

COVID-19 Fair Value Implications

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KPMG Siddharta Advisory

Jakarta, 5 May 2020



Agenda

The Global Picture

China is the Preview Movie

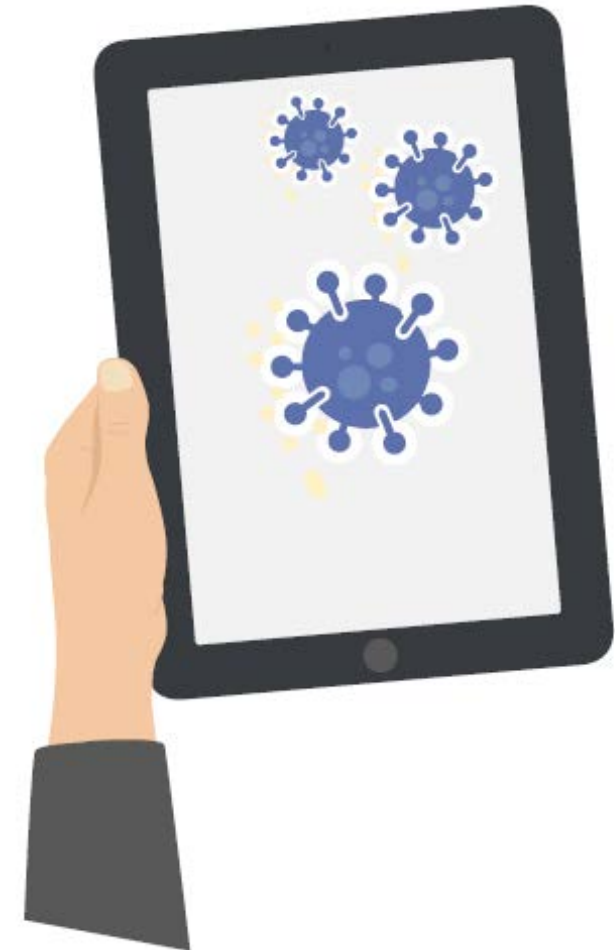
Fair Value Measurement : PSAK 68 (IFRS 13)

Valuation of Uncertainty

Financial Asset Adjustment

Non-Financial Asset Impairment

Wrap Up





The background of the slide features a wireframe globe with a grid of lines and nodes. Overlaid on the globe is a bar chart with several bars of varying heights. Numerical values are placed near the bars: 70.111 at the top right, 69.928 in the upper middle, 44.870 in the middle right, 20.556 at the bottom right, and 12.002 in the lower middle. A horizontal bar with five segments of different colors (purple, blue, cyan) is positioned below the title.

The Global Picture (KPMG research)



The global economy in precarious place to handle shocks

| Real GDP Growth Rates % | | | | | | |
|-------------------------|-----------|------|------|--|------|-----|
| Top 10 Countries by GDP | | 2017 | 2018 | | 2019 | |
| 1 | U.S. | 2.4 | 2.9 | | | 2.3 |
| 2 | China | 6.9 | 6.7 | | | 6.1 |
| 3 | Japan | 2.2 | 0.3 | | | 0.7 |
| 4 | Germany | 2.8 | 1.5 | | | 0.6 |
| 5 | U.K. | 1.9 | 1.3 | | | 1.4 |
| 6 | France | 2.4 | 1.7 | | | 1.3 |
| 7 | India | 6.5 | 6.7 | | | 5.3 |
| 8 | Italy | 1.7 | 0.7 | | | 0.3 |
| 9 | Brazil | 1.3 | 1.3 | | | 1.1 |
| 10 | Canada | 3.2 | 2.0 | | | 1.6 |
| 16 | Indonesia | 5.1 | 5.2 | | | 5.0 |

- The risk of a global recession in 2020 is extremely high as nations shutdown economic activity to limit the spread of COVID-19.
- COVID-19 is unique in that it is a supply shock, a demand shock, and also a market shock.
- As production is curtailed around the world, many firms will not have necessary inputs.
- A severe demand shock is also underway.
- In April 2020, IMF projected that global economy will contract sharply by -3% in 2020, a -6.3% drop from the January 2020 projection, the impact of COVID-19 was much worse than during the 2008-2009 global financial crisis.

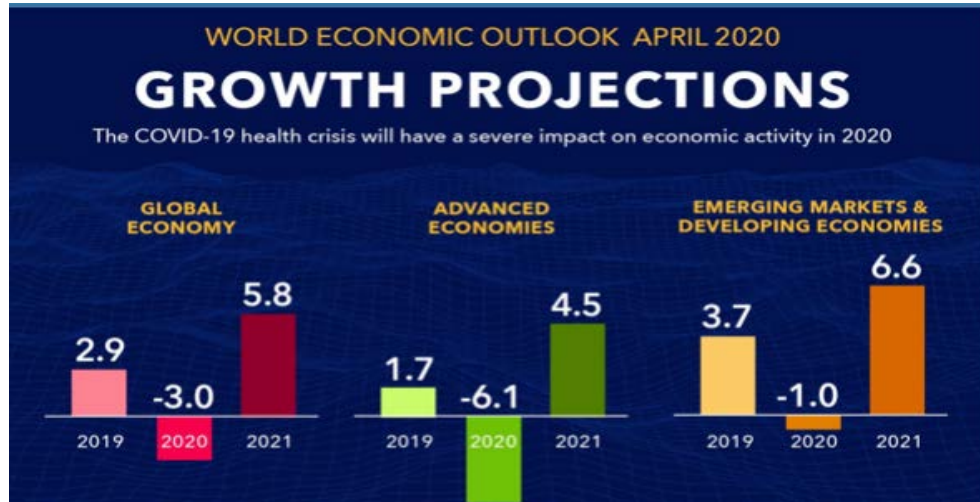
Notes: Annual growth rate y/y%

Source: KPMG Economics, Respective Countries' National Statistics Office, Haver Analytics





Overview of the World Economic Outlook Projection



| | Year over Year | | Projections | | Q4 over Q4 ⁸ | | Projections | |
|---------------------------------------|----------------|------|-------------|------|-------------------------|------|-------------|------|
| | 2018 | 2019 | 2020 | 2021 | 2018 | 2019 | 2020 | 2021 |
| World Output | 3.6 | 2.9 | -3.0 | 5.8 | 3.3 | 2.7 | -1.4 | 4.9 |
| Advanced Economies | 2.2 | 1.7 | -6.1 | 4.5 | 1.8 | 1.5 | -5.2 | 4.4 |
| United States | 2.9 | 2.3 | -5.9 | 4.7 | 2.5 | 2.3 | -5.4 | 4.9 |
| Euro Area | 1.9 | 1.2 | -7.5 | 4.7 | 1.2 | 1.0 | -5.9 | 3.6 |
| Germany | 1.5 | 0.6 | -7.0 | 5.2 | 0.6 | 0.5 | -5.2 | 3.6 |
| France | 1.7 | 1.3 | -7.2 | 4.5 | 1.2 | 0.9 | -5.0 | 2.7 |
| Italy | 0.8 | 0.3 | -9.1 | 4.8 | 0.0 | 0.1 | -7.2 | 3.9 |
| Spain | 2.4 | 2.0 | -8.0 | 4.3 | 2.1 | 1.8 | -7.0 | 3.7 |
| Japan | 0.3 | 0.7 | -5.2 | 3.0 | -0.2 | -0.7 | -3.2 | 3.4 |
| United Kingdom | 1.3 | 1.4 | -6.5 | 4.0 | 1.4 | 1.1 | -5.3 | 3.8 |
| Canada | 2.0 | 1.6 | -6.2 | 4.2 | 1.8 | 1.5 | -5.4 | 4.0 |
| Other Advanced Economies ² | 2.6 | 1.7 | -4.6 | 4.5 | 2.3 | 2.0 | -4.6 | 5.5 |

| | Year over Year | | Projections | | Q4 over Q4 ⁸ | | Projections | |
|---|----------------|------|-------------|------|-------------------------|------|-------------|------|
| | 2018 | 2019 | 2020 | 2021 | 2018 | 2019 | 2020 | 2021 |
| Emerging Market and Developing Economies | 4.5 | 3.7 | -1.0 | 6.6 | 4.5 | 3.7 | 1.6 | 5.2 |
| Emerging and Developing Asia | 6.3 | 5.5 | 1.0 | 8.5 | 6.1 | 4.7 | 4.8 | 5.0 |
| China | 6.7 | 6.1 | 1.2 | 9.2 | 6.6 | 6.0 | 4.9 | 5.1 |
| India ³ | 6.1 | 4.2 | 1.9 | 7.4 | 5.8 | 2.0 | 7.4 | 4.0 |
| ASEAN-5 ⁴ | 5.3 | 4.8 | -0.6 | 7.8 | 5.1 | 4.5 | 1.1 | 6.0 |
| Emerging and Developing Europe | 3.2 | 2.1 | -5.2 | 4.2 | ... | ... | ... | ... |
| Russia | 2.5 | 1.3 | -5.5 | 3.5 | 2.9 | 2.3 | -6.5 | 5.4 |
| Latin America and the Caribbean | 1.1 | 0.1 | -5.2 | 3.4 | 0.2 | -0.1 | -5.6 | 4.8 |
| Brazil | 1.3 | 1.1 | -5.3 | 2.9 | 1.3 | 1.7 | -5.8 | 3.6 |
| Mexico | 2.1 | -0.1 | -6.6 | 3.0 | 1.5 | -0.4 | -7.4 | 5.7 |
| Middle East and Central Asia | 1.8 | 1.2 | -2.8 | 4.0 | ... | ... | ... | ... |
| Saudi Arabia | 2.4 | 0.3 | -2.3 | 2.9 | 4.3 | -0.3 | -0.5 | 1.3 |
| Sub-Saharan Africa | 3.3 | 3.1 | -1.6 | 4.1 | ... | ... | ... | ... |
| Nigeria | 1.9 | 2.2 | -3.4 | 2.4 | ... | ... | ... | ... |
| South Africa | 0.8 | 0.2 | -5.8 | 4.0 | 0.2 | -0.6 | -7.2 | 9.6 |
| Memorandum | | | | | | | | |
| European Union ⁵ | 2.3 | 1.7 | -7.1 | 4.8 | 1.7 | 1.4 | -5.9 | 4.2 |
| Low-Income Developing Countries | 5.1 | 5.1 | 0.4 | 5.6 | ... | ... | ... | ... |
| Middle East and North Africa | 1.0 | 0.3 | -3.3 | 4.2 | ... | ... | ... | ... |
| World Growth Based on Market Exchange Rates | 3.1 | 2.4 | -4.2 | 5.4 | 2.7 | 2.3 | -2.9 | 4.7 |

