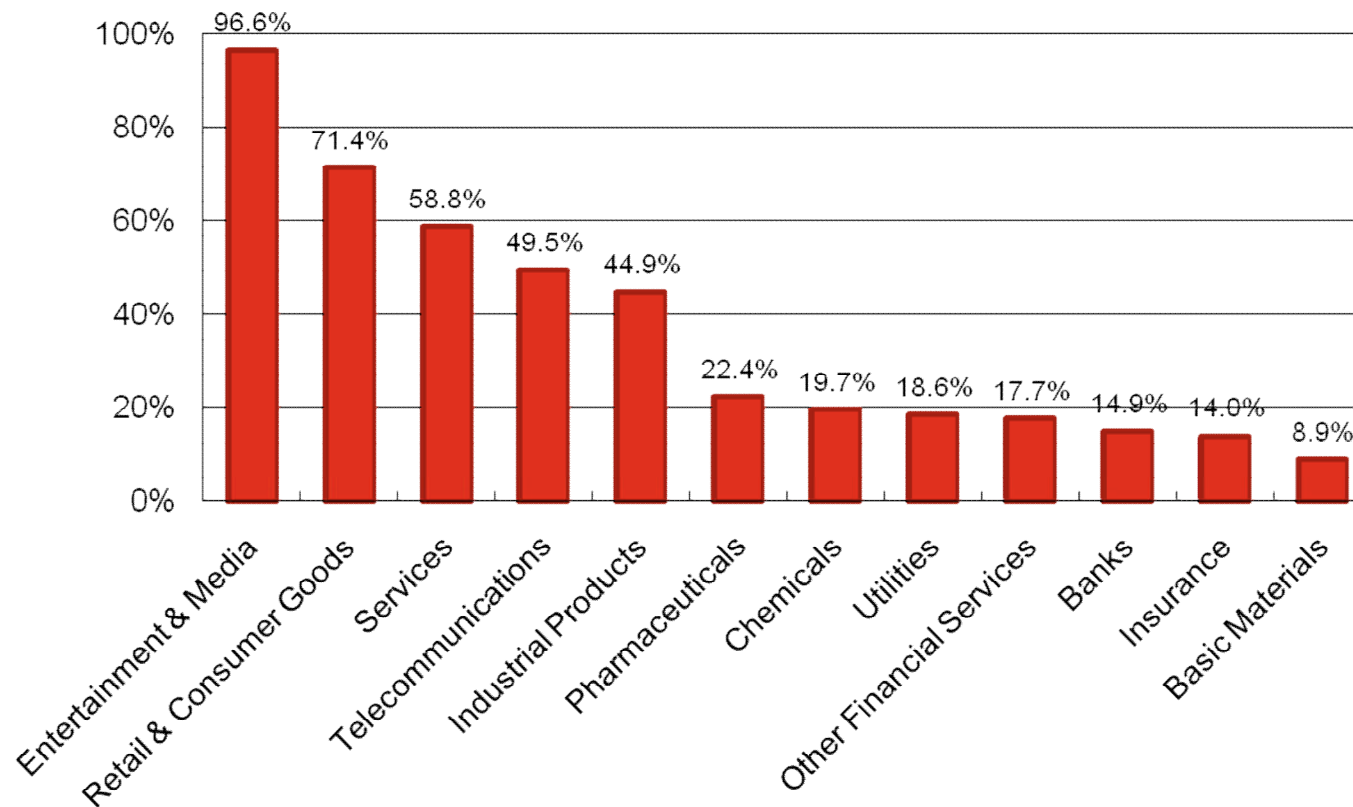
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## ***Common Errors Observed in Practice***

- Underestimation on the complexity of standard requirements
- Lack of prior agreement between external auditor and management
- Lack of comprehensive knowledge of accounting standards
- Incomplete identification of assets
- Improper definition of CGU/RU
- Inclusion of synergies in financial projection
- Not enough analysis on comparables
- Incorrect cash flow calculation (e.g. double-counting)
- Discount rate used is not appropriate
- Incorrect calculation of carrying amount
- Other valuation errors



