

**THE IMPACT OF ACCOUNTING SYSTEM OF REPO ON
FINANCIAL STATEMENT ACCURACY**

SKRIPSI

**Presented in partial fulfillment of the requirements for
The Bachelor's Degree in Accounting**



by

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PLAGIARISM CHECK RESULT

THE IMPACT OF ACCOUNTING SYSTEM OF REPO ON FINANCIAL STATEMENT ACCURACY

The Impact of Accounting System of Repo on Financial
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Fredrik Wijaya

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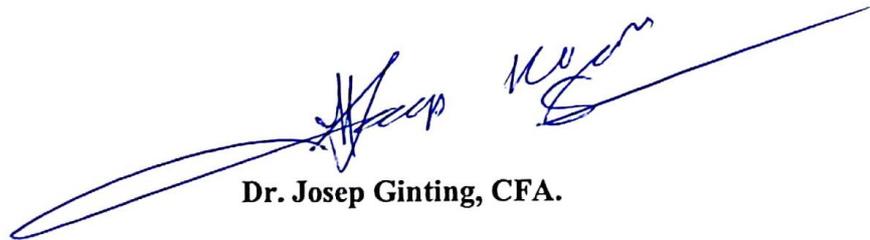
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PANEL OF EXAMINERS APPROVAL
THE IMPACT OF ACCOUNTING SYSTEM OF REPO ON FINANCIAL
STATEMENT ACCURACY

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THE IMPACT OF ACCOUNTING SYSTEM OF REPO ON FINANCIAL STATEMENT ACCURACY

ABSTRACTS

Repurchase agreement is a kind of financial thing that can bring up a company to have more financial support. This thing can become a good idea but without any detail and clear accounting regulation, it may bring the company's financial performance decline or even bankrupt. Otoritas Jasa Keuangan (OJK), Indonesia financial regulator organization start to make repurchase agreement legal and official along with the regulation (POJK Number 9/POJK.04/2015 and GMRA Indonesia). The problem is, those regulations still not detail enough if we see from the accounting perspective. In addition, the characteristic of accounting record is different with accounting standard applied in Indonesia (PSAK that follows IFRS). Researcher aims to propose appropriate accounting regulation for repurchase agreement transaction in order to meet uniformity with other company and meet the PSAK characteristics. Exploratory method is used in this research. The researcher became non-participant observer in doing the observation. Hopefully the result will be considered by IAI (Ikatan Akuntan Indonesia).

Keywords: *repurchase agreement, POJK Number 9/POJK.04/2015, GMRA Indonesia*

THE IMPACT OF ACCOUNTING SYSTEM OF REPO ON FINANCIAL STATEMENT ACCURACY

INTISARI

Repurchase agreement adalah suatu alat finansial yang bisa meningkatkan keuangan perusahaan. Ini bisa menjadi suatu ide yang bagus tetapi tanpa regulasi akuntansi yang rinci dan jelas, repurchase agreement bisa membuat keuangan perusahaan menurun dan bahkan bangkrut. Otoritas Jasa Keuangan, lembaga yang mengatur segala transaksi finansial di Indonesia memulai untuk melegalkan repurchase agreement sejalan dengan mengeluarkan regulasi POJK Nomor 9/POJK.04/2015 dan GMRA Indonesia. Permasalahannya adalah peraturan-peraturan tersebut masih belum rinci jika dilihat dari sudut pandang akuntansi. Selain itu, karakteristik dari pencatatan akuntansi nya berbeda dengan regulasi pencatatan akuntansi yang diaplikasikan di Ineonesia yaitu PSAK yang berkiblat ke IFRS. Peneliti bertujuan untuk mengusulkan regulasi akuntansi yang layak untuk transaksi repurchase agreement. Metode eksploratif digunakan dalam penelitian ini. Peneliti menjadi non-participant observer. Semoga hasil dari penelitian ini bisa dikonsiderasikan oleh Ikatan Akuntan Indonesia.