Source: IMF (World Economic Outlook, April 2020)





COVID-19 shows up in high frequency manufacturing

| Mfg PMI | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Europe | | | | | | | | | | |
| France | 51.9 | 49.7 | 51.1 | 50.1 | 50.7 | 51.7 | 50.4 | 51.1 | 49.8 | 43.2 |
| Germany | 45.0 | 43.2 | 43.5 | 41.7 | 42.1 | 44.1 | 43.7 | 45.3 | 48.0 | 45.4 |
| Ireland | 49.8 | 48.7 | 48.6 | 48.7 | 50.7 | 49.7 | 49.5 | 51.4 | 51.2 | 45.1 |
| Italy | 48.4 | 48.5 | 48.7 | 47.8 | 47.7 | 47.6 | 46.2 | 48.9 | 48.7 | 40.3 |
| Spain | 47.9 | 48.2 | 48.8 | 47.7 | 46.8 | 47.5 | 47.4 | 48.5 | 50.4 | 45.7 |
| U.K. | 48.0 | 48.0 | 47.4 | 48.3 | 49.6 | 48.9 | 47.5 | 50.0 | 51.7 | 47.8 |
| Americas | | | | | | | | | | |
| Brazil | 51.0 | 49.9 | 52.5 | 53.4 | 52.2 | 52.9 | 50.2 | 51.0 | 52.3 | 48.4 |
| Canada | 49.2 | 50.2 | 49.1 | 51.0 | 51.2 | 51.4 | 50.4 | 50.6 | 51.8 | 46.1 |
| Mexico | 49.2 | 49.8 | 49.0 | 49.1 | 50.4 | 48.0 | 47.1 | 49.0 | 50.0 | 46.9 |
| U.S. | 50.7 | 50.4 | 50.3 | 51.1 | 51.3 | 52.6 | 52.4 | 51.9 | 50.7 | 48.5 |
| Asia & Pacific | | | | | | | | | | |
| Australia | 52.0 | 51.6 | 50.9 | 50.3 | 50.0 | 49.9 | 49.2 | 49.6 | 44.3 | 53.7 |
| China | 49.4 | 49.9 | 50.4 | 51.4 | 51.7 | 51.8 | 51.5 | 51.1 | 40.3 | 50.1 |
| Japan | 49.3 | 49.4 | 49.3 | 48.9 | 48.4 | 48.9 | 48.4 | 48.8 | 47.8 | 44.2 |
| Korea | 47.5 | 47.3 | 49.0 | 48.0 | 48.4 | 49.4 | 50.1 | 49.8 | 48.7 | 44.2 |
| India | 52.1 | 52.5 | 51.4 | 51.4 | 50.6 | 51.2 | 52.7 | 55.3 | 54.5 | 51.8 |
| Indonesia | 50.6 | 49.6 | 49.0 | 49.1 | 47.7 | 48.2 | 49.5 | 49.3 | 51.9 | 45.3 |
| Malaysia | 47.8 | 47.6 | 47.4 | 47.9 | 49.3 | 49.5 | 50.0 | 48.8 | 48.5 | 48.4 |
| Singapore | 49.6 | 49.8 | 49.9 | 49.5 | 49.6 | 49.8 | 50.1 | 50.3 | 48.7 | 45.4 |
| Vietnam | 52.5 | 52.6 | 51.4 | 50.5 | 50.0 | 51.0 | 50.8 | 50.6 | 49.0 | 41.9 |

- The global impact of China's slowdown was felt around the world; a PMI reading below 50 indicates recessionary conditions.
- The virus outbreak has disrupted manufacturing supply chains and sharply curtailed energy and commodity demand.
- What was previously a manufacturing-only recession has now spread to the services sector.
- The March PMI data for manufacturing has reflected growing economic stress as social distancing causes a sharp decline in demand.

Source: KPMG Economics, IHS Markit, Haver Analytics (Feb2020); Trading Economics (Manufacturing PMI Mar'20)

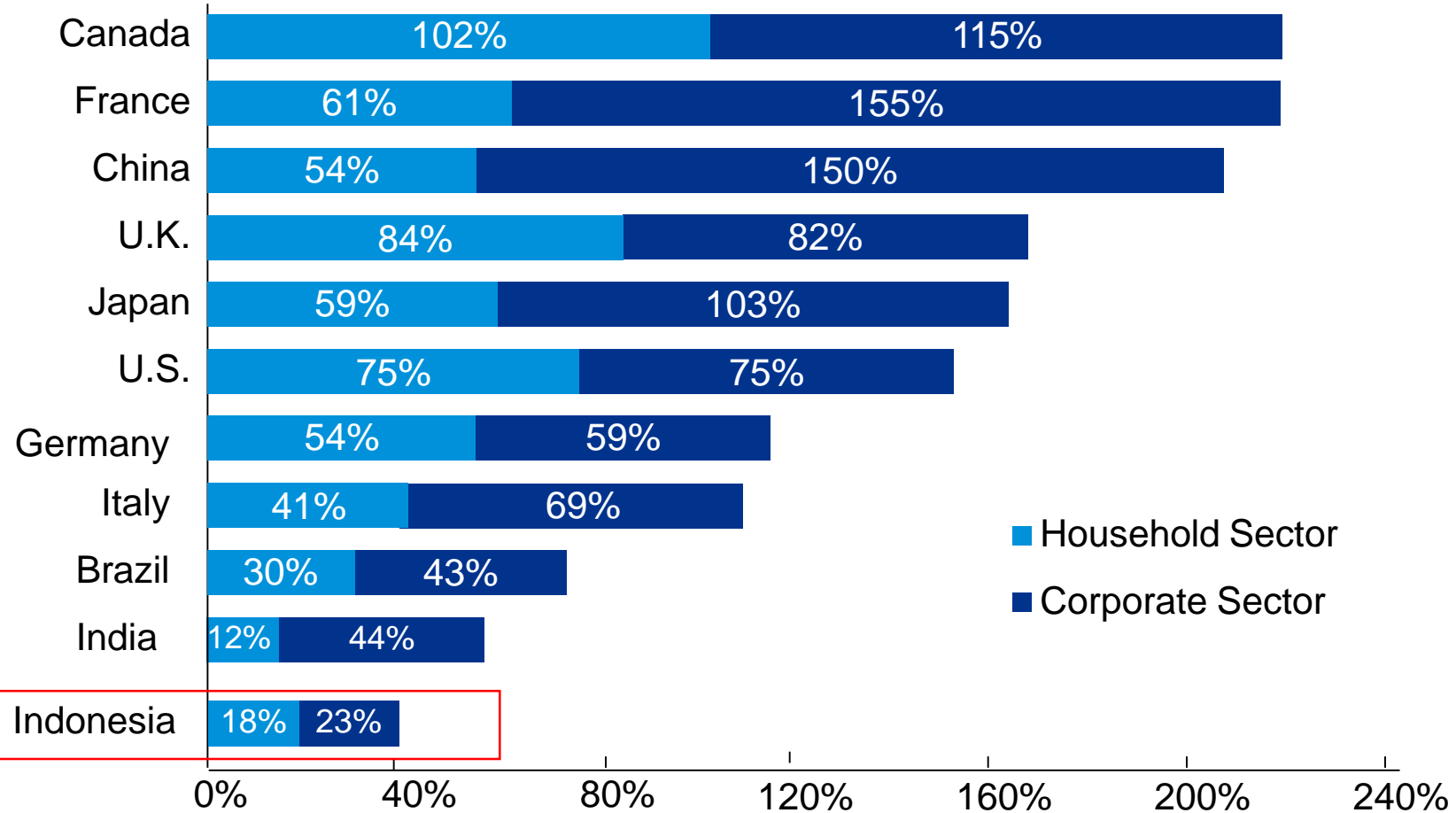
Note: The Purchasing Managers Index (PMI) is a monthly survey of industry that is a real-time snapshot of economic conditions. It is a diffusion index and a reading greater than 50 indicates expansion while a reading below 50 indicates contraction.



