A Newsletter of RSM AAJ Associates

Wake up Call

Quarter II/2014 Edition

Inside this issue:

What you need to know when planning on a Quasi Reorganization in Indonesia

Saptoto Agustomo, Audit Assurance Practice

An entity may be insolvent and encountered significant financial difficulties and has accumulated large deficit as a result of various problems in operations that resulted in continuing loss, and technically bankrupt. It may not be easy to recover to its normal operations. If then, the entity can successfully generate profits; the entity will not be permitted to distribute dividends until the deficit is eliminated.

The recovery period and deficit elimination can take so long that investors' interest in the entity vanishes, and make it difficult to acquire capital. To overcome such constraints, the entity might undertake a quasi reorganization. However, accounting standards requires an entity to meet certain criteria to apply quasi reorganization accounting.

If there are no restrictive criteria, an entity could conduct the quasi reorganization and may pay dividends to shareholders at its discretion. If this happens, the creditors stand at risk position.

By definition, quasi reorganization is a procedure that eliminates a retained deficit without liquidating the corporation and starting over again. This method is used if a company with a retained deficit has overcome past problems and has a future. Two types of quasi reorganizations exist. Deficit reclassification reduces the retained deficit by reducing additional paid in capital. Accounting reorganization starts with restating assets and liabilities to current values, then adjusts the retained deficit in an equal amount. If a deficit still remains, that is reduced just like deficit reclassification, by reducing additional paid in capital. Companies that use quasi reorganization must disclose that fact for ten years in the notes to the financial statements (Kate Mooney, "The Essential Accounting Dictionary", 1st edition, 2008).

In short, quasi-reorganization is doing the assets and liabilities revaluation at fair value, and eliminating negative retained earnings or deficits.

The concept of a quasi reorganization is not adopted in International Financial Reporting Standards (IFRS). Unless otherwise permitted under IFRS, in general, it is prohibited to make adjustments or revaluations to an entity's financial statements. In IFRS, revaluation is allowed in accordance with International Accounting Standard (IAS) 16 Property, Plant and Equipment, while modifications or extinguishments of an entity's equity would be accounted for under IFRS 9 Financial Instruments.

In the context of convergence Indonesian Statement of Financial Accounting Standards (SFAS) to IFRS, the Financial Accounting Standards Board - Indonesian Institute of Accountants has issued Statement of Financial Accounting Standards Revocation (PPSAK) No.10 regarding the revocation of SFAS 51: Accounting for Quasi-Reorganization, which became effective on January 1, 2013. Considering this revocation, in late 2012, BAPEPAM has issued "Decision Letter No: KEP-718/BL/2012 regarding Quasi Reorganization" dated 28 December 2012 which is applicable since 1 January 2013. With this Decision, the Decision Letter No: KEP-16/PM/2004 dated 13 April 2004 regarding "Procedures for the Implementation of Quasi Reorganization" is revoked.

Bapepam's rule (2012) defined a quasi reorganization as the accounting procedures to restructure the equity by eliminating the negative retained earnings. This definition is different with the common definition as mentioned in the beginning of this article.

From this definition, we know that there is no requirement to conduct, intentionally for a quasi-reorganization purpose, the revaluation of assets and liabilities to current values before using the revaluation surplus to eliminate the negative retained earnings or deficits. However, quasi reorganization is done by eliminating the negative retained earnings using the equity accounts which is positive balance in the order of priority as follows: (1). share premium, (2). difference in capital from treasury stock transactions, (3). exchange differences on capital paid up, (4). difference in transactions with non-controlling party, (5). difference in value of transactions with entities under common control, (6). capital stocks. Retained earnings after the elimination process on quasi reorganization must be zero ('fresh start').

Difference in value of transactions with entities under common control can be used to eliminate the negative retained earnings if it has been stated in the audited annual financial statements for two consecutive years.