Kata kunci: *repurchase agreement, POJK Nomor 9/POJK.04/2015, GMRA Indonesia*

CHAPTER I

INTRODUCTION

1.1. Research Background

Capital market has a strategic role in our national development, becoming source of financing and investment for people and companies. Its activity is concerned with the general offer and securities trading, related to public companies with the securities issued, as well as institution and professions related to securities (According to *Undang-undang* number 8 year 1995 about Capital Market - *OJK*). In other words, capital market is a facility that can connect investor with a borrower.

One of the investment activities in the capital market is repurchase agreement (repo). It is a securities sales transaction followed by an agreement between two parties (borrower and lender) whereby on a predetermined date the repurchase will be carried out for the same effect at a certain agreed price. Repo has a same function like a secured loan, where the lender will obtain a collateral for the amount of funds given to the borrower but the different thing is repo's collateral is in term of securities and for secured loans usually in term of asset (car, property, land, inventory, etc).

In this modern era, repurchase agreement transaction legally used in many Bank in Indonesia. It is so different with the past years when repurchase agreement transaction is not allowed by the *Otoritas Jasa Keuangan (OJK)*.

Repurchase agreement can become troublemaker for those who give the loan in terms of repo (Lender) and give more disadvantages compare to the advantages if there is no relevant and clear regulation about this transaction especially from accounting perspective.

Many countries already used this kind of borrowing method since long time ago. They use repo term in borrowing money because they believe repo transaction is somehow give many benefits for the two parties in term of borrowing. For the borrower, they can get fresh money from the lender with lower interest rate or even no interest rate at all by giving interesting security as the collateral to the lender. In the other side, the lender can have a certainty buyback or can get an attractive return in terms of underlying asset if the borrower cannot buyback the money.

Repo transaction in Indonesia is legally used since 2015 together with the regulation produced by *Otoritas Jasa Keuangan* in the *Peraturan Otoritas Jasa Keuangan (POJK)* that referring to Global Master Repurchase Agreement (GMRA) Indonesia. At the same time, central bank of Republic Indonesia invites many banks in Indonesia to agree with this repurchase agreement transaction and to be more active in doing repo transaction. Central bank of Republic Indonesia hopes this regulation can increase enthusiasm of repo transaction between bank.

1.2. Research Problem

Problem Formulation

Every transaction that occurs in capital market of Indonesia should be regulated clearly by *Otoritas Jasa Keuangan*, in order to meet the uniformity, fairly, and efficient when a company wants to produce a financial statement (According to *Undang-undang* number 8 year 1995 about Capital Market). However, repo transaction in Indonesia company still not referring to that official regulation. Especially for Indonesian accounting regulation, *Pernyataan Standar Akuntansi Keuangan (PSAK)*. PSAK still not disclose the accounting treatment should be used in detail and clear. It makes many variants of repo transactions and makes the financial statement of each company in Indonesia not uniform especially when we want to compare the financial statement between two or more companies.

Actually the government already proposed regulation to standardized this repo transaction, for example the implementation of Master Repurchase Agreement (MRA) by *Perhimpunan Pedagang Surat Utang Negara (HIMDASUN)* and Mini Master Repurchase Agreement by industry players in the banking sector. Those regulation cannot be applied in Indonesia because it's not comprehensive and specific.

Other than that, there are many changes in accounting regulation regarding repo transaction. In 2009, *PSAK (Pernyataan Standar Akuntansi Indonesia) 42: Akuntansi Perusahaan Efek* was officially pulled off. In 2014 *PSAK 55:*

Instrumen Keuangan: Pengakuan dan Pengukuran established and become accounting regulation for repo transaction. In 2015, *Otoritas Jasa Keuangan* officially announced Global Master Repurchase Agreement (GMRA) to become the base guidance for repo transaction replacing Master Repurchase Agreement (MRA).