Elevated debt levels make social distancing more costly

Private Nonfinancial Sector Credit

(% of GDP)



Source: KPMG Economics, BIS, Haver Analytics (Q32019)

Excludes Luxembourg, Netherlands, Sweden and others with higher ratios due to smaller GDP size.

- Government efforts to extend credit terms for households and businesses may not come in time to avoid significant debt defaults.
- The higher the debt levels the more costly and economically damaging social distancing is for an economy.
- U.S. debt capital markets have seen significant strain as the coronavirus spreads globally.
- Outflows from high grade, high yield and municipal bonds have been significant. Spreads for corporate bonds have widened hundreds of basis points. Additionally, Treasury market strain is also being seen in ways that did not manifest during the global financial crisis of 08.

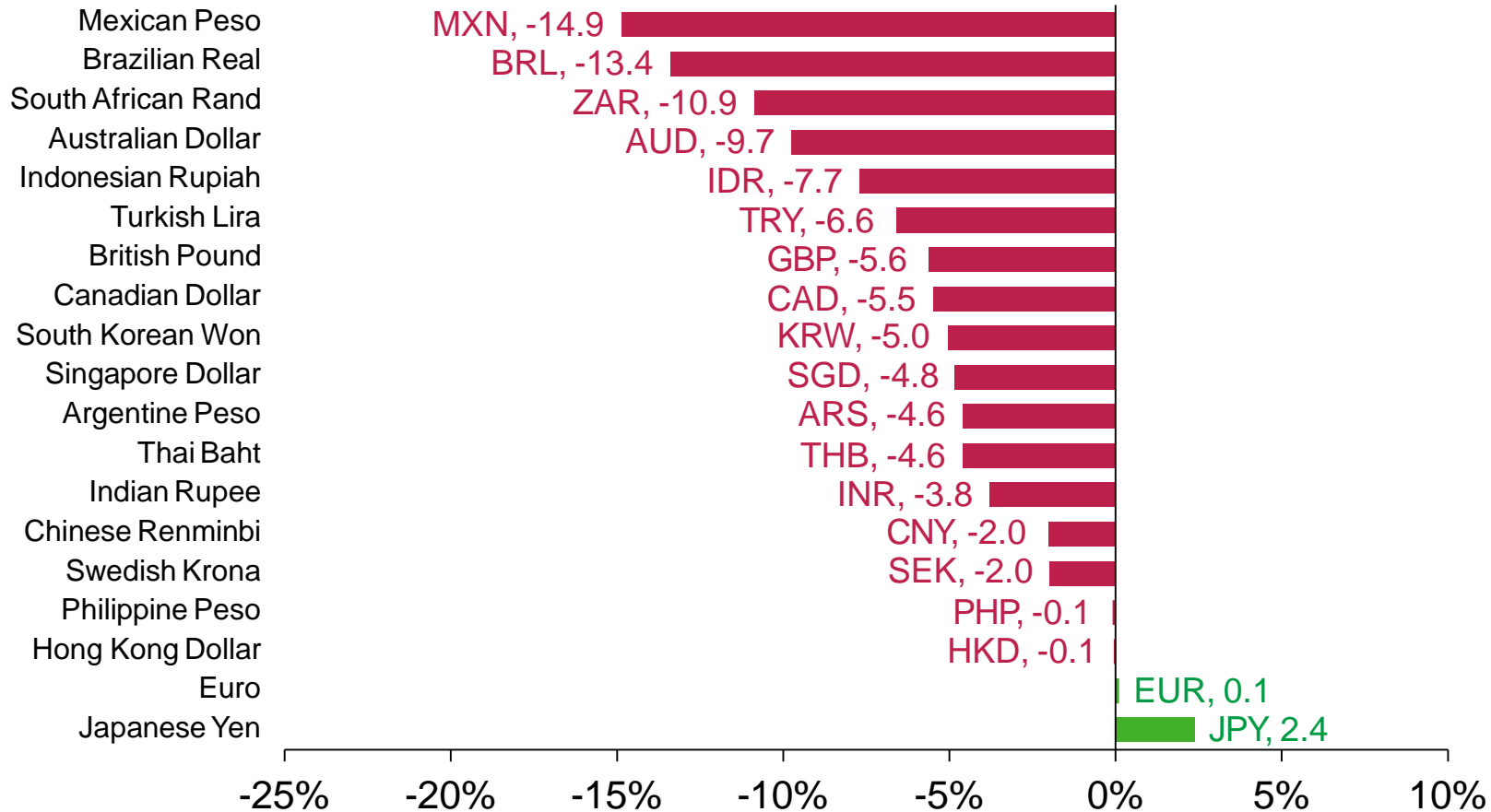




A strong dollar hurts dollar borrowers the worldover

Foreign Currencies Weaker Against Dollar

% Chg. Jan 20th to Mar 17th, 2020



Source: KPMG Economics, BBG (March 17, 2020)

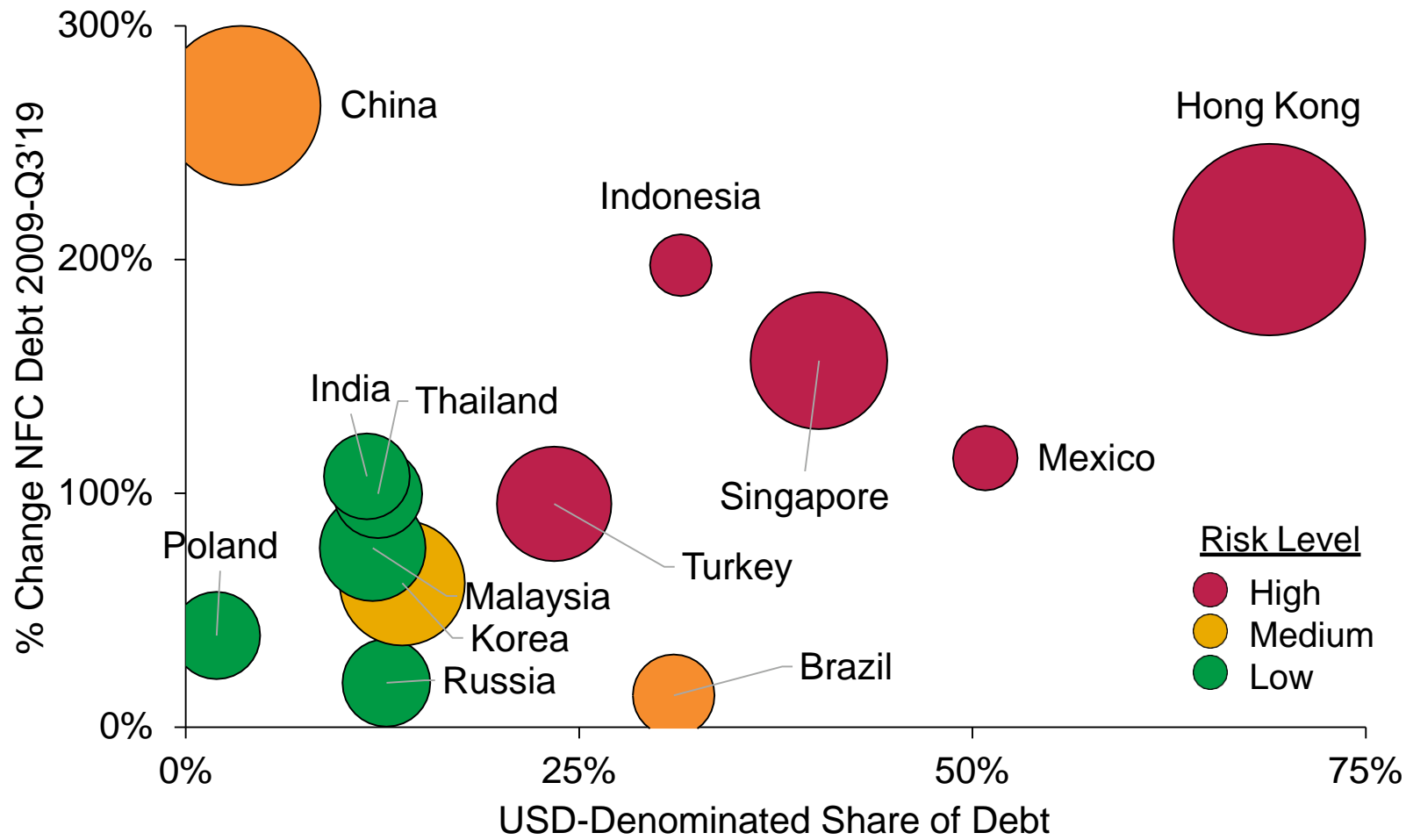
- A rush to safe haven assets such as the U.S. dollar, Yen and Euro has caused other currencies to weaken.
- Around \$3 trillion of loans are outstanding in U.S. dollars that have been issued by non-U.S. domiciled corporations and businesses.
- Commodity exporters which engaged in dollar funding are going to be at risk of default as commodities decline.
- The Federal Reserve has opened swap lines with global central banks to ease dollar liquidity globally and to help stem the steep appreciation of the U.S. Dollar.