The result of quasi reorganization can be a reduction of capital which requires regulatory approval. Contrary, if the equity account is not sufficient to eliminate the negative retained earnings, then the paid-up capital shall be increased first, prior to the quasi-reorganization in accordance with laws

Former Elimination Procedure on Quasi Reorganization (QR)	Pre QR	Post QR	
Share Premium	200	200	
Difference in capital from treasury stocks transaction	150	150	
Exchange difference on capital paid up	100	100	
Difference in transactions with non-controlling party	30	30	
Difference in value of transactions with entities under common control	70	70	
Capital stocks	500	500	
Accumulated losses (or negative retained earnings)	(1,100)	-	
Revaluation Surplus of Assets and Liabilities	-	100	*
Total Equity	(50)	1,150	

** assuming revaluation surplus Rp1,200, and balance Rp100 after used it for elimination.*

New Elimination Procedure on Quasi Reorganization (QR)	Pre QR	Post QR	
Share Premium	200	-	
Difference in capital from treasury stocks transaction	150	-	
Exchange difference on capital paid up	100	-	
Difference in transactions with non-controlling party	30	-	
Difference in value of transactions with entities under common control	70	-	
Capital stocks	500	475	*
Accumulated losses (or negative retained earnings)	(575)	-	
Total Equity	475	475	

** reduction of capital (Rp25) which requires regulatory approval*

and regulations.

Back to old and common quasi-reorganization procedures, elimination of negative retained earnings is done using the revaluation surplus from revalued assets and liabilities.

Negative retained earnings after the elimination process on quasi-reorganization must be zero, and further if there is balance of assets and liabilities revaluation surplus, the balance is presented as part of equity components.

Looking at the above differences, now, we may say, “this is the Indonesian way of quasi-reorganization” because of its unique accounting procedure.

Steps to islamifying a conventional finance framework

Renato M Leuterio, Tax & Outsourcing Practice

The first modern experiment with Islamic banking took place in Egypt only in 1963. Called Mit Ghamr, it was a savings bank based on profit-sharing. It is no surprise then that countries wanting to build an Islamic financial structure have to begin with what is existing, and that is almost always a conventional infrastructure.

Fortunately, there is a path to "Islamifying" an infrastructure (see diagram of phases) by:

1. setting up an Islamic window;
2. establishing a full-fledged Islamic bank;
3. opening non-bank financial institutions; and
4. internationalizing the Islamic infrastructure.

Setting Up an Islamic Window

An Islamic window is a unit within a conventional bank through which Shariah-compliant instruments are formulated and distributed. Islamic windows are more common in Southeast Asia and western countries than in the Middle East, where the tendency has been to establish full-fledged Islamic banks. According to the Top 500 Islamic Financial Institutions report by *The Banker*, about 30% of the 500 largest Islamic financial institutions are windows. At the start of an Islamic window, three operational functions must be in place: (1) ensuring Shariah compliance; (2) segregation of funds; and (3) accounting standards.

Ensuring Shariah Compliance

Islamic finance is based on the principles established by the Shariah and rulings (called *fatwa*) issued by Islamic scholars. These rulings can be complex and sometimes subject to interpretation. As a result, Islamic financial institutions, including windows, often appoint Shariah boards whose role typically involve:

- presiding over the Shariah compliance of all the transactions in the bank;
- supervising the development of Shariah-compliant investment, products and procedures;
- certifying Shariah-compliance of the bank's product documents, contracts and agreements;
- advising on Shariah training programmes for staff; and
- preparing an annual report accompanying the financial statements on the bank's Shariah compliance.

Shariah councils instill confidence in the public that the bank's activities conform to Islamic teachings. Councils do not directly get involved in bank operations, but resolve issues pertaining to whether or not the activities of the bank are in line with Islamic principles. The auditors of the bank are required to make sure there is adherence to the decisions of the council.

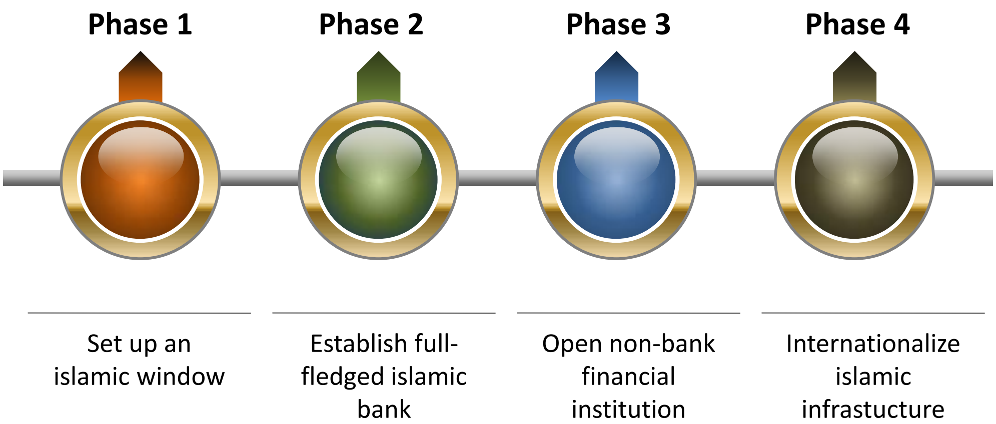
Financial regulators may appoint their own Shariah board of experts to advise them on the products and services offered by the institutions under their jurisdiction. An additional task for the regulator is to join and participate in the activities of international bodies, such as the Islamic Financial Services Board (IFSB) which issues standards for the effective supervision and regulation of Islamic financial institutions.