Researcher question is what accounting regulation applied in order to become accounting guidance for repurchase agreement transaction in Indonesia who refers to Global Master Repurchase Agreement Indonesia in detail this day. This is one of serious problem since the characteristic of GMRA Indonesia and PSAK are different. Characteristic of GMRA Indonesia are complex, rule based and form over the substance. In the other hand, PSAK's characteristics are general, principle based and substance over the form.

Research Questions

- Why there should be accounting standard and regulation regarding repurchase agreement that can be applied in Indonesia which refers to Global Master Repurchase Agreement Indonesia?
- What is the most suitable accounting standard and regulation regarding repurchase agreement that can be applied in Indonesia which refers to Global Master Repurchase Agreement Indonesia?
- What is the lack of current accounting standard and regulation regarding repurchase agreement?

1.3. Research Objectives

Based on the purpose of the researcher, the research objectives of this study can be interpreted as follows:

1. To know why there should be accounting standard and regulation regarding repurchase agreement that can be applied in Indonesia which refers to Global Master Repurchase Agreement Indonesia.
2. To investigate what should be the most suitable accounting standard and regulation for repo transaction in Indonesia which in line with GMRA Indonesia.
3. To find out the lack of current accounting standard and regulation regarding repurchase agreement.

1.4. Research Benefits

This research is expected to bring significant benefit especially to Bank, Securities Company, *Ikatan Akuntan Indonesia*, and *Otoritas Jasa Keuangan* by describing the most suitable accounting regulation for repurchase agreement in Indonesia which in line with Global Master Repurchase Agreement Indonesia. The results of this study are expected to increase the quality of uniformity and comparability of Financial Statement, to support the development of repurchase agreement transaction, and to standardize the journalizing of repo transaction. Other than that, researcher also hopes this research may broaden the point of view of another researcher.

1.5. Research Scope and Limitation

In this thesis, researched found limitations that maybe can be solve by future researcher. First of all is from the scope, researcher took the scope only in a general which is regulation applied in Indonesia. It might be better if future researcher takes one or two companies to become his/her scope so the research will be more detail. Other than that, researcher doesn't include many theories to support what he taught through his statement. Besides those limitation, researcher know that his research still far from perfect but researcher do believe that another researcher in the future might be continue and found better solution to the problem identified.

1.6. Writing System

This is a exploratory research with cross-section data. The rest of this *skripsi* is organized as follows. In chapter 2, that is literature review section, the researcher will explain more about the review of past regulation regarding repo transaction and what kind of suitable accounting regulation that should be applied in Indonesia which in line with PSAK and GMRA Indonesia. The method used to investigate the regulation are provided in chapter 3. In chapter 4, the results of this study along with the discussion are outlined. Last but not least, in the chapter 5 contained the conclusion of this *skripsi*.

CHAPTER II

LITERATURE REVIEW

2.1. Review of the extant literature

Repurchase agreement transactions are the safe funding facility in capital market and has developed widely in various countries with referring to the Global Master Repurchase Agreement Standard. Repo transaction development in capital market of Indonesia shows an increase in price, volume, and frequency from year to year. It becomes an important role in facilitating market liquidity. Based on *Otoritas Jasa Keuangan* regulation number 9 about repurchase agreement transaction guidelines for financial service institutions, repo is a sale of purchase contract securities with a promise of buying or reselling at a time and price that has been set before between 2 parties.

To be clear, here it is the illustration how repo transaction occurs:

First of all, securities companies or other companies that need funds (Seller) using repo transactions as an alternative to get cash by selling inventory in the form of securities to investor (buyer). The buyer usually come from individuals or institutions who has more cash to be invested in the short term and the seller usually promise to the buyer to return it with a higher price compared to interest from bank. The loan guaranteed by using shares which the value equal or even more than the value of the loan. Moreover, it will be more interesting when seller using stock that comes from the well-known company and has “blue chips”

category such as Aneka Tambang Tbk., Astra International Tbk., Bank Central Asia Tbk., Bank Rakyat Indonesia (Persero) Tbk., Bank Mandiri Tbk and etc (From lampiran pengumuman BEI number Peng-00696/BELOPP/07-2018 date 25 July 2018). Other than that, if the guarantee value falls because of the value shares dropped, the seller promised to directly cover the shortcomings with the addition of a new stock, so the guarantee loans in the form of stocks or bonds will always have same or greater value compared to the money borrowed.