Weaker currencies raise concerns about EM debt burdens

China Debt Grows to \$21 Trillion Over 10 years



- Emerging market debt has more than doubled in many countries as the aftermath of the financial crisis ushered in an era of low and negative bond yields, seemingly indefinitely.
- Hong Kong, Mexico, Singapore, Turkey, Indonesia, and Brazil all borrowed substantial amounts of dollar-denominated debt in relation to their GDP; depreciations in their currencies and in many commodities will make it more difficult to meet debt obligations.

Source: KPMG Economics, IIF, Haver Analytics

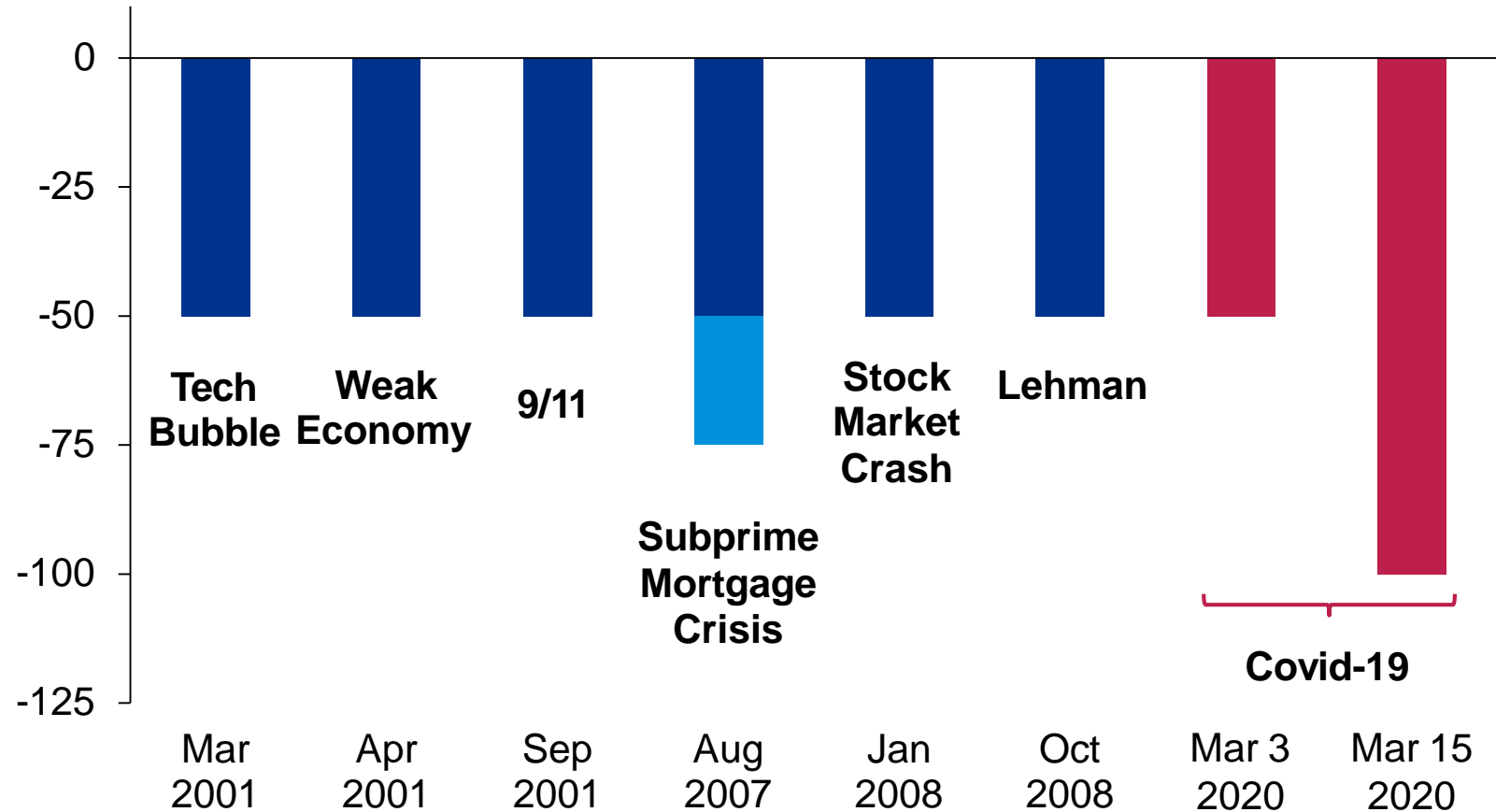




Fed delivers two emergency rate cuts to aid economy

United States: Emergency Fed Rate Cuts

Basis points (bps)



Source: KPMG Economics, Oxford Economics, Federal Reserve Board, CNBC

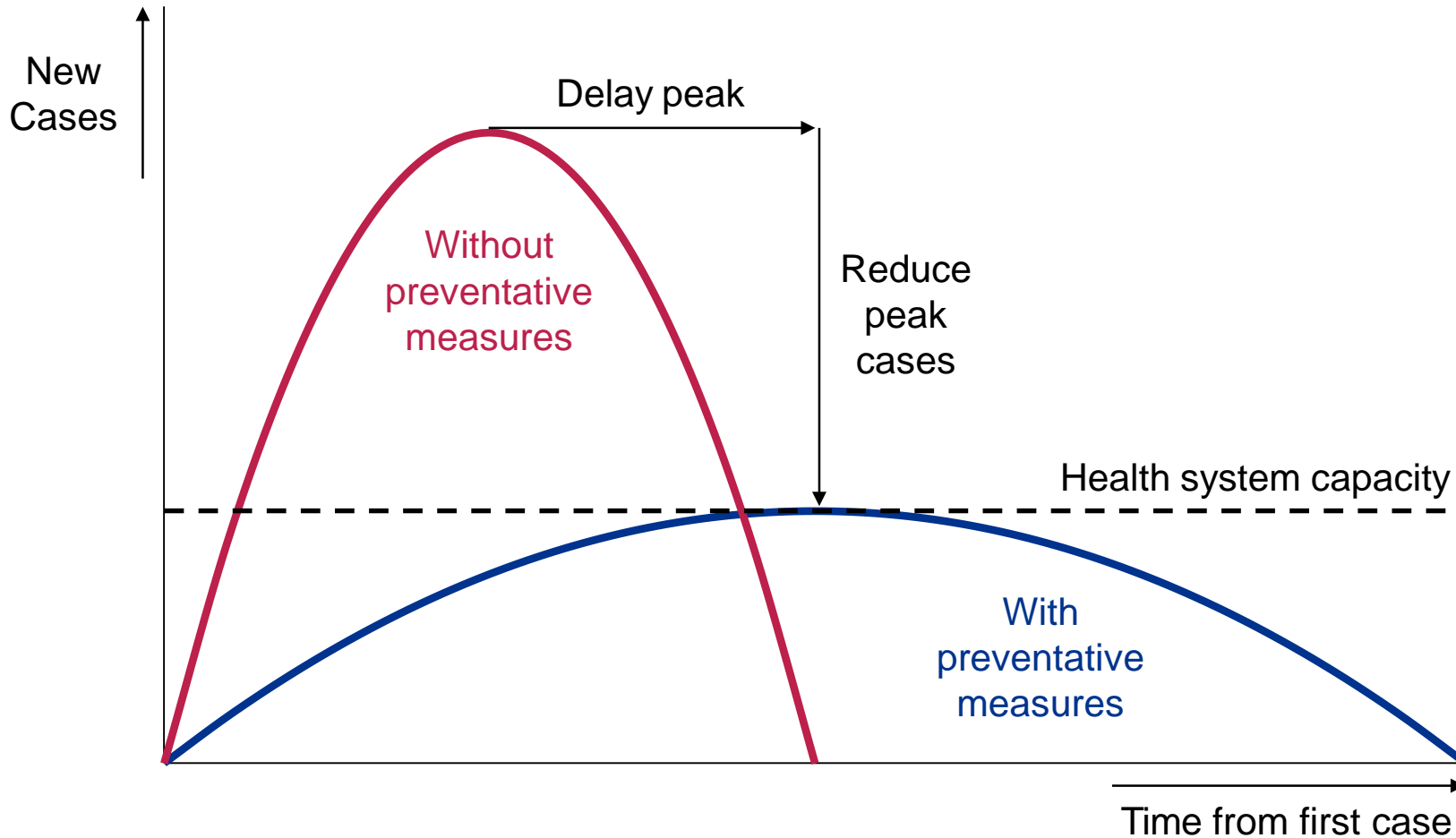
- On March 3, the Federal Open Market Committee (FOMC) voted unanimously to cut rates by 50 bps in an emergency move to support economic activity “in the face of new risks to the economic outlook.”
- On March 15, the FOMC implemented a second emergency rate cut of 100 bps, bringing interest rates down to the zero-lower-bound. FOMC also lowered the rate for banks to borrow at the discount window by 150 bps and cut the reserve requirement ratio for banks to zero.
- The FOMC also announced \$700 billion in quantitative easing measures, with \$500 billion in U.S. Treasury securities purchases and \$200 billion in mortgage-backed securities (MBS) purchases.
- On April 9, Federal Reserves announced the \$2.3 trillion in program to help support the economy. The program will include the Payroll Protection Program and other measures aimed at getting money to small businesses.
- **Jay Powell has repeatedly highlighted that the Fed will use all of the tools at its disposal to assist the economy and markets.**