Segregation of Funds

Islamic funds should be segregated from the bank's conventional funds, which may be used in *haram* (forbidden) activities. This requires that banks establish different capital funds, accounts and reporting systems. Thus, when a conventional bank opens an Islamic window, it is in fact setting up a separate entity from the rest of the bank.

Accounting Standards

At the start of the modern Islamic finance industry in the 1970s, Islamic institutions developed their own accounting solutions for their new products. This made comparisons across institutions and countries difficult. Then in 1990, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established to dis-



seminate accounting and auditing standards that can be applied internationally by all Islamic institutions.

Establishing a Full-Fledged Islamic Bank

As the activities of the Islamic window expand, the bank may consider fully segregating the window from its main operations to form a separate subsidiary, or even converting itself into a full-fledged Islamic bank. One advantage of opening a subsidiary over a full conversion is that, with the former, the parent bank can continue servicing its conventional customers, while the subsidiary expands its Islamic activities in clear separation from its conventional business.

At some point, a Muslim-majority country would face the decision of whether or not to completely transform its financial sector into a fully Islamic system. For some countries like Iran and Sudan that have predominantly Muslim populations, this is more likely to develop. On the other hand, countries such as Malaysia, Indonesia and Kuwait have mixed financial systems that are co-existing. The presence of a dual system for these countries has given them a natural competitive edge to establish themselves as diversified international financial hubs, appealing to both Islamic and conventional investors.

Opening Non-Bank Financial Institutions

As full-fledged Islamic banks increase their operations and the population's appetite for Islamic financial products broadens, there will arise other opportunities, particularly for the non-bank sector. Products such as insurance, fund management, derivative instruments and money market securities could be distributed.

Insurance (Takaful)

Conventional insurance is not considered Shariah-compliant for several reasons. Firstly, it involves the policyholder paying the insurer for an event that may never take place eg accidents or critical illness. This practice is considered gambling (*maysir*), which is forbidden by Shariah. Secondly, conventional insurance companies hold a large portion of their investment portfolios in interest-based bonds, another forbidden practice in Shariah. *Takaful*, on the other hand, circumvents these two as well as other difficulties.

Fund Management

After banking and insurance, the next important area of development typically takes place in fund management. Islamic stock and bonds will emerge alongside existing conventional funds, and the rise of these markets will require the presence of expertise and an adequate legal framework, eg, Islamic funds need more strategic due diligence to screen investments for adherence to Shariah principles. Islamic bonds (or sukuk) entail a legal framework for the establishment, management and accounting of special purpose vehicles (SPVs). An SPV is a separate subsidiary company set up to contain investments. Such a plan protects the assets of the parent company even if the subsidiary goes bankrupt. SPVs are typically used to finance large projects without putting the entire firm at risk.

Derivative Instruments

Derivative instruments are widely used in the conventional system for managing risk. Derivatives, however, have the dubious reputation of being highly risky and bringing much of the global financial system to its knees during the subprime crisis. It is the abuse of derivatives that violates Shariah, where a few speculators risk large sums of money to gamble and profit from great uncertainty (major *gharar*) at the expense of a much larger group of people.

Derivatives though are not totally haram. They are permissible as long as they are used to directly cover a risk. Islamic derivatives are in their early development stage and the proper use of derivatives to manage risk offer hope that Islamic derivatives could eventually become commonplace.

A major joint effort is currently being undertaken by the conventional finance-based International Swaps and Derivatives Association (ISDA) and the organization of International Islamic Financial Market (IIFM) to develop Shariah-compliant derivatives.