CHAPTER III

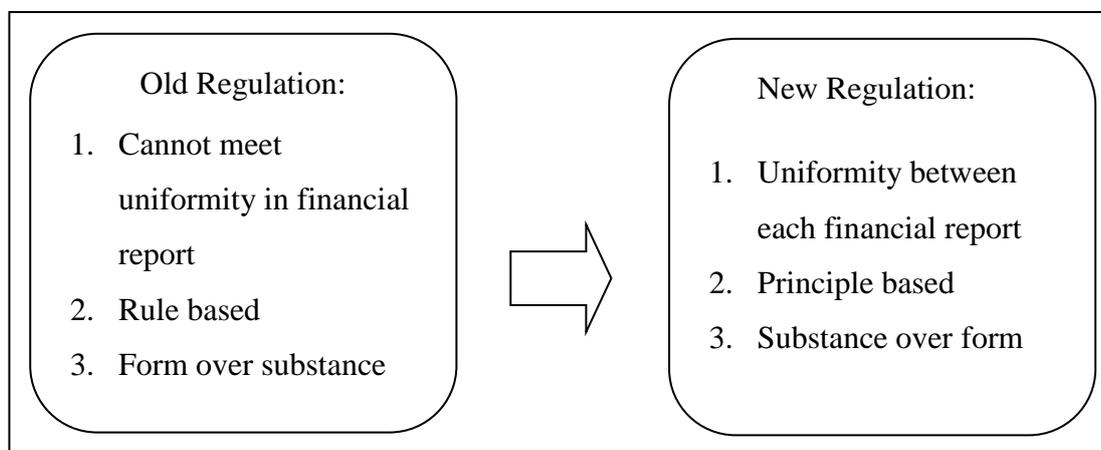
RESEARCH METHODOLOGY

3.1. Research Design

When we doing a research, it can be done by doing a certain way depending on the purpose of our research which can be seen in the research problem. The general research methodology is divided into three which are explanatory, exploratory, and descriptive research (Saunders, et al, 2000). Those methodology is used to find out the truth which is hidden and which has not been discovered as yet.

Researcher used exploratory method in this research. Exploratory research is used to develop a better understanding (Hair, et al, 2003). This method is useful if researcher wants to find new insights, clarify understanding of a problem and to assess a phenomenon in a new light. This method is not intended to provide conclusive evidence to the existing problems, it only helps others to have a better understanding. This method is the most appropriate approach to conduct this research since there is lack of existing research about the topic and the topic has not been clearly defined yet.

3.2. Research Framework



3.3. Operational Definitions of Variables

| Variables | Definitions |
|----------------------|---|
| Repurchase Agreement | A securities sales transaction followed by an agreement between two parties (borrower and lender) whereby on a predetermined date the repurchase will be carried out for the same effect at a certain agreed price. |
| Transferor (buyer) | The one who buy the securities or can be identified as the one who has excess cash. |
| Transferee (seller) | The one who sell the securities which can be identified as the one who needs money. |

3.4. Research Instruments

Instrument being used in this research is observation, an important method for obtaining comprehensive data in qualitative research. The researcher became non-participant observer which means researcher does not live as a member of the subject of the study.