Nations must lower peak to avoid overwhelming health systems

Flattening the Pandemic Curve



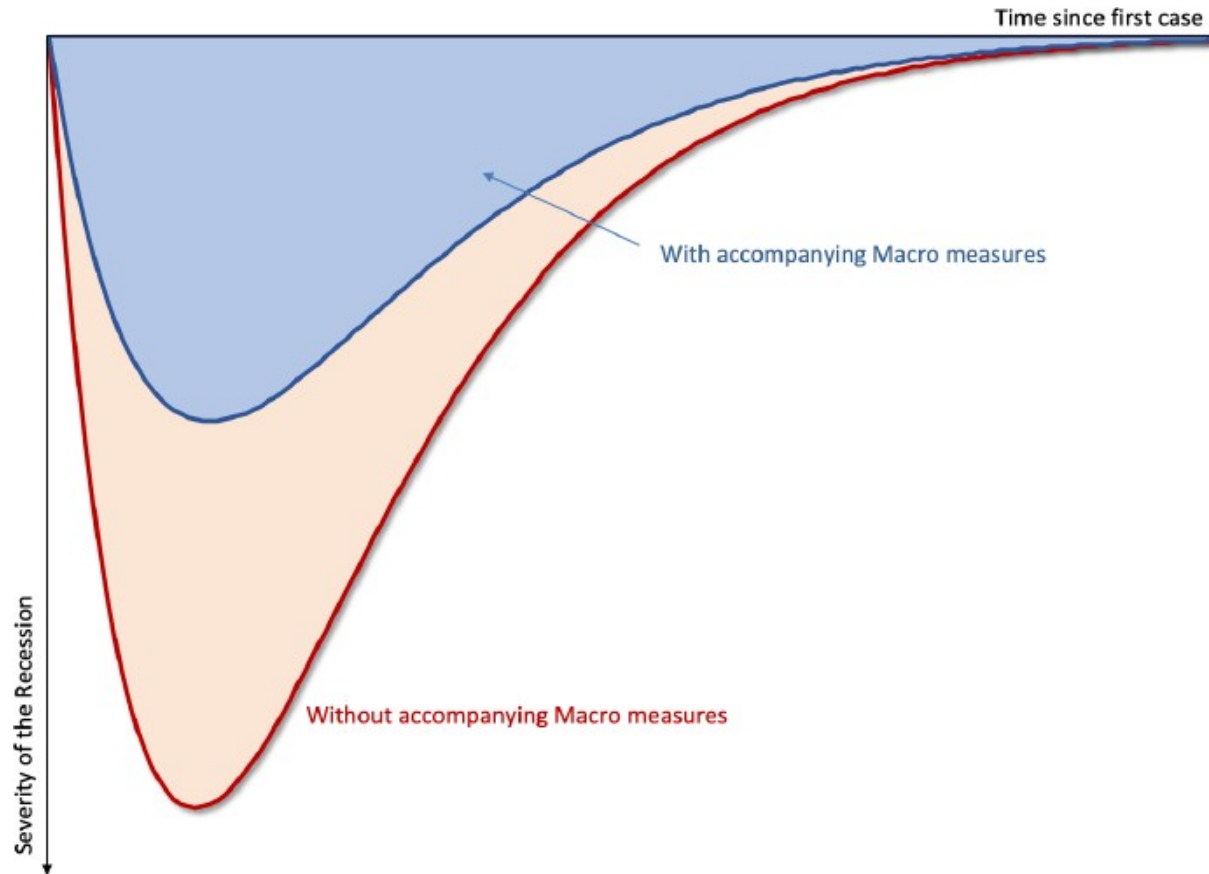
- According to a paper by UC Berkley economist, Gournichas, if 50% of the world is infected, 1% of the world, 76 million people would die.¹
- This assumption is based on the available critical care beds and a 2% case fatality rate.
- A strong policy response includes measures that both delay and reduce the peak number of new cases to prevent the health care system from being overrun.
- Ongoing research for more effective treatment and a possible vaccine do not solve the immediate problem of system capacity.

Source: KPMG Economics, Chart Adapted from CDC/The Economist, ¹Gournichas (2020)



Inverse relationship between health and economic impact

Flattening the Recession Curve



Source: KPMG Economics, Gournichas (2020)

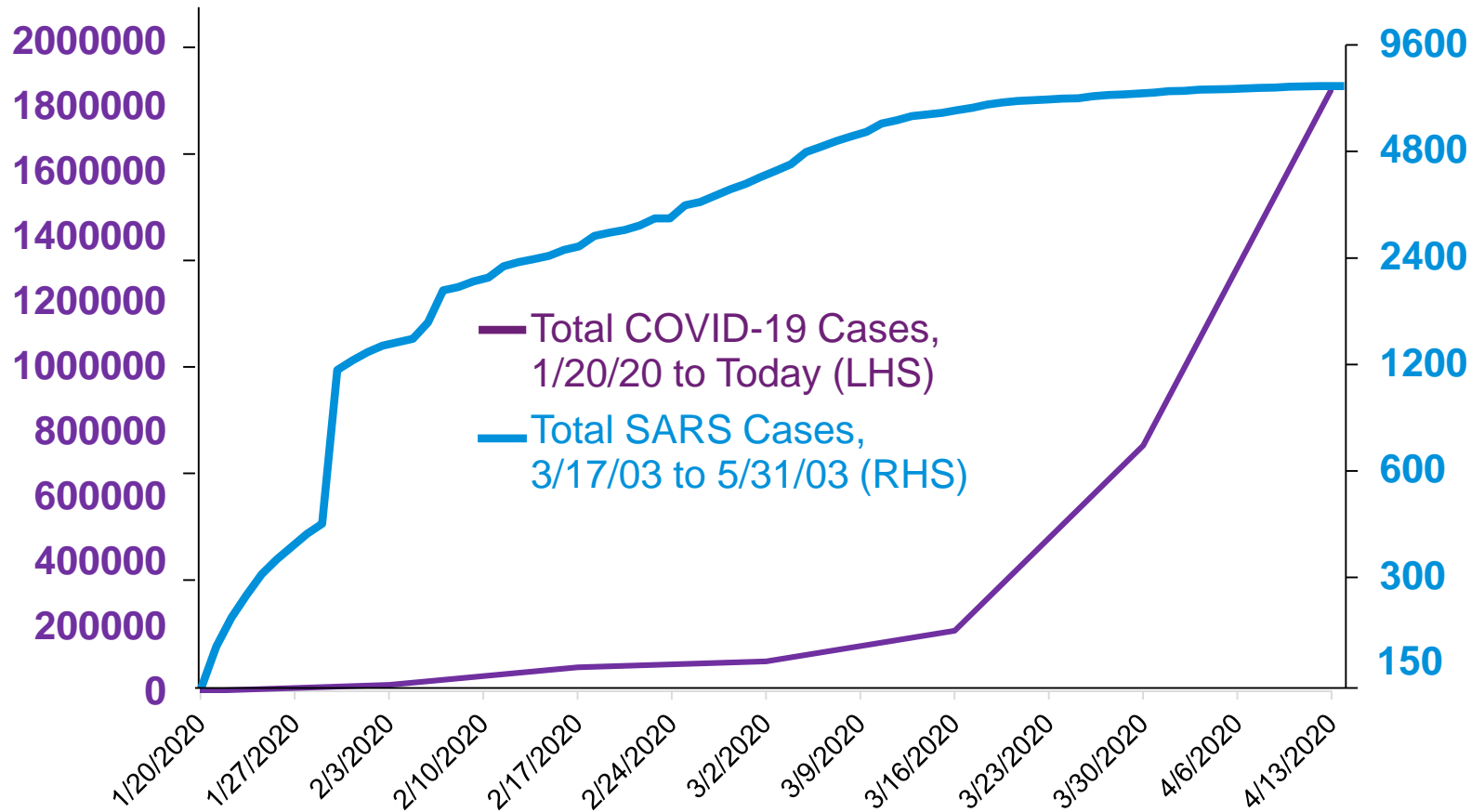
- Flattening the caseload curve is critical but it comes with an economic cost if other measures are not also taken.
- Governments are learning by doing when addressing the economic risks of closing the economy and asking citizens to engage in social distancing.
- Countries with higher levels of debt will require greater assistance by their governments to prevent “L” shaped economic downturns.
- Even with substantial government assistance, “L” shaped downturns may be unavoidable.



Medical professionals make comparison to SARs in 2003

Total Confirmed Cases as of April 13, 2020

Logarithmic Scale



- The majority (96%) of cases are now outside of China.
- Globally, as of 15 April 2020, there have been 1,848,439 confirmed cases of COVID-19, including 117,217 deaths, according to WHO.
- Many analysts are highlighting the similar path of the outbreak to SARS. While the absolute numbers are larger with Covid-19, the pattern of infection is similar, so far.
- To stay abreast of developments, we encourage people follow the WHO, New England Journal of Medicine, and The Lancet to name a few.
- On January 31, 2020, 94 academic journals, societies, institutes, and companies signed a commitment to making research and data on the disease freely available, at least for the duration of the outbreak.