Money Market Securities

Money market instruments provide short-term liquidity for institutions, governments and businesses. Islamic money markets are not new. Bank Negara Malaysia introduced the organization of Islamic Interbank Money Market (IIMM) as early as 1994. While there have been no serious operation issues, IIMM and other Islamic money markets face one obstacle--the inadequate amount of short-term tradable Islamic instruments. One reason for this is that bond and money markets work hand in hand. A large portion of conventional money market instruments consist of medium to long-term bonds, with less than one year to maturity. As Islamic bonds are not yet widespread and seldom traded but rather held to maturity, few Islamic bonds end up as money market securities. Efforts are being expanded to create a critical mass of Islamic finance instruments that can be traded easily in the money markets, particularly by IIFM.

Internationalizing the Islamic Infrastructure

Along with achieving a domestic diversity of Islamic financial institutions, regulators seek to promote greater integration with the global Islamic and conventional financial systems.

International trade is one of the main beneficiaries of financial integration as it facilitates the efficient exchange of capital goods and services across geographical borders. In many countries, international trade represents a significant share of GDP and its importance has risen because of industrialization, advanced transportation, globalization, multinational corporations, and outsourcing.

Get familiar with levies imposed by the Indonesia Financial Services Authority

Didik Wahyudianto & Franz AM Silalahi, Audit Assurance Practice

Despite controversies surrounding the levy imposed by the Indonesia Financial Services Authority (OJK), OJK is consistent in implementing it, as basis of it has been formalized with the issuance of Government Regulation (PP) No.11/2014.

The levy was designed as alternative source of recurring income for OJK other than apportionment from Annual State Budget (APBN). With this levy, OJK is expected to have less dependency on the ruling government, which in turn would enable more independency in decision making and action.

The levy is effective on early March 2014, and OJK expect to start receiving payments from parties dealing in financial sector starting April 2014.

Who are imposed to it?

According to PP No.11/2014, the OJK's levy ("Levy") is sum of money payable to OJK by every party that is dealing in the financial services sector ("Party"). Party is defined as individual and or institution that are involved in the financial services sector.

Financial services sector includes bank, capital market, insurance company, pension fund, non-bank financial institution, and professional service firm that are serving the financial services sector such as public accounting firm, appraiser, notary, law firm, and actuary (obtained license, approval, registration, or endorsement from OJK).

What kind of levies are there ?

Adhoc Levy

Adhoc Levy is payable based on activity perform by OJK, and includes:

- Licensing Levy: levy charged on the license issued by OJK to the Party
- Approval Levy: levy charged on the approval given by OJK to the Party
- Registration Levy: levy charged on the registration submitted to OJK by the Party
- Registration Levy: levy charged on the registration submitted to OJK by the Party
- Endorsement Levy: levy charged on endorsement given by OJK to the Party
- Review levy: levy charged on review done by OJK on corporate action proposed by the Party

Several Adhoc Levy	Charging Base	Amount (IDR)
Licensing, Registration, Approval, Endorsement		
• Stock exchange, clearing guarantee institution, central securities depository, commercial bank, insurance company, reinsurance company, investment manager	per company	100,000,000
• Rating agency, underwriter, rural bank (*BPR*), sharia rural bank (*BPR Syariah*), venture capital, and other financial service institution	per company	50,000,000
• Brokerage company that administer customer fund	per company	30,000,000
• Investment manager and investment advisor	per person	1,000,000
• Public accountant, appraiser, lawyer, notary, actuarist	per person	5,000,000
• Registration for Public Offering (stock, obligation, or convertible bond, sukuk)	offering value	0.05% (max 750,000,000)
• Registration Statement of Public Company	per statement	10,000,000
• Approval for bank custody and rating agency for Sharia securities issuer	per company	5,000,000
• Pension fund (DPLK and DPPK)	per company	50,000,000
Corporate Action Review		
• Review on merger of public companies	total asset of pro-forma post-merger financial statements	0.05%
• Review on voluntary delisting	per delisting	1,000,000,0000
• Review on acquisition of public company	per acquisition	25,000,000
• Public offering without pre-emptive rights	offering value	0.025% (max 500,000,000)

Annual Levy

Annual Levy is sum of money payable annually to OJK to support the operation of OJK in financial services sector. It is set at a particular nominal or percentage, depending on the profession and certain financial indicators of the Party.

The amount of Annual Levy which is determined by certain percentage or nominal of particular financial indicator is computed by referring to the latest audited financial statements available (preceding year, or if not available, the year prior to it and so forth). The amount is then recomputed using the current year audited financial statements, and any discrepancies shall be taken into account on the next payment.

