



WAKE UP CALL

Welcome to issue 50 of Wake Up Call – RSM Indonesia newsletter covering topics on audit, accounting, business, corporate finance, transaction support, governance, internal control, management, risk, and taxation.

In this issues:

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- Taxing the digital economy – what a country should do?
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PSAK 71 parallel run is coming shortly, check your readiness!



Aria Farah Mita, Audit Practice

PSAK 71: Financial Instruments will be effective on 1 January 2020. However, OJK requires Banks and Non-Bank Financial Service Institutions (IKNB) to carry out parallel runs starting 1 July 2019. OJK has given a suggested timeline of key milestones to implement PSAK 71.

PSAK 71 is an adoption from the IFRS 9: Financial Instrument that replaces PSAK 55 (IAS 39).

Changes from PSAK 55 to PSAK 71 cover three areas, namely classification and measurement, impairment and hedge accounting.

The basic concept for classification of measurement changes from management intention to a business model.

According to PSAK 71, business model means on how the entity manages financial instruments to generate cash flow. For the impairment, the concept changes from incurred loss to expected credit loss (ECL). While the hedge accounting requirements change to be more flexible than PSAK 55.

PSAK 71 can unite between business, risk and accounting. Changes in PSAK 71 aims to bring the accounting numbers closer to the entity's risk management activities. Furthermore,

it is expected that accounting numbers will be more relevant and more useful for the entity's business decision making. How will it happen? The assessment of the business model takes into account the consistency of the entity's business plan, target of

In terms of impairment, PSAK 71 provides some guidance so that the impairment model is more aligned with how entity assess and manage its credit risk. Then, this will help entity make strategic decisions, such as target market selection and or product development and pricing.

The expected credit loss concept for calculating the impairment requires forward-looking information. Forward-looking information requires an assessment of future credit failures. The model to generate forward-looking information is built based on historical data and includes future macroeconomic conditions. Therefore, the completeness and reliability of historical data remain a concern. A reliable and complete historical database will reflect the true behaviour of the customers

then are captured and used to generate forward-looking information. This information will be useful for risk management and decision making of the Bank.

The parallel run aims to allow banks to get feedback and fine-tuning the model until the PSAK 71 becomes effective. Banks should take advantage of this parallel run to get ready to implement PSAK 71 as of 1 January 2020.



a business unit; the range of activities to achieve the target, the reasons and the objectives of buying or selling financial instruments and also relate to the performance measurement of the business unit. Thus, the classification and measurement of financial instruments will better reflect the objectives and performance of business units.

The followings are important list to check the status and readiness of applying PSAK 71:

- Management has developed IFRS 9 implementation project plan
- Management has estimated the total cost and staffing increase (if any) as a result of IFRS 9
- Management has been communicating the progress report on IFRS 9 implementation to the board
- Consultation has been done with IT system providers to ensure the systems are ready
- Management has developed a process to assess the financial instrument with the SPPI test and business

ness model test to determine classification and measurement under IFRS 9

- Management has developed a process to measure impairment under IFRS 9 using the expected credit loss model (ECL)
- Regarding the ECL model, both for credit portfolio and treasury portfolio, management has finalised the segmentation, staging criteria, recalculate the PD and LGD, set the adjustment of the cash flow for EAD, and develop the forward-looking model.
- Management has conducted a simulation of the impairment calculation

under IFRS 9 and get the feedback from the simulation

- Management has analysed the impact of the IFRS 9 on the bank's financial health and capital

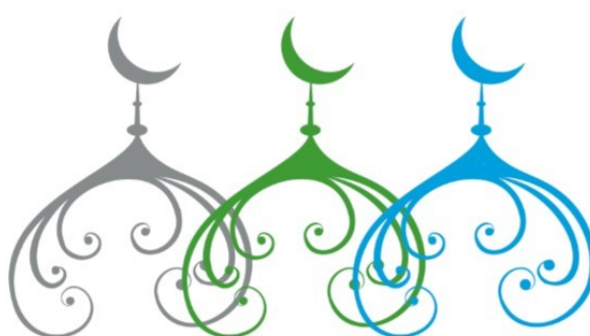
So check your readiness now or you might be late.

PSAK 71 can unite between business, risk and accounting. Banks should take advantage of this parallel run to get ready for PSAK 71 in 2020.

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All of us at RSM wishes you a joyful Eid al-Fitr 1440 H.

May Allah's blessing light up the path and lead us to peace and happiness.

Taxing the digital economy – what a country should do?



Ichwan Sukardi, Tax Practice

BEPS Action 1 – Tax challenges of the digital economy

The Organization for Economic Co-operation and Development (“OECD”) released its final report on the tax challenges of the digital economy on 5 October 2015, under its Action Plan on Base Erosion and Profit Shifting (“BEPS”).

The Digital Economy Report (“the Report”) is included in Action 1, out of other 15 actions. Action 1 addresses the tax challenges of the digital economy and aims to identify and address the main challenges that the digital economy poses for the existing international tax rules. The Report summarizes key features of evolving digital business models that the OECD considers relevant for the overall BEPS analysis.

One of the major direct tax issues in the digital economy transactions is the fact that there may be little or no presence of a company in the source country. This fact leads to the situation where the source country may give up its taxing right due to the

absence of a Permanent Establishment (“PE”), under the Tax Treaty.