## *Average percentage of goodwill relative to total equity*



Source: "Making acquisitions transparent" (Professors Glaum, Street, and Vogel, 2007)

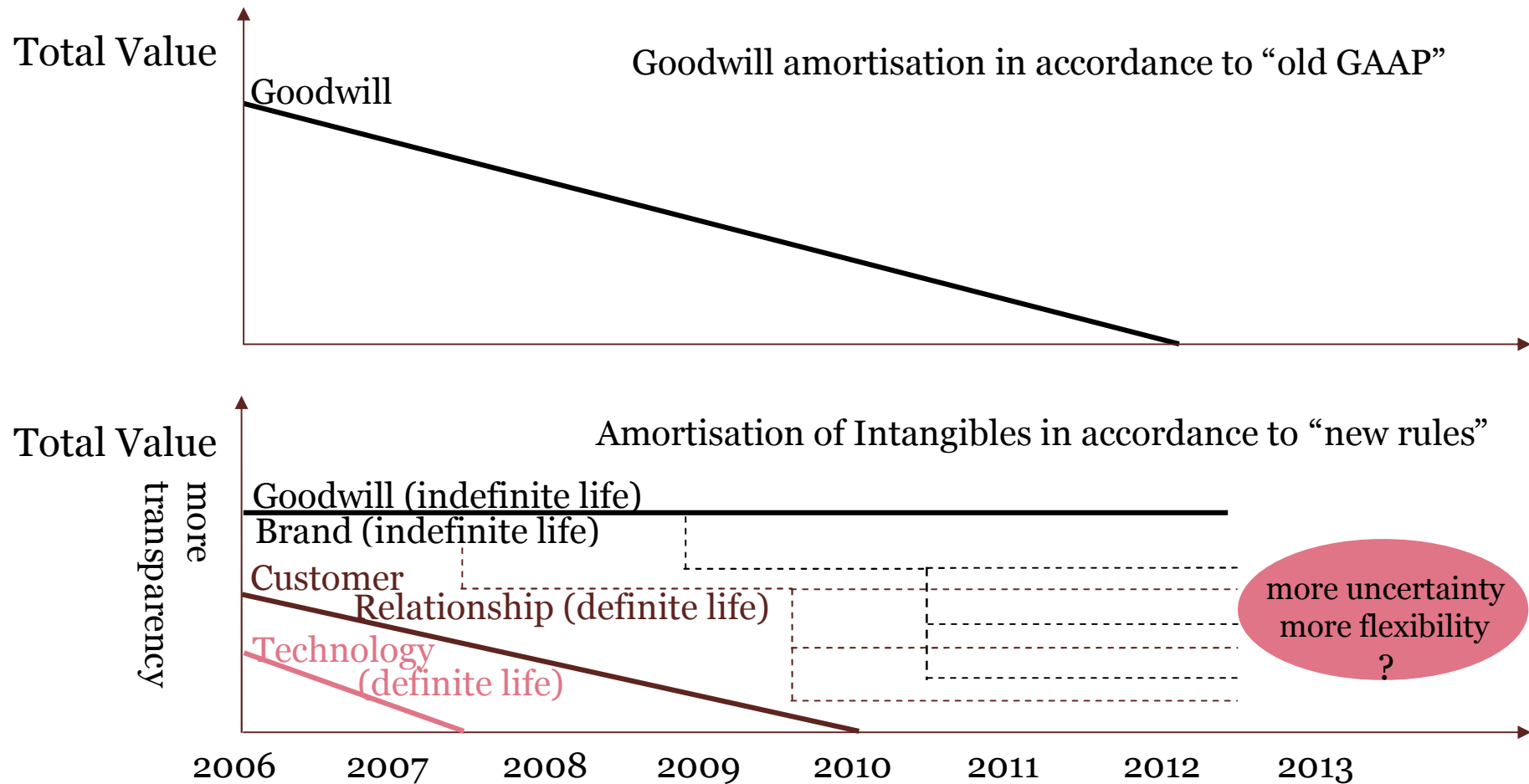
# Capital Market Reaction on Goodwill Impairments