An example, the Annual Levy payable by a commercial bank for the year ended 31 December 2014 is computed as 0.045% of its audited total assets as of 31 December 2013. The company then made quarterly installment during 2014 based on this measure. Once the audited financial statements for 2014 is issued on 25 March 2015, the company recomputed the Annual Levy payable for year 2013 and include the difference as addition (or deduction) to the next coming payment, which is due on 15 April 2015.

It could happen that a single Party might be situated to more than 1 role/function/profession.

For example, a company may also be an issuer and also an underwriter. Does this mean that such company is liable to 3 different annual levy?

Article 6 of PP No.11/2014 clarifies that any Party having more than one occupation is only obliged to pay 1 annual levy, whichever is higher.

Types of Annual Levy	Charging Base	Amount (IDR)
Stock exchange, clearing guarantee institution, securities settlement and administration agency	operating revenue	15%
Commercial bank, rural bank, sharia rural bank, life insurance company, general insurance company, reinsurance company, pension fund, venture capital, and other financial service institution	total asset	0.045% (min 10,000,000)
Investment manager	managed fund	0.045% (min 10,000,000)
Investment advisor	advisory fee	1.2% (min 10,000,000)
Underwriter and broker	agency fee	0.05% (max 750,000,000)
Issuer	value of outstanding shares	0.03% (min 15,000,000; max 150,000,000)
Public company	per company	15,000,000
Rating agency, custodian bank, insurance brokerage company, and insurance agent company	operating revenue	1.2% (min 5,000,000)
Public accounting firm, appraiser firm, law firm, notary firm, and actuaries firm	fee in financial service sector	1.2%
Professionals – public accountant, appraiser, lawyer, notary, actuarist	per person	5,000,0000

When will payment due?

The payment of Adhoc Levy is due prior to the submission of license, approval, registration, endorsement, or corporate action plan. The Adhoc Levy is non-refundable and it doesn't guarantee that license, approval, registration, endorsement, or corporate action would be granted by OJK.

On the other hand, the Annual Levy is payable on quarterly installment basis, where each installment makes up to 25% of the total Annual Levy payable to OJK for that particular year. The installment is due on every 15 April, 15 June, 15 October, and 31 December. In case that the payment due date falls on public holiday, the due date is the next working date then.

How to pay?

Payment can be made through Sistem Informasi Penerimaan OJK (the "SIPO"). Guidelines for the complete payment procedures can be found on OJK's Circular Letter No.4/SEOJK.02/2014.

Is there sanction for negligence?

Party that is found negligent would be held liable by OJK to pay 2% per month, up to the maximum amount of 48% of the Annual Levy payable, where portion of a month is regarded as one whole month. Other than this, OJK may apply additional sanction based on its discretion.

Celebrating RSM

RSM AAJ, the Indonesia independent member firm of leading audit, tax and advisory network, RSM International, is joining in the global celebrations in honour of the network's 50th anniversary. RSM AAJ has been a member of the RSM network since 1992.

Since its foundation in 1964, RSM has grown to become a network with member and correspondent firms in 108 countries who employ over 32,000 people across more than 700 offices. RSM is the sixth largest provider of tax services globally and has top ten member firms in all key economies, including the USA where it is the 5th largest firm, and in China where its member firm is part of the country's third biggest national firm. RSM also recently announced the admission of Baker Tilly, the 7th largest firm in the UK, to its network.

Running from May through to the RSM World Conference at the end of October, the Global 50th Anniversary Tour will see celebratory events taking place at the network's regional conferences in Asia Pacific, Middle East and North Africa, Latin America, and Europe, as well as at the RSM Academy and RSM ITAX Academy.

On 18 September, RSM World Day - the network's annual day of internal and external activities, events and CSR initiatives focused on 'Connected for Success' - will see over 70 countries commemorating the occasion with special 50th Anniversary party activities.

Amir Abadi Jusuf, Founder and Chairman of RSM AAJ, said: "We have been member of RSM for more than 20 years, and it has been a great and satisfying journey. With RSM we have been supporting our clients' needs to grow and expand internationally by providing seamless, cross-border services to our clients."

Jean Stephens, CEO of RSM International, said: "Celebrating RSM International's 50th anniversary this year is an important milestone for our network and members. I am honoured and delighted to work with such a strong group of professionals and firms across the world. This is a time for us to thank our clients and colleagues of the past and present for the contributions that every single person has made to the success of the RSM network."