Source: KPMG Economics, WorldHealth Organization, <https://covid19.who.int/>



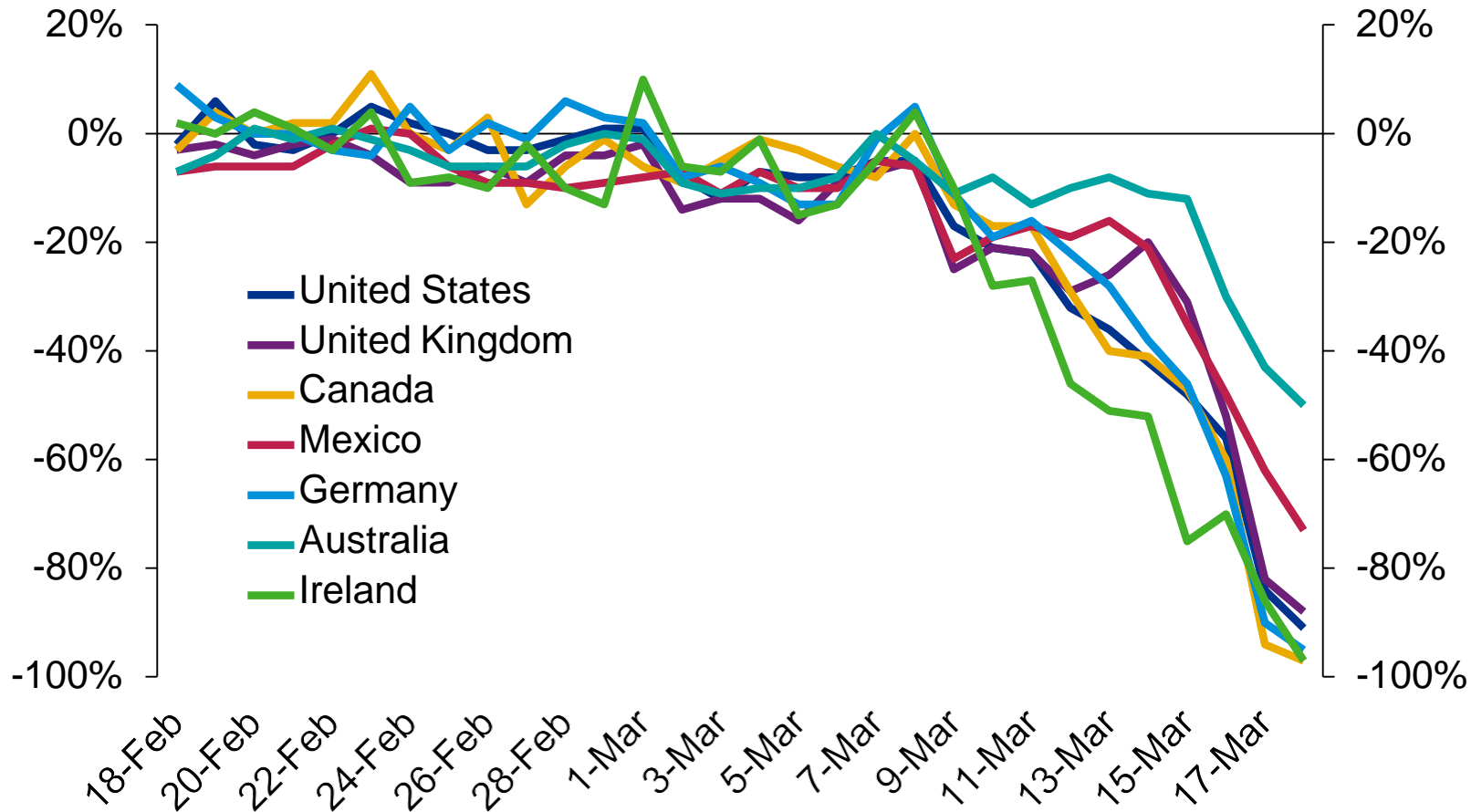
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Social distancing leads to a collapse in activity

Change in Total Restaurant Diners

Year over Year - % Change



- Global restaurant diners were down 89% year-over-year as of March 18th. Data suggests this will fall to a 100% decline and remain there for several weeks.
- Restaurants are a useful proxy for person to person retail activity.
- Many restaurants, already operating on thin margins, will be forced to lay off staff and/or close in the coming weeks.

Source: KPMG Economics, OpenTable (March 18, 2020), Haver Analytics



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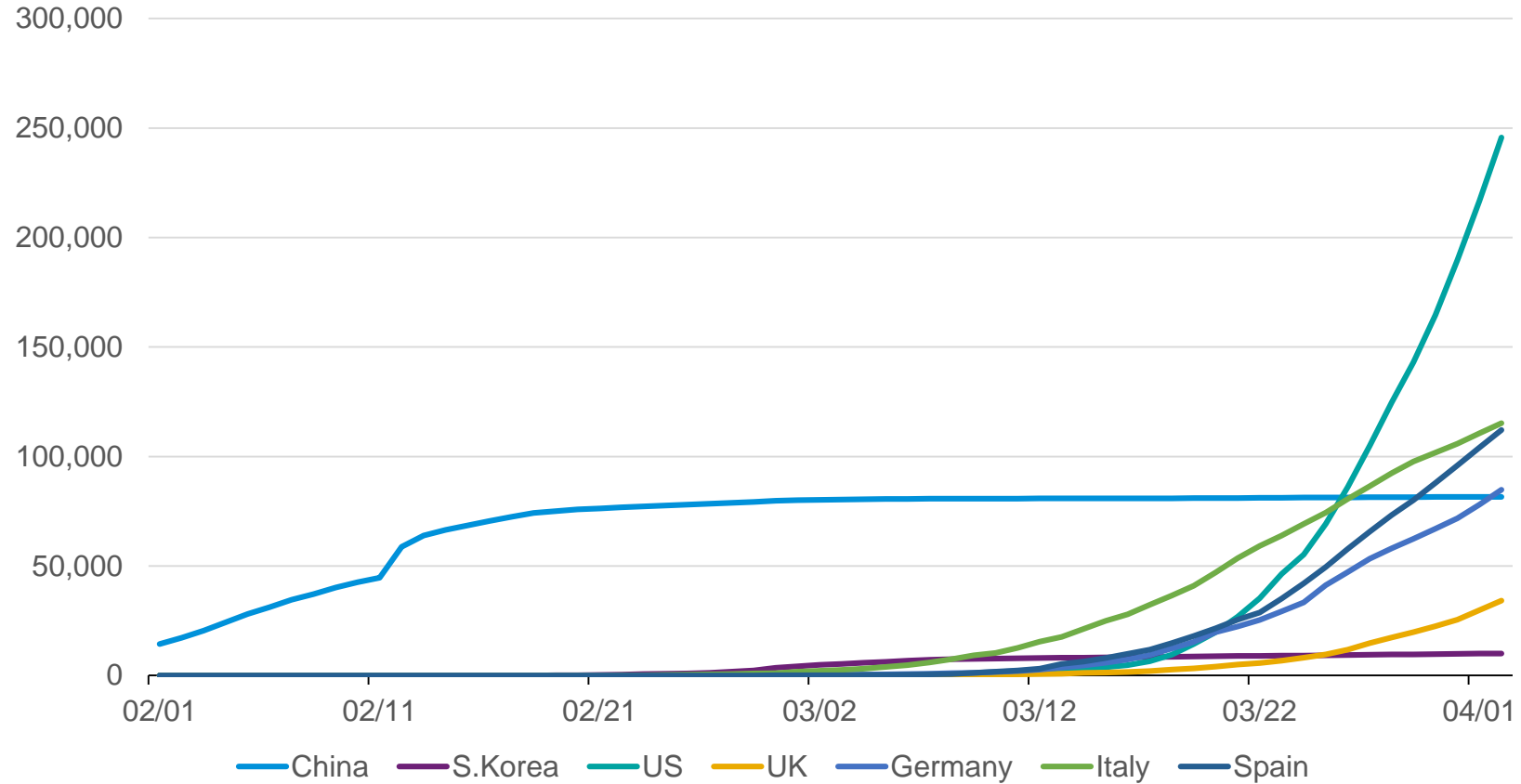
China is the Preview Movie for Global Covid-19 Economic Impact