- Goodwill write-offs signal important changes in the company's future earnings potential
- Write-offs are difficult to assess due to their ambiguous nature
  - Impairments may represent **good news** when managers divest unprofitable operations to refocus on core competencies.
  - Impairments may represent **bad news** when reductions in asset values foreshadow even deeper troubles yet to come
- Immediate effect on announcement is typically negative with a drop of 3.0-3.5% of the company's stock price. Average impact within one-year after announcement is minus 11.0%

Source: Hirschey, M. und Richardson, V.J.: *Investor Underreaction to Goodwill Write-Offs*, in: *Financial Analyst Journal*, Nov./ Dec. 2003

## *Financial statements impact*



## *How tax treats loss impairment on Goodwill?*

### Accounting

Not amortised but  
subject to impairment

#### Loss impairment

(300)

( 0 )

(500)

(100)

---

100

### Goodwill

1,000  
4 years

Year 1

Year 2

Year 3

Year 4

Goodwill in year 5

### Tax

Not subject to impairment  
but being amortised

#### Amortisation

(250)

(250)

(250)

(250)

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0

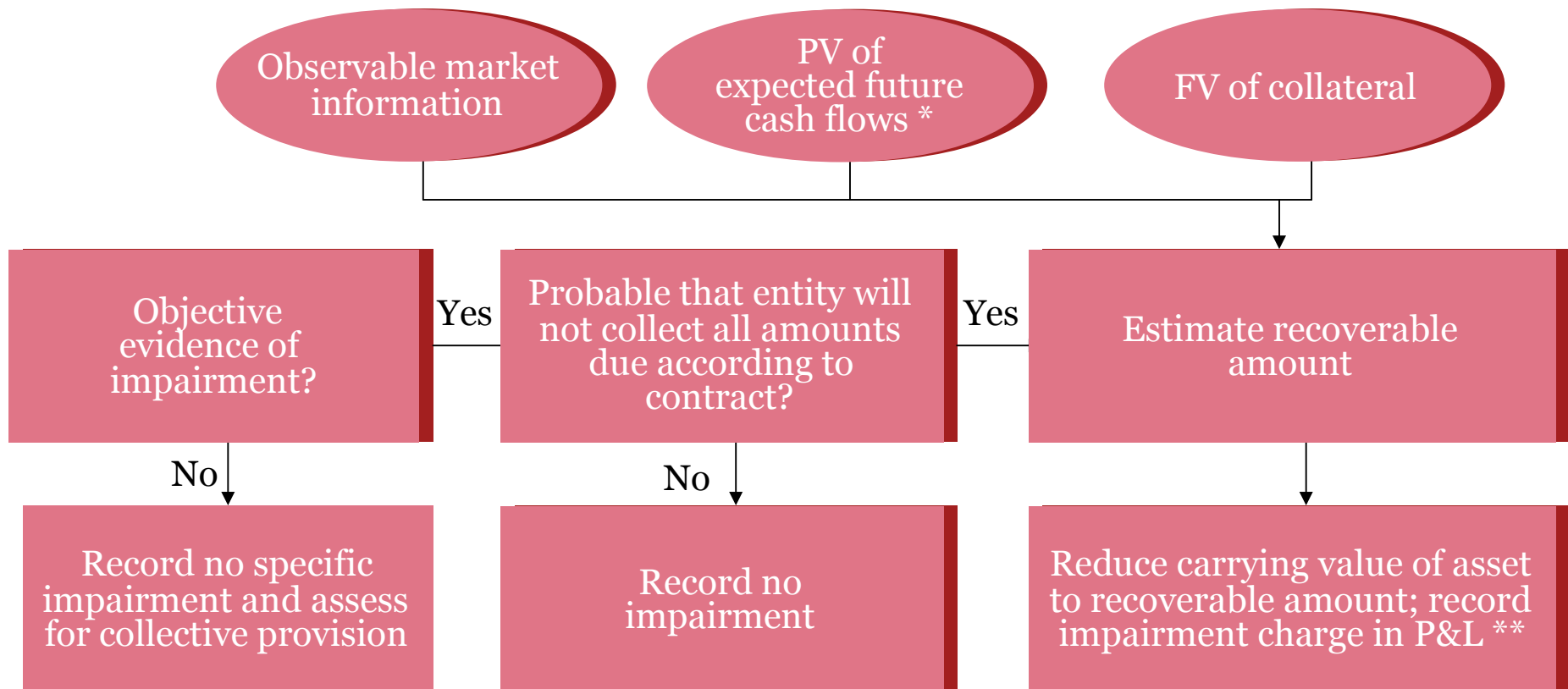
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# ***Loan provisioning***

