THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING
OVERVIEW OF THE BIG THREE PSAK (PSAK 71, 72, AND 73) & POTENTIAL TAX IMPLICATIONS

Presented by:
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IAS 39 requirements were difficult to understand, apply and interpret.

The IASB’s objective in issuing IFRS 9 was to develop a new Standard for the financial reporting of financial instruments that is principle-based and less complex.

IFRS 9 is IASB’s response to the financial crisis and represents a fundamental reconsideration of the accounting for financial instruments.
Changes from IAS 39 (PSAK 55) to IFRS 9 (PSAK 71)

- Classification and Measurement
- Impairment (Incurred Loss to Expected Loss)
- Hedge Accounting
### Changes from IAS 39 (PSAK 55) to IFRS 9 (PSAK 71)

<table>
<thead>
<tr>
<th>Theme</th>
<th>IAS 39 (PSAK 55)</th>
<th>IFRS 9 (PSAK 71)</th>
<th>Potential Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Classification and</td>
<td>• Classification for Financial Assets: Held to Maturity, Loans and Receivables,</td>
<td>• Classification of Financial Assets: Amortized Cost, Fair Value Through Other</td>
<td>• Changes in categorization of financial</td>
</tr>
<tr>
<td>Measurement</td>
<td>FVTPL, and Available for Sale</td>
<td>Comprehensive Income (FVOCI) and FVTPL</td>
<td>instruments</td>
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<tr>
<td></td>
<td>• All equity available for sale is measured at fair value in comprehensive</td>
<td>• Fair value through comprehensive income, fair value through profit and loss if</td>
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<tr>
<td></td>
<td>income</td>
<td>it is Held for Trading</td>
<td></td>
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<tr>
<td>Reclassification</td>
<td>• Reclassification through profit and loss after initial recognition is not</td>
<td>• Changes in business model</td>
<td>• Reclassification if a business model</td>
</tr>
<tr>
<td></td>
<td>valid</td>
<td></td>
<td>changes</td>
</tr>
<tr>
<td>Impairment</td>
<td>• The Incurred Loss method that is backward looking</td>
<td>• The Expected Loss Method that is forward looking</td>
<td>• Increase provisions</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Decrease in entity profits</td>
</tr>
<tr>
<td>Hedge Accounting</td>
<td>• The hedging relationship is considered effective if it meets the requirements for</td>
<td>• Eliminate the requirements of effectiveness test and introduce more general</td>
<td>• Changes of hedging model will require deep judgment and improvement of processes and</td>
</tr>
<tr>
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<td>effectiveness test of 80-125%</td>
<td>requirements based on Management’s consideration</td>
<td>controls</td>
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<tr>
<td></td>
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<td>• Irrelevant if no hedging transaction</td>
</tr>
</tbody>
</table>
Classification and Measurement Decision Tree of Financial Assets and Derivatives

Debt instruments

1. Business model test
   - Held to collect contractual cashflows
   - Held to collect contractual cashflows and sell

2. Solely Payment of Principal and Interests test
   - Fair value option?
     → Only in case of accounting mismatch

   - Amortised cost
   - Fair value through recyclable OCI
   - Fair value through non recyclable OCI

Equity instruments

Trading intention?
   - No
   - Fair value through non recyclable OCI?
     - No
     - Yes

Derivatives

Trading intention?
   - Yes
   - No
Old guidance contained in multiple standards and interpretations while in the new standard, all guidance contained in a single standard.

Old standard is risk and rewards based model while the new standard is control based model.