CHAPTER IV

RESULT ANALYSIS, DISCUSSION AND IMPLICATION

4.1 Data Description

4.1.1 International Accounting Standard for Repo

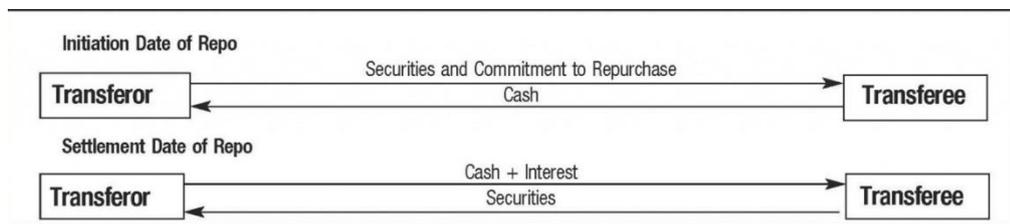
Financial Accounting Standard Board issued a new accounting rules and disclosures for certain types of repurchase agreement transactions in 2014. In this new regulation, repo can't be classified or accounted for as sales but it should be accounted for as secured borrowings. In the disclosure, companies who doing repo transaction are required to eliminate the use of repos for achieving off-balance sheet financing which means they don't include liability on its statement of financial position. KPMG also defining issues, "FASB Proposes New Accounting Guidance for Repos" on January 2013. On that guidance, the obligation to repurchase was not recorded, and thus the underlying risk was not apparent on the balance sheet. It impacts the debt level and liability of a company. This new rules and regulations are made in order to tighten and prevent past repo issue that happened in Lehman Brothers company. In addition, the new accounting rules and regulation for repo transactions will hard to make a company to collapse again because of the increased transparency.

International accounting standard said a repo agreement usually involves the transfer of securities in exchange for cash. The amount of the cash will be depending on the market value of the securities minus a specified percentage to

serve as a cushion. Why there should be a cushion? Because it supposed to be the protection for the buyer (transferee) in the future when the securities must be liquidated for repayment. In the future, the seller (transferor) also needs to repurchase the securities for a higher price than the original price paid by the buyer. The difference of the price is called interest.

The standard repo agreement transaction is divided into two parts, the first one is on the initiation date of repo. The seller gives securities and commitment to repurchase to the buyer, then the buyer gives cash to transferor. Second part is the settlement date of repo, the seller gives cash + interest to buyer and the buyer gives back the securities which already given in the initiation date.

Exhibit:



The seller received cash amounted less than the fair value of the asset and represents the principal of the loan. “Haircut” term is used to define the differences between the fair value of asset transferred and the cash received by the seller. The buyer can sell the securities if the seller doesn’t repurchase the securities.

Therefore, we can say that in the first part of repo transaction (trading date), the title of asset ownership is owned by transferee (buyer). They can pledge or even sell the assets to another company during the term of agreement. Moreover, when the fair value of the asset declines, buyer can ask transferor to

add more collateral. It means, in the settlement date, the buyer can return non-original asset to transferor as long as the assets have the same amount. in the settlement date. Journal entries on the initiation date of agreement when recorded as a secured loan are cash to repurchase liability (for seller) and repurchase receivable to cash (for buyer).

We can learn from Lehman Brothers company who declared bankruptcy in 2008 and MF Global company who collapse three years later, in order to know what are the difference between repo classified as a sales and secured borrowing. They somehow like manipulated the sale accounting method when doing repurchase agreement transactions. Lehman Brothers company using repo in order to reduce overall size of its balance sheet to decrease its leverage ratio (Gross leverage calculation is equal to total assets divided by equity). Leverage ratio is important because it states how much the capital comes in the form of debt and loans, it tells the company ability to meet its financial obligation. Other than that, it also evaluates company solvency and capital structure. By having high leverage, Lehman Brother's capital structure can be risky, but it also provides benefits.

Back to Lehman Brothers case. The bankruptcy of Lehman Brothers also finally raised the practice of 'manipulation' of accounting standards (window dressing). Although this is actually a crime, it is usually difficult to prove it in court, because it involves interpretation or judgment.

The main obstacle is usually because accounting is closely related to the prevailing legal system. In essence every transaction is a legal contract. This legal contract is the basis for the meaning of the economic substance of each

transaction. The practice of accounting manipulation may not be imagined by Luca Pacioli, a mathematician who lived in the Renaissance who was known as the father of accounting.