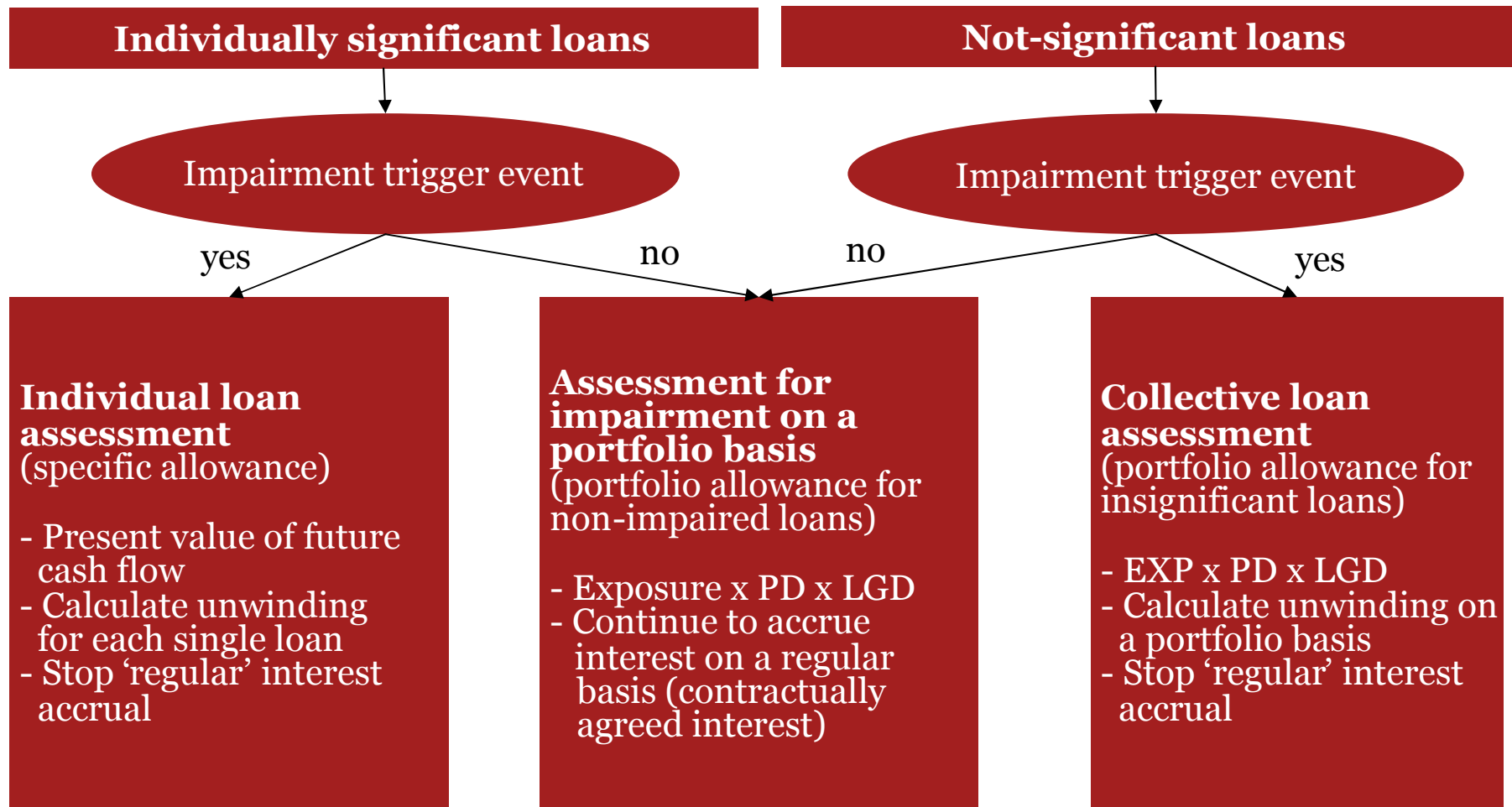
## ***Decision Trees – Impairment Testing***