In old standard revenue is measured at fair value of the consideration received while the new standard consideration is measured as the amount the entity expects to be entitled to (Transaction Price).
The 5 Steps Model

**Step 1**
Identify the contract with a customer
- Enforceable?
- Modifications
- Combinations

**Step 2**
Identify the performance obligations
- Distinct Goods and services
- Series Goods and services
- Bundle Goods and services

**Step 3**
Determine the transaction price
- Variable consideration
- Non-cash consideration
- Significant financing components
- Payments to customers

**Step 4**
Allocate the transaction price
- Observable prices?
- Estimated pricing?
- Variable consideration

**Step 5**
Recognise revenue
- Based on transfer of control
- Overtime?
- At a point in time

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**Principal vs agent considerations**
- Controls of good or service prior to transaction
- Incremental costs capitalised and then amortised

**Rights of return**
- Estimate reduction in revenue
- Asset: goods expected to be returned

**Warranties**
- Separate performance obligation vs IAS 37 provision

**Non-refundable upfront fees**
- Is there a separate performance obligation?

**Sale and repurchase arrangements**
- The substance – finance, lease or sale?

**Licensing of IP**
- Rights of use vs access
Leases are an important and flexible source of financing — listed companies using IFRS Standards or US GAAP estimated to have US$3.3trillion lease commitments.

“Over 85% of lease commitments do not appear on balance sheet”

Therefore, it is difficult for investors and others to:

- Get accurate picture of entity’s lease assets and liabilities
- Compare companies that lease assets with those that buy
- Estimate the amount of off balance sheet obligations: often overestimated
# Changes from IAS17 (PSAK 30) to IFRS 16 (PSAK 73)

<table>
<thead>
<tr>
<th>Lease Type</th>
<th>Lessor</th>
<th>Lessee - Single Model of Lease</th>
</tr>
</thead>
</table>
| Financial Lease   | No changes              | • On-balance sheet (asset & liabilities) – specific asset  
                     |                                        • Depreciation  
                     |                                        • Interest expense  
                     |                                        • On-balance sheet (asset & liabilities) – Right of Use  
                     |                                        • Depreciation  
                     |                                        • Interest expense  
                     |                                        Exception: Short term (< 12 months), low value |
| Operating Lease   | No changes              | • Off balance sheet  
                     |                                        • Rent expense                                                                 |

Changes from IAS17 (PSAK 30) to IFRS 16 (PSAK 73)
Overview - Lessee Accounting

Initial Recognition and Measurement

Measurement of Right of Use of Asset (ROU) and lease liability at present value of lease payments.

Subsequent Measurement

ROU Asset

Depreciate ROU asset based on IAS 16, or use alternative measurement basis under IAS 16 and IAS 40.

Liability

Accrete liability based on the interest method, using a discount rate determined at lease commencement. Reduce the liability by payments made.

Profit or loss

Generally front loaded expense for an individual lease. Interest and depreciation are separated.
Internationally, the effective date of **IFRS 9 - Financial Instruments** and **IFRS 15 - Revenue from Contracts with Customers** is for annual period starting on or after 1 January 2018 while **IFRS 16 – Lease** is for annual period starting on or after 1 January 2019.

In Indonesia, DSAK-IAI has issued the **PSAK 71** which is equivalent to IFRS 9, **PSAK 72** which is equivalent to IFRS 15 and **PSAK 73** which is equivalent to IFRS 16. These standards are planned to be effective for annual period starting on or after 1 January 2020.

Retrospective application is required except:

- When transition application requires undue cost or effort, in which operational simplifications are provided.
- When there is no requirement to restate comparatives.
WHAT IS THE POTENTIAL IMPACT OF THE NEW IMPLEMENTATION OF PSAK 71, 72 AND 73?
## Potential Impact of PSAK 71, 72 and 73

