

Consolidation of State Owned Enterprises and Its Impact to the Financial Statements

It has been heard that the government will establish a holding of state-owned enterprises (SOEs) to optimize synergy among SOEs. What will the consolidation process be like, and what impact will the consolidation have to financial statements?

Octavia, Jakarta

Since the beginning of 2016, the Government revives the consolidation of SOEs that was initiated a few years ago.

The pattern of consolidation is by formation of a holding company for each sector, i.e.: banking, mining, construction, infrastructure, plantation, etc.

Ideally the consolidation process undertaken by the Ministry of SOEs will go through a series of activities, which include due diligence on the holding company formation and structure, projecting the business of new holding company and its subsidiaries to be as well as its measures to develop the business at national, regional and global level, and calculating the value created by establishing such holding company. Further study will also need to be conducted, that include a benchmarking to a similar corporation at regional and global level.

Strategic aspect with regard to the formation of holding company will need to be carefully assessed, and it will include evaluation on the interests of stakeholders, management control system, organization structure, taxation, information system and human resources.

To support the entire evaluation process, pro forma financial statements of each SOE member that will be part of

the holding company need to be analyzed.

Consolidation is the result of restructuring and reorganization in the form of business combination. Naturally, consolidation must adhere to Indonesia Statements of Financial Accounting Standards (Indonesia SFAS or PSAK). The Indonesia PSAK on business combination is more comprehensive compared to the International Financial Reporting Standards (IFRS).

There are two types of business combination (PSAK 22 and 38). Business combination can be made between entities that are not under the same control as well as an "under common control". Group restructuring and reorganization are excluded from the scope of IFRS 3 Business Combinations, because the combining entities are controlled by the same party, and categorized as Business Combinations Under Common Control (BCUCC).

What about consolidation of SOEs?

Almost certainly, this is a BCUCC, because SOE, before merged/consolidated are all under common control of the Government of Indonesia.

How it will impact financial statements?

Since the BCUCC transaction does not result to change in ownership of the economic substance of the business which is combined, the transaction is recognized in the carrying amount based on the pooling of interest method.

Entity that receives business (Holding) recognizes the difference between the consideration transferred and the carrying amount of each BCUCC transaction in the equity and presenting it as "additional paid-in capital". Meanwhile, entities that release business (SOEs/Holding subsidiaries) recognize the difference between the consideration received and the carrying amount of business that is released in the equity and presenting it as "additional paid-in capital".

Lastly said, the impact of BCUCC is reflected in the "additional paid-in capital".

Do note that the latter happen only if there is a difference between consideration transferred/received and carrying amount (book value) of business.

Complexities may arise depending on the formation of a holding, whether it comes from one of the existing SOEs or from newly established Holding.

KEY POINTS

- Formation of a SOE holding company for specific sector need to undergo due diligence, evaluation, assessment, benchmarking, and analysis on the pro forma financial statements of both SOEs that will be consolidated as well as the future SOE holding.
- By the Indonesia SFAS, consolidation of SOEs in Indonesia will be treated as business combination under common control.
- Consolidation of SOE will have impact on the paid-in capital.



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