(\*) Use original effective interest rate or current effective interest rate, if variable  
(\*\*) can be subsequently reversed

# ***Loan Impairment Methodologies***

## ***Different types of allowances***



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## ***First time adoption of PSAK 55R – impairment (Technical bulletin No 4)***

- Calculate impairment using the requirements under PSAK 55R on 1 January 2010
- The difference between new and previous amounts is recognised in the beginning retained earnings as of 1 January 2010

### **Statement of changes in equity**

	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>
Balance at 1 January 2010	xxxxxxx	xxxxxxx	xxxxxxx
Effect of adoption of PSAK 55R – impairment (note x)	<u>-</u>	<u>-</u>	<u>xxxxxxx</u>
Restated balance at 1 January 2010	xxxxxxx	xxxxxxx	xxxxxxx



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## ***Key take-aways***

- Stay current on the future accounting standard changes
- Anticipate the potential impacts to business
- Increase internal accounting capabilities

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# *Agenda*

- Path to adoption of IFRS in Indonesia
- New PSAKs
- Tax Session
- Islamic Finance
- IT- How do you prepare for PSAK Implementation



# *Tax Session*



**pwc**

*Islamic Finance*

*Accounting and Tax  
Perspective*

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## ***Development in Islamic Finance***

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## ***Shariah principle and implementation of SFAS 50/55 (Revised 2006)***

- Effective interest rate
- Discounted cash flow method for calculation of impairment loss



*Islamic Finance*

*Sharia Insurance*

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## ***Accounting Standard for Sharia Insurance Transactions and its Implications***

PSAK 108 “ Accounting for Sharia Insurance Transactions ” became effective on 1 Jan 2010

Key Differences

Items	Before	After
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## ***Accounting Standard for Sharia Insurance Transactions and its Implications***

### Key Differences

Items	Before	After
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## ***Accounting Standard for Sharia Insurance Transactions and its Implications***

### Key Differences

Items	Before	After
-------	--------	-------

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## ***Accounting Standard for Sharia Insurance Transactions and its Implications***

### Key Differences

Items	Before	After
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# ***Accounting Standard for Sharia Insurance Transactions and its Implications***

## **Tax implication**

- Ujrah (fee) vs. investment management fee income – VAT and WHT issue
- Deductibility of reserve – Bapepam LK approval
- Tax on non-final investment income

*PSAK 50 & 55*

*IT Implementation – 1  
Year After*



PwC





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## ***Move Forward – 1 year after***