The Report also provides some major recommendations such as: (i) to modify the list of exceptions to the definition of PE regarding preparatory or auxiliary activities; and (ii) to modify the definition of a PE to address artificial arrangements through certain “conclusion of contracts” arrangements. The Report also discusses the indirect tax treatment of certain digital transactions, recommending that countries apply the principles of the OECD’s International Value Added Tax and Goods and Services Tax (VAT/GST) Guidelines as well as consider the introduction of the collection mechanisms included therein.

OECD has also anticipated that countries may issue their internal policy to secure tax revenue, especially corporate income tax. The Report provides no specific new digital taxes. The OECD expects taxation of the digital economy to be tackled unilaterally. However, it is noted that the OECD policy notes published on 29 January 2019 suggested two pillars (approach) that should be used as the basis to resolve the broader challenges of the digitalized economy. The first pillar is proposed by focusing on the allocation of taxing rights. It is suggested that businesses would allocate more profits to markets with whom they interact, regardless of the extent of their physical presence there. The three policy alternatives to achieve

this proposal are introduced with the focus on (i) user participation, (ii) marketing intangibles or (iii) defining a “significant economic presence”. The second pillar deals with remaining BEPS issues. The OECD proposes two measures to go beyond the BEPS reports and further reduce profit shifting to entities with little substance in low-tax jurisdictions.

How countries react to the digital economy transactions?

The OECD recognizes that many countries may tackle the non-imposition of tax under the digital economy transaction based on their domestic tax law. It has also been anticipated as each country should have their own sovereign rights to impose tax.

Various countries have introduced regulations to secure its taxing right by imposing “tax”, outside the scope of the Tax Treaty. This leaves such imposition of “tax” unrestricted by the available Tax Treaty. A few countries that have introduced such “tax” includes: (i) UK, with the Diverted Profit Tax (“DPT”); (ii) Australia, with the issuance of the Multilateral Anti-Avoidance Law (“MAAL”), and (iii) India, with the Equalization Levy.

Indonesia has also issued several regulations in relation to the digital economy transactions. The regulations issued vary from the Ministry level to the Director General regulations. However, Indonesia tends to take a conservative approach, and



has not introduced such “tax” as some of the countries mentioned above. On balance, it should be noted that Indonesia successfully forced Google to pay taxes in Indonesia despite the fact that Google may have defended itself by arguing that no tax should be payable in Indonesia due to their lack of presence in Indonesia.

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It is disappointing that the Report encourages countries to tackle taxation of digital economy challenges unilaterally, which will lead to global uncertainty and inconsistency.

Pursuant to the fact that some countries have introduced “tax” outside the scope of the Tax Treaty, we should expect that by 2020 the OECD final solution on the taxation of the digital economy should firmly provide multi-lateral approach as proposed under the three policy alternatives in the 29 February 2019 notes. All countries seem to agree that it is fair to allocate more profits to markets with whom they interact.



Indonesia Facts

Sumba (Indonesian: *Pulau Sumba*) is an island in eastern Indonesia. It is one of the Lesser Sunda Islands and is in the province of East Nusa Tenggara. Sumba has an area of 11,059.6 square kilometres (4,270.1 square miles), and the population was estimated to be 755,849 in 2015. To the north-west of Sumba is Sumbawa, to the north-east, across the Sumba Strait (Selat Sumba), is Flores, to the east, across the Savu Sea, is Timor, and to the south, across part of the Indian Ocean, is Australia.

Sumba has a highly stratified society based on castes. This is especially true of East Sumba, whereas West Sumba is more ethnically and linguistically diverse.

The Sumbanese people speak a variety of closely related Austronesian languages and have a mixture of Austronesian and Melanesian ancestry. The largest language group is the Kambara language, spoken by a quarter of a million people in the eastern half of Sumba.

Air Terjun Tanggedu, Sumba Timur, Indonesia

Source : Wikipedia.com

Our activities



Women in the Internal Audit Profession: Opportunities & Challenges

On 2 April 2019, our Senior Partner Angela Simatupang was invited to moderate a discussion on "Women in the Internal Audit Profession in Indonesia: Opportunities and Challenges" at the DPR Nusantara Building, Jakarta. The event was hosted by The House of Representatives of the Republic of Indonesia and was formally opened by Vice Speaker for Financial Accountability and Parliamentary Policies and Procedures, Utut Adianto.

The Asian Confederation of Institute of Internal Auditors Leadership Forum 2019

Our Senior Partner, Angela Simatupang was invited as speaker at the Asian Confederation of Institute of Internal Auditors (ACIAA) Leadership Forum on 17 May 2019 in Manila to share and discuss on how internal auditors can collaborate and innovate better, alongside with the General Accountant of Philippine SEC, CAE of Ayala Corporation, CIA of MMC Corporation Berhad, CFO of JK Capital Finance and CEO of Splash Corporation.



The Aftermath of Storm GDPR

Although a year has passed since the storm, businesses are still struggling to come to terms with the sheer scale and complexity of the GDPR. As predicted, even though the new regulations were localised to the EU, the effects of the GDPR were felt on a worldwide scale. In the new technological-driven world where data privacy is becoming more and more prevalent, many territories outside of the EU are now looking to adopt regulations similar to the GDPR.

The aftermath of Storm GDPR in Asia Pacific article is now available on our website. Click [here](#) to read the article.

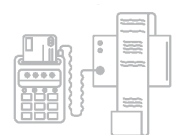
VAT for Exported Service



RSM INDONESIA CLIENT ALERT - April 2019

THE POWER OF BEING UNDERSTOOD
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RSM Indonesia Client Alert:
New Regulation on VAT
for Exported Services
is available at www.rsm.id

Thank you for reading.

Audit

Tax

Consulting



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