The pandemic is largely under control in China but is still rising in ROW

Cumulative confirmed cases by country



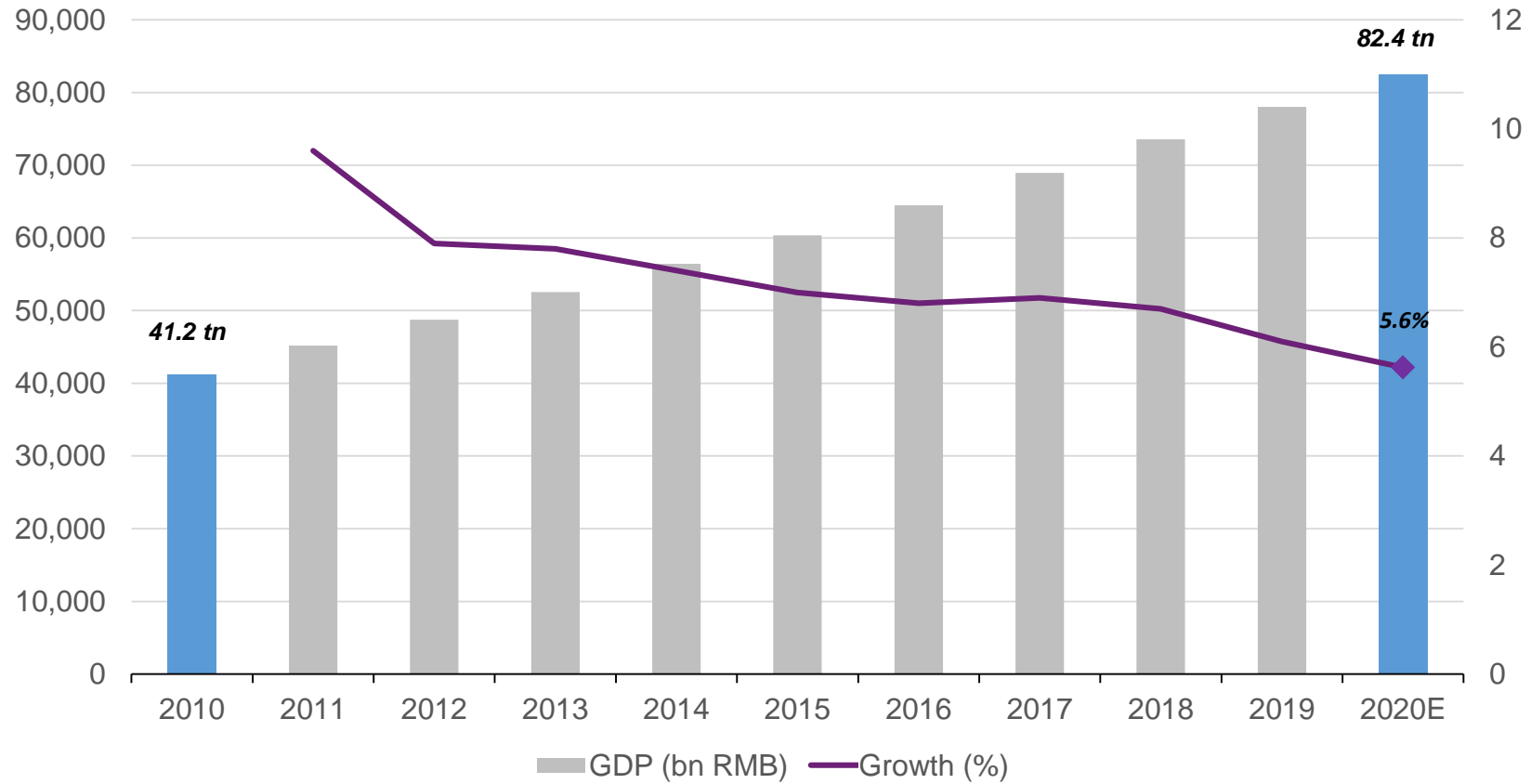
Source: Wind, KPMG analysis. Data through 2 April.





It is very challenging for China to achieve its target of “doubling GDP from 2010 level”

China's GDP (in 2010 RMB prices)



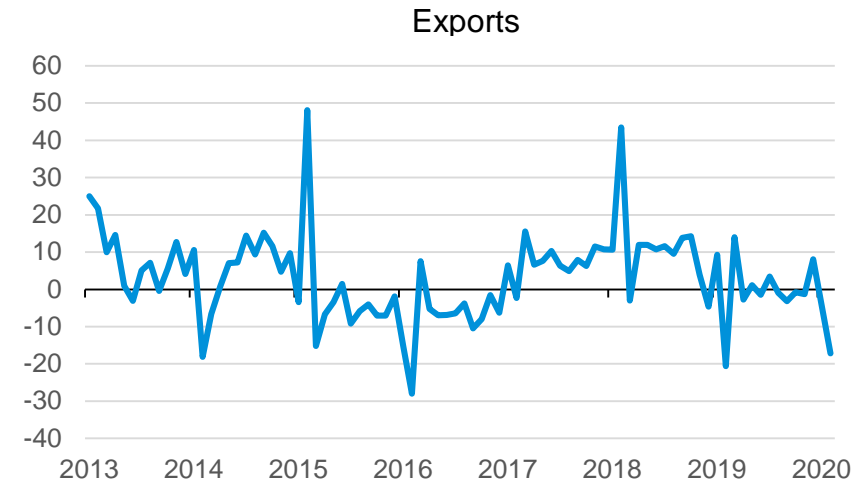
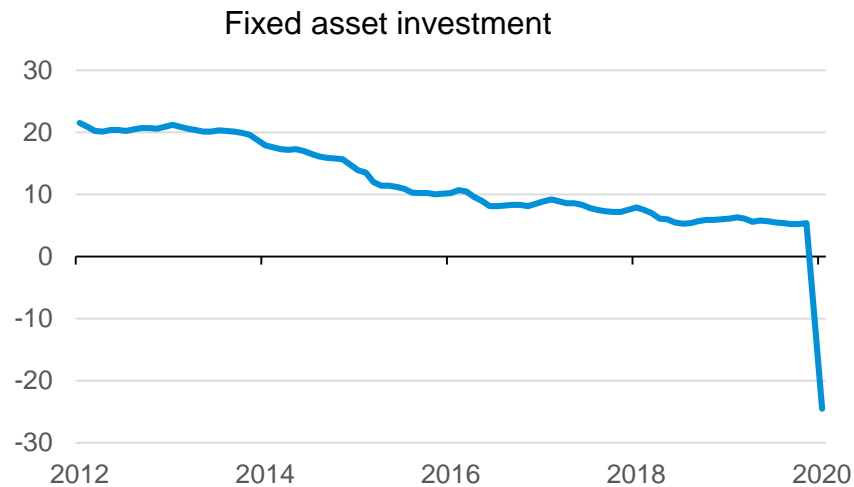
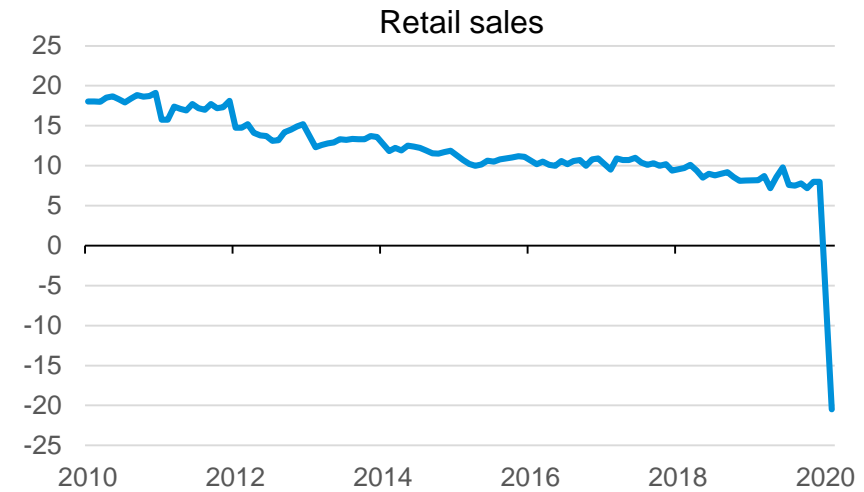
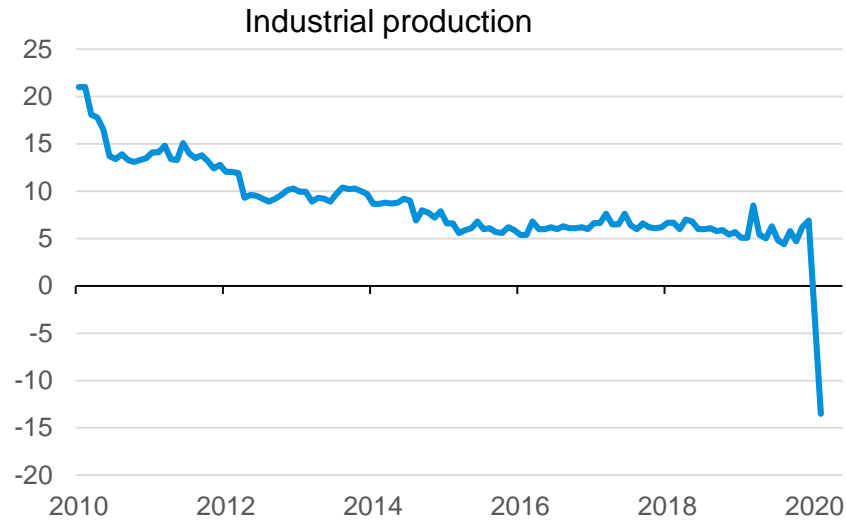
Based on the statistic released on April 17, 2020, the Q1 GDP growth of China was -6.8%, first time in the past 40 years.