Assisted Various Clients

With Various

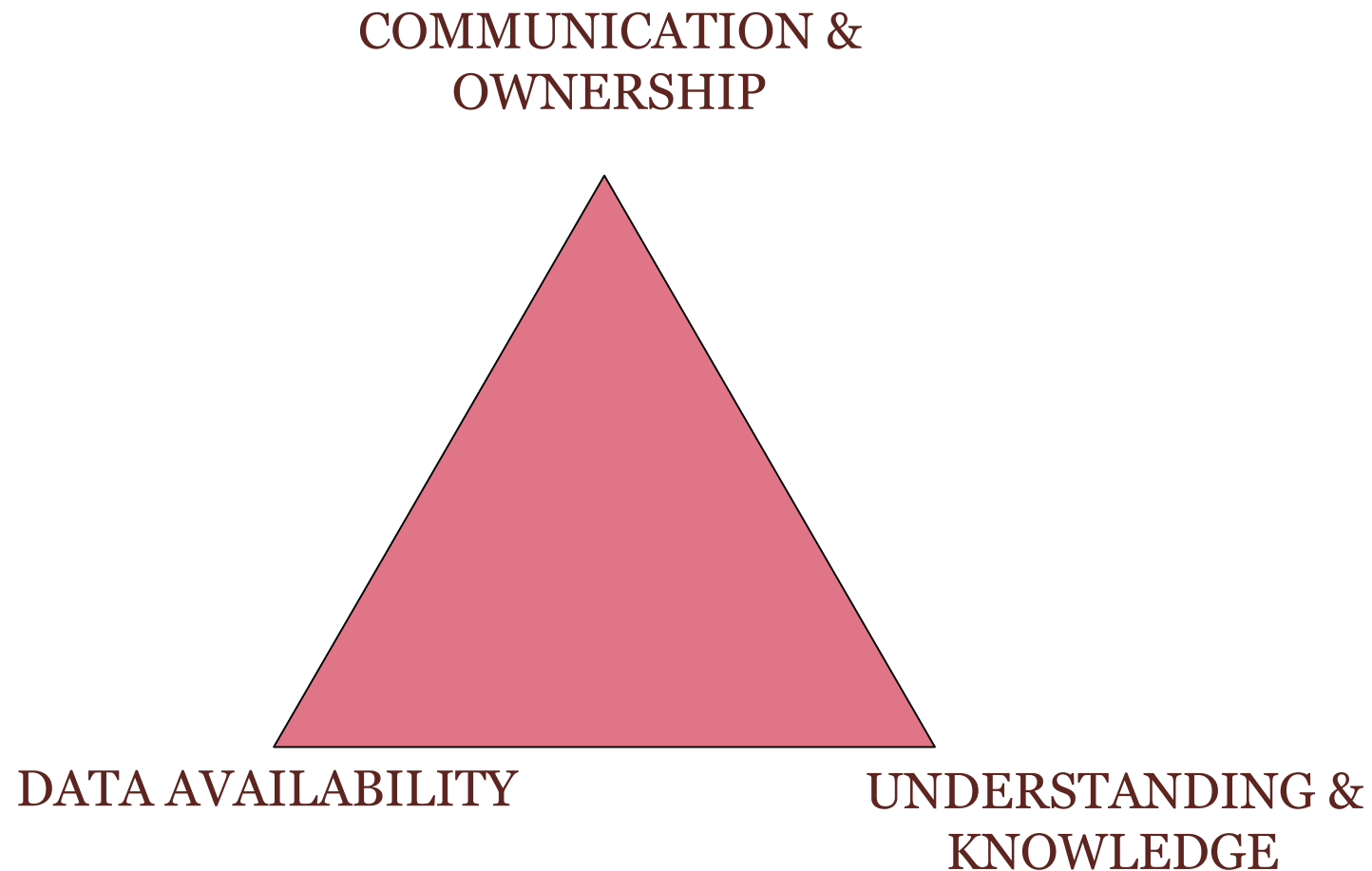
Scope, Size and Complexity

Share some stories to help you implement the new regulations/standards swiftly



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## ***3 Main Challenges***



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## ***Challenge1 – Communication & Ownership***

People / Departments

Ownership – Stakeholder, User and/or Other Parties

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## ***Challenge 2 – Understanding & Knowledge***

Incl. How to

As-is Vs. Future

- Regulation
- Product
- System
- Strategy

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## ***Challenge 3 – Data Availability***