Like what I state on the chapter II, repo is divided into two types, namely 'classic repo' and 'sell and buy back' repo. Although there are also those who use the repo type in the form of 'total return swap'.

For 'classic repo', it is a loan that is guaranteed by securities as collateral. Parties who borrow funds (buyers or borrowers) will record loans on the Debt side (liabilities) as opposed to 'cash' received. Collateral submitted is still recorded as an asset on the balance sheet of the borrowing bank. Thus, the total bank balance sheet will increase by the repo transaction conducted.

While for 'sell and buy back' repos, collateral (securities) seems to have changed hands. Thus, cash receipts from lending banks will be followed by the transfer of assets (securities). However, it should be remembered in mind that the borrowing bank must keep informed that it has an obligation to 'buy' back the securities submitted (as collateral) for the loan received according to the agreed price at the beginning. The same recording, from the opposite side is also carried out by the counterparty. This is because the repo transaction in principle includes 2 transaction agreements that are not separate, 'sell' in temporary the securities and later on will 'bought' again.

4.1.2 Indonesia Accounting Standard for Repo

Repo transaction in Indonesia mostly occurs in Banking area. Other area like public/private company and individual still not familiar with this kind of transaction. *Bank Indonesia* invites many parties especially bank to involve in this transaction activity, because it has many advantages for 2 parties which are seller and buyer. The trend of this transaction is increasing day by day. In 2017, repo transaction can reach IDR 4,6 trillion in a day or in average IDR 2 until 3 trillion “Said *Warta Ekonomi* on Repo Liquidity and Transaction Workshop.

Although repo transaction already occurred in large amount, there still an absence of accounting regulation that regulated by *Ikatan Akuntan Indonesia (IAI)* in the form of PSAK. Therefore, researcher would like to create and propose the new accounting regulation for this repo in order to meet the uniformity between each company and match with previous psak regulation to *IAI*. Moreover, researcher make this new regulation to minimize the risk of using repo.

In designing a new regulation, researcher take a look to the previous and existing accounting regulation applied in Indonesia and International (Worldwide). Note that, before researcher propose this regulation, each bank in Indonesia who already involve in repo transaction can have different accounting treatment until now.

4.2 Analysis and Interpretation

4.2.1 Analysis

PSAK or accounting standard applied in Indonesia which adopted from IFRS should have a new accounting regulation in order to regulate repurchase agreement using a principle based instead of rule based. The new regulation at least contains these kinds of area:

- a. *The transfer of the securities ownership, whether the underlying asset transferred as collateral owned by the buyer or seller.*
- b. *The obligation to adjust the securities value to normal market value (mark to market), which one is the best valuation to treat the securities that becomes collateral in repurchase agreement.*
- c. *The rights and obligations of the parties regarding the ownership of the securities, including the period of execution and tax obligations.*

In order to answer all of the question above, we should take a look to the *PSAK* applied right now.

- a. The one who have the ownership title after the initial transaction made is belong to the transferee (buyer), because the buyer is the one who can modify or sell the securities to other party and can give different securities / asset (collateral) in different physical to buyer later on as long as the value is still the same.

- b. When doing a repo transaction, the one who will be recognized by the seller and buyer is the collateral or underlying asset, instead of the repo securities. Transferor (seller) will add cash, shares or other asset to transferee (buyer) if the underlying asset market price falls exceeding minimum price agreed before.

The price of underlying asset in initial transaction of repo should using fair value when the market for financial instrument is active. It means price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date.

When the market for a financial instrument is no longer active, then the entity measures fair value using valuation techniques (generally referring to “mark-to-model”). In order to that, when market conditions change, the entity is necessary to change the valuation model used and make adjustments of it. This adjustment is made when create more reliable estimation. (BULTEK, 9-6-2012).