<table>
<thead>
<tr>
<th>Business processes and internal control</th>
<th>Data and technology</th>
<th>Accounting and financial reporting</th>
<th>Tax implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Current business processes and internal controls, may be modified as consequences of change in business model</td>
<td>• Modify or establish new database to record historical collection experiences</td>
<td>• Business model test and contractual cash flows test may lead change in classification and measurement of financial assets and liabilities</td>
<td>• Change in tax accounting method, if occurred should get approval from tax office if the changes for financial reporting purposes</td>
</tr>
<tr>
<td>• Modification or development new business process may lead to change in policy</td>
<td>• Technology platform may require modification as impact of revenue stream or impairment</td>
<td>• Receivable impairments may require adjustment as a result of expected loss impairment model</td>
<td>• Changes in temporary differences will result in a change to deferred tax assets and liabilities</td>
</tr>
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<td>• Revenue recognition may change due to application of 5-step model</td>
<td>• Valuation allowances may require adjustments due to:</td>
</tr>
<tr>
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<td>• Lease classification will change as a result of single model of lessee’s accounting</td>
<td>• Changes in the timing of temporary difference reversals</td>
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<td>• Change in equity investment since the standard permits to choose irrevocable choices upon initial recognition to classify the instrument at FV through OCI or FV through profit and loss</td>
<td>• Changes in timing of future taxable income</td>
</tr>
<tr>
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<td>• Disclosure requirements increase</td>
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</tbody>
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POTENTIAL TAX IMPLICATION ON ADOPTING PSAK 71, 72 AND 73
Potential Tax Implication of PSAK 71, 72 and 73

Income Tax Calculation - Indonesian Tax Legislations

Art.28 (7) – elucidation Tax Law No.16 2009

Regulated by Indonesian Tax Authority (ITA)

- Yes
  - Tax Regulation
- No
  - General Accounting Standard
Bookeeping

Indonesian Tax Law No.16 year 2009 (General Provision and Procedures of Taxation)

Article 28:

......

5. Bookkeeping maintained using the principle of consistence and using accrual basis or cash basis

6. Changes to the methods of bookkeeping and/or the fiscal year must obtain an approval from the Director General of Taxes

7. Bookkeeping at least consist of records concerning assets, liabilities, capital, income and expenses, as well as sales and purchases therefore could be calculated the amount of tax payable

.........
Taxable Object
Indonesian Tax Law No.36 year 2008 (Income Tax)

Article 4:
(1) The object of tax is income, that every additional economic capability received or obtained by Taxpayer, whether originating from Indonesia or abroad, that can be used to consume or to increase the wealth of the Taxpayer, in whatever name or form including:

a. compensation or other remuneration received ........
b. lottery prizes or gift in respect of employment activities …
c. business profit
d. gains from sale or transfer property …
e. refunds of tax payments that already deducted as expenses and addition payment of tax refund
f. interest including premium, discounts, and compensation for loan repayment guarantee …
 ..........
s. surplus of Bank Indonesia
Article 10:

(1) Acquisition cost or selling price in terms of occur property trading that is not influenced by special relationship as referred to in Article 18 (4) is an amount that actually paid or received, whereas, if there is a special relationship is the amount which should have been paid or received

(2) Acquisition value or selling value in terms of occur property exchange is the amount which should have been paid or received on the basis of market price …
Income Tax Calculation - Indonesian Tax Legislations

Finance Lease and Operating Lease – Lessee
Minister of Finance Decree (MoF No.1169/KMK.01/1991)

Finance Lease (article 16)

a. During the lease period, lessee may not make depreciation of capital goods leased until the lessee uses the option to buy

b. After the lessee has used the option to buy the capital goods, the lessee make depreciation and the depreciation basis is the residual value of the goods the capital concerned

c. Lease payments that are paid or owed by the lessee except for loading on land, will be a deductible expense from the lessee’s gross income as long as the lease transaction meets the provisions in Art.3 of this Decree

d. In the case the lease period is shorter than the period specified in art.3 this Decree, the DGT made a corrections to the impositions of lease fee
Potential Tax Implication of PSAK 71, 72 and 73

Income Tax Calculation - Indonesian Tax Legislations

Finance Lease and Operating Lease – Lessee
Minister of Finance Decree (MoF No.1169/KMK.01/1991)

Operating Lease (article 17)
a. Lease payments of operation lease paid or liable by lessee is deductible
b. Lessee obligate to withheld the withholding tax article 23 on the payment of operation lease paid or liable
Questions and answers?
Thank you for your time and attention