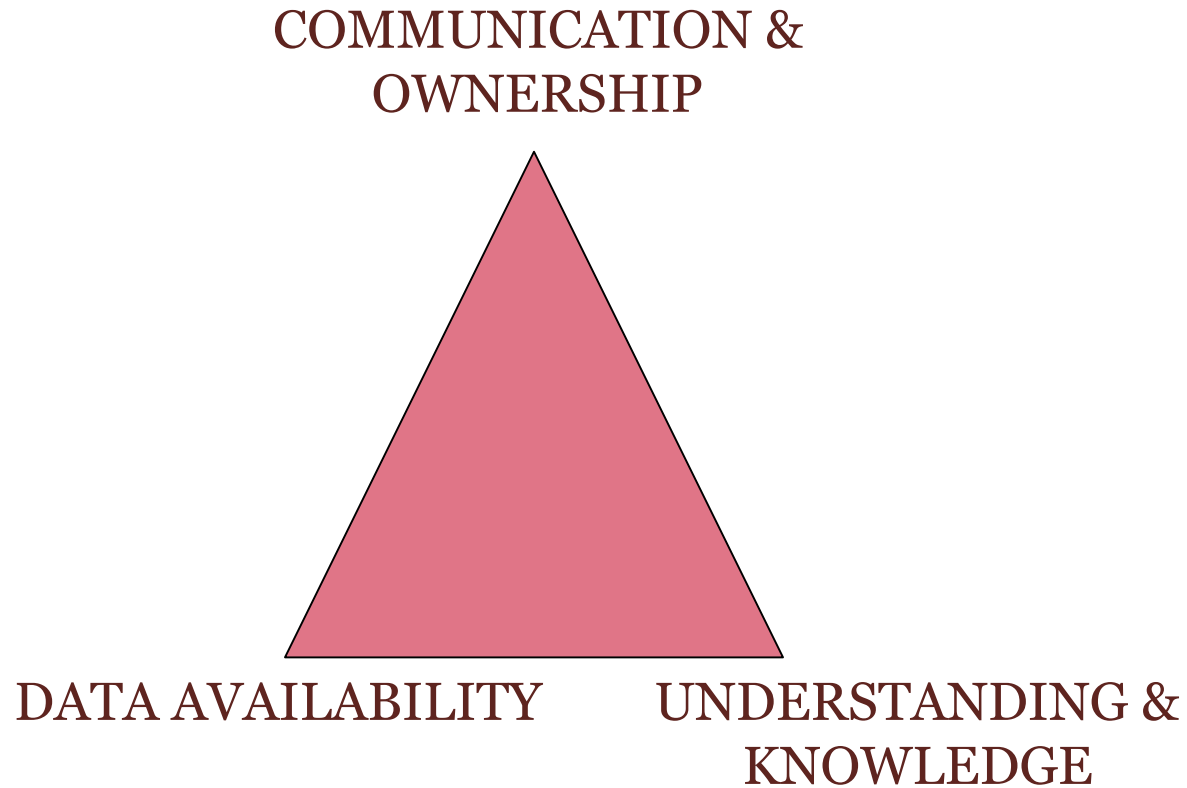
Existing data

Where does the data reside?

Obtaining the data

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## ***Conclude***



If not sure– Quickly consult/ Escalate to higher MANAGEMENT for their APPROVAL

## ***Our recent publications***

US GAAP, IFRS and Indonesian GAAP  
similarities and differences



2010 edition

PRICEWATERHOUSECOOPERS 

PT INDONESIA Bank Tbk dan Anak Perusahaan  
*PT INDONESIA Bank Tbk and Subsidiary*

Ilustrasi Laporan Keuangan Konsolidasian 2010  
*Illustrative Consolidated Financial Statements 2010*



PRICEWATERHOUSECOOPERS 



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***19 October 2010***



[www.pwc.com/id](http://www.pwc.com/id)

***PT INDONESIA AND SUBSIDIARIES***  
Illustrative 2010 consolidated  
financial statements



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***Thank you.***

All materials can be downloaded at:

<http://www.pwc.com/id/en/publications/FSpresentation.pdf>