- c. As written in *Buletin Teknis 11: Revaluasi Aset Tetap 23 February 2016*, Fixed Asset revaluation for tax purpose should obey to tax authority regulation in Indonesia. The regulation is talk about revaluation of fixed asset cannot be done again before five years period has passed, can carried out for a part or all of the fixed assets, the useful lives of the fixed assets after the revaluation is adjusted

again to become a full benefit to the group of assets, and basis of depreciation is value when revaluation of the fixed assets.

While revaluation of fixed assets for accounting purposes follows the provisions in PSAK 16: Fixed Asset. PSAK 16 states that asset revaluation is still carried out with a fairly regular order to ensure the carrying amount is not materially different from the amount determined using fair value at the end of the period of reporting, and if a fixed asset is revalued then all fixed assets in the same class should be revalued too. To be clear, these are the specific regulation:

In the very beginning, seller should make a journal entry for the cash received by journalize cash and cash equivalent (*kas dan setara kas*) to *utang transaksi repo*. On the other hand, buyer journalize repurchase agreement receivable to cash and cash equivalent. After that amortize repurchase price difference (Selisih Harga Pembelian Kembali) and purchase price (harga pembelian). Periodically seller recognize interest expense and buyer recognize interest revenue.

In the next time, seller do mark-to-market to the repo effect and do amortization again by recognizing the interest expense. While buyer recognizing the interest revenue. If the buyer sells the underlying asset of repurchase agreement to other parties, buyer should journalize cash and cash equivalent to *utang transaksi repo*. Do mark-to-market to the repo effect. Do realize/unrealize gain or loss.

4.2.2 Impact and Risk of Repo Transaction

In reality, every financial instrument has risk. In terms of repo financial instrument, it can achieve a substantial reduction in the credit and liquidity risks of lending if we can manage it properly. The risk level of using repo is depends on the party's carefulness in select counterparties, the use of top quality and liquid collateral, the effectiveness and efficient collateral management.

Seller and buyer can get a bad impact and risk when doing repo transaction for example seller doesn't have any excess fund to repurchase the collateral when the due date of repurchase agreement occurs. Other example is if the securities value that become collateral is decreasing, then the problem is for the buyer because the buyer should wait until the due date to receive at least the same securities value amount.

Other risk is when we use CAMEL analysis. CAMEL analysis is a method of analyzing financial ratios to measure the financial condition of an institution or banking company. Similar to companies in general, financial ratio analysis using the CAMEL method also informs inter-account relationships of financial statements that reflect the financial performance and operational results of the banking companies concerned. CAMEL analysis is done by using primary data sourced from financial statements that have gone through the audit process. Although both measure the company's financial ratios, but the CAMEL analysis that is specific to banking companies focuses more on aspects of Capital, Asset quality, Management, Earning, and Liquidity.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusions

- A. Based on analysis of repurchase agreement regulation in Indonesia, especially which stated in the *Pernyataan Standar Akuntansi Keuangan* doesn't state clearly and detail in terms of repo transaction.
- B. Repurchase agreement regulation that made by OJK (GMRA Indonesia) has a different characteristic with accounting regulation applied in Indonesia which is PSAK that following International Financial Accounting Standard.
- C. Repurchase agreement can be a good thing for a financial support either in bank and companies but without any good regulation, but it can be a space for a party to misuse it and turns out become a very bad thing. Window dressing issue will arise and make many parties suffer a loss and disadvantages.

5.2. Recommendations

- A. IAI should add more detail and clear regulation in terms of accounting treatment for repo transaction. This should be applied as soon as possible in order to mitigate any issue like what happened in other countries.
- B. The repurchase agreement regulation in terms of accounting should be made independently following the IFRS since nowadays the repo transaction in Indonesia still following Global Master Repurchase Agreement Indonesia that has different characteristics with IFRS and *PSAK*.
- C. There should be a special meeting between IAI as the one who design accounting regulation in Indonesia and OJK as the one who regulate any financial transaction in banking and companies' sector in Indonesia to talk more further about this repo transaction regulation in order to meet the uniformity and legal certainty. And hopefully there's no gap to be used in terms of window dressing by any party.

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