Jean continued: "We are very proud of the enormous diversity of cultures and backgrounds of people within RSM and of the driving force within the network to provide the very best services to our clients. What makes this possible and binds us together is our relentless focus on having the right people, providing high quality solutions, developing cross-border business opportunities and continuing to build our brand globally."

For the year ending 31 December 2013, RSM member firms' total fee income was US$3.7billion, representing a 5% like-for-like increase in local currency terms on its 2012 results. In the past year the network has grown its cross-border referrals by 17%.

RSM has seen significant expansion in the past twelve months with new member firms and correspondents in Brazil, Dominican Republic, Estonia, Finland, Ghana, Isle of Man, Japan, Qatar, Swaziland, Sweden and the UK.

The network accepted the 350th graduate into its RSM Academy programme in 2013 and launched the RSM ITAX Academy, a two-year programme aimed at developing future leaders in international tax.

Stephens added: "We are committed to helping our client base prosper, whether it is a young entrepreneurial business, or a leading multi-national organisation, and look forward to building our network into new countries in order to be in the best position to serve our clients at the highest level wherever they have business needs."

Amir added "We are very proud to be member of the RSM network and look forward to continuing to play our part in its continued success over the coming years."

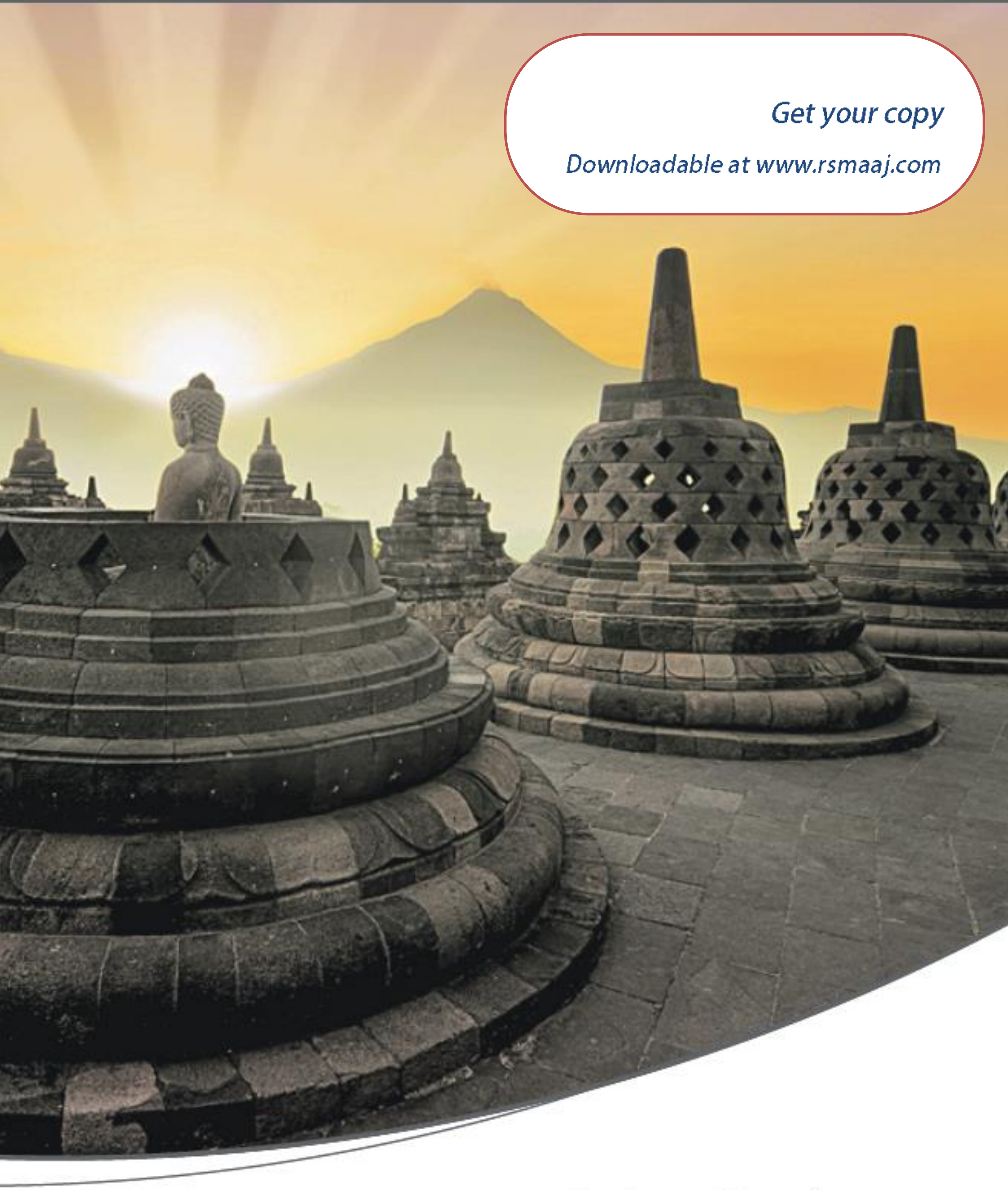
RSM AAJ activities

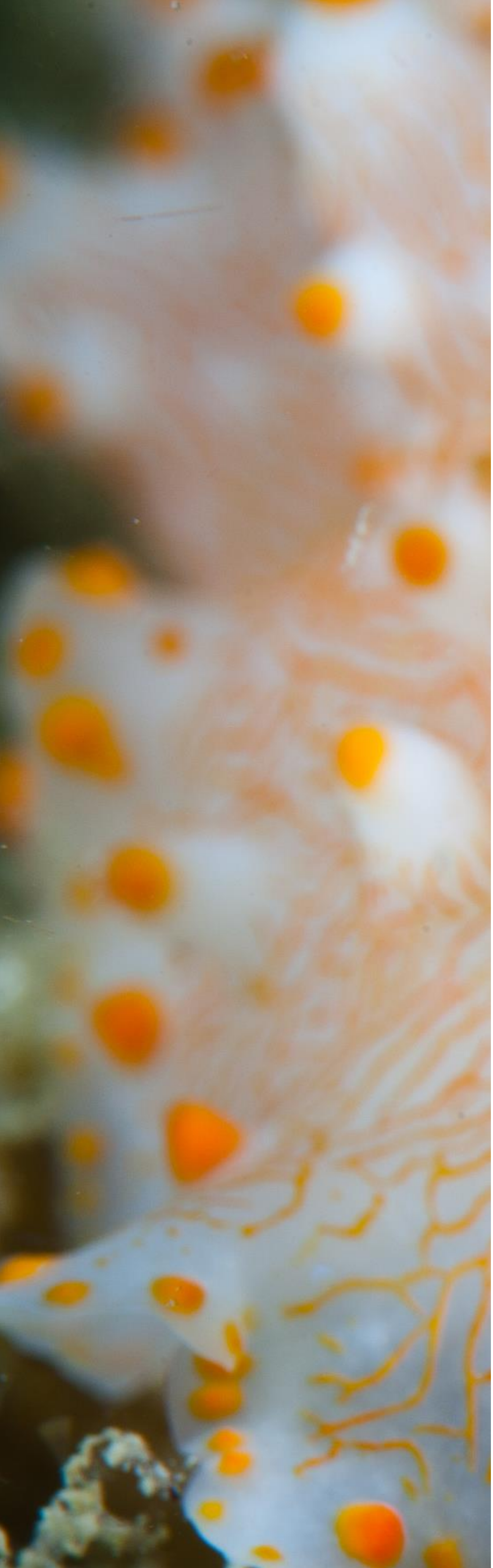
On 4 March 2014, RSM AAJ celebrated its 29th anniversary. Partners and staffs get together in a small party day.

RSM AAJ as one of the audit, tax, advisory firm that played a role as a supporting institution in the financial services sector, together with Indonesian Stock Exchange and Financial Service Authority (OJK) in a seminar themed "Entering The Market Growing Your Business Though Indonesia Capital Market" on March 18th at Ritz Carlton Hotel, Pacific Place. This The event was held to create market awareness on capital market as source of funding and to socialize the process and benefit of an initial public offering (IPO).

On May 2014, RSM AAJ has published its 5th edition of Doing Business in Indonesia. It contain practical information for those who are interested in opening up a business venture in Indonesia. Get your free copy, downloadable at our website (www.rsmaaj.com).

RSM AAJ participated in job fair at 2 campuses, which was held on 7-8 March 2014 at University of Indonesia and on 18-19 March 2014 at Bina Nusantara University. Altogether, the events brought in almost 1,000 attendance of students, alumni and public.





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