Source: Wind, KPMG analysis





China's economic growth plunged to record lows



Source: Wind, KPMG analysis

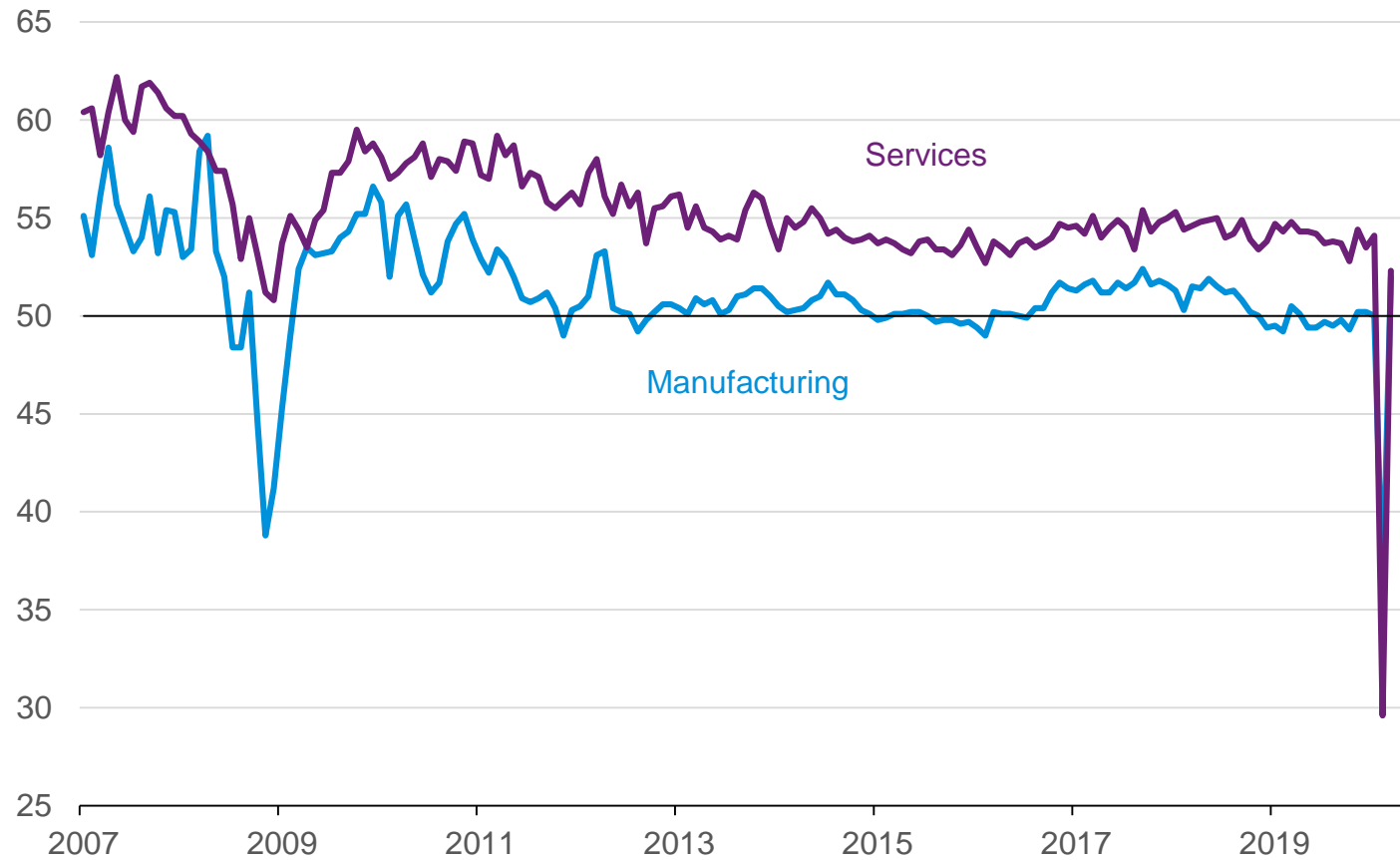


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Leading indicators show some sequential recovery from very low levels

China's purchasing manager index (PMI), above 50 means expansion



Source: Wind, KPMG analysis



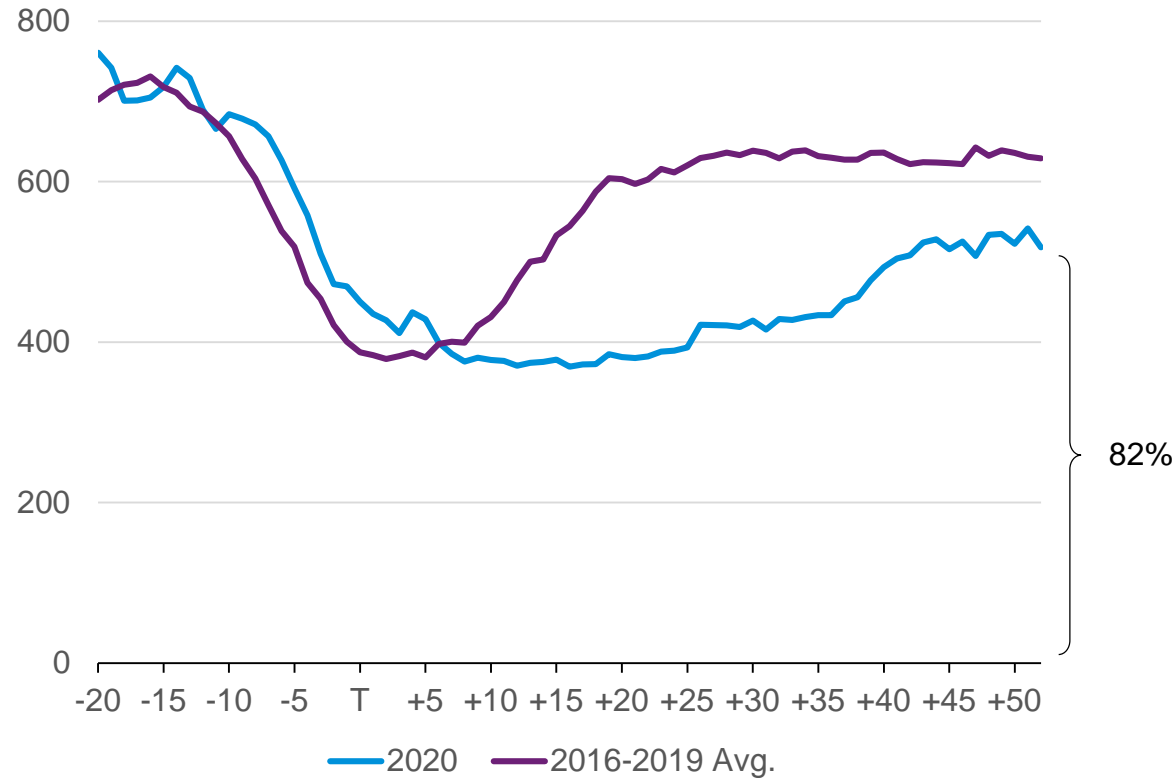
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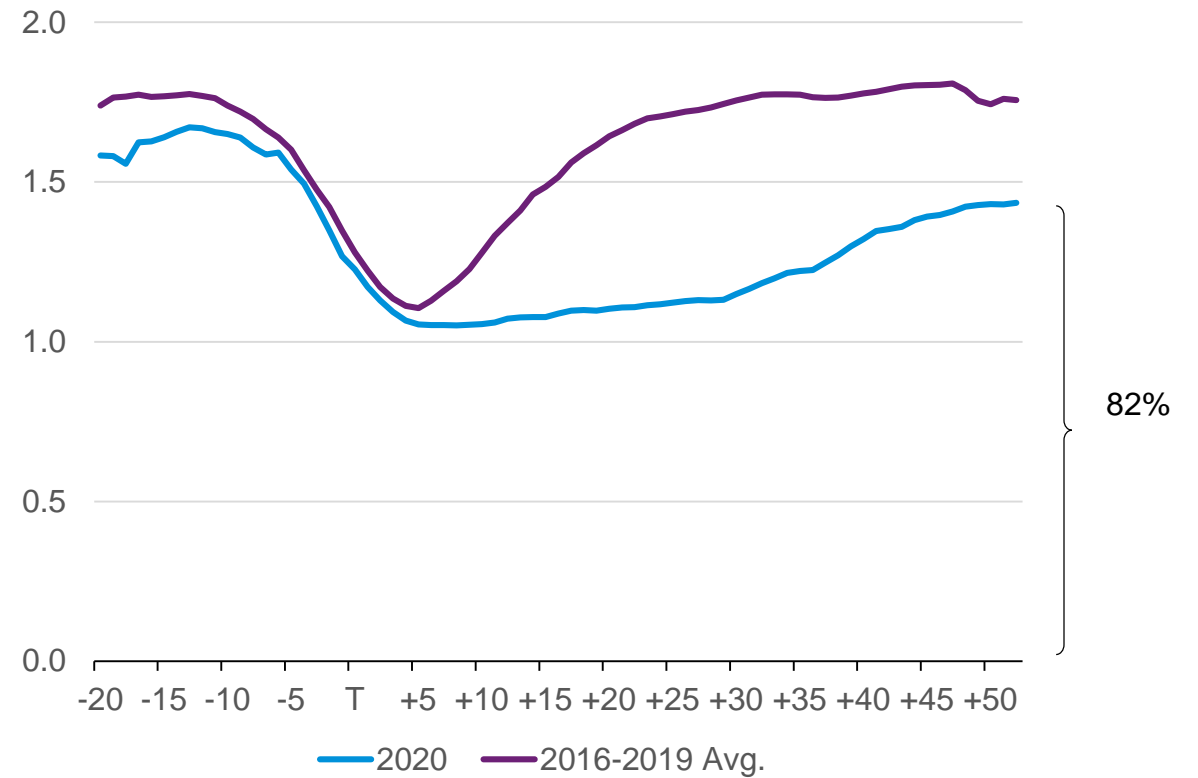


Business resumption is improving but still below normal levels

Daily coal usage by the 6 major power companies, thousand tons



Traffic congestion of Tier-1 cities, 7-day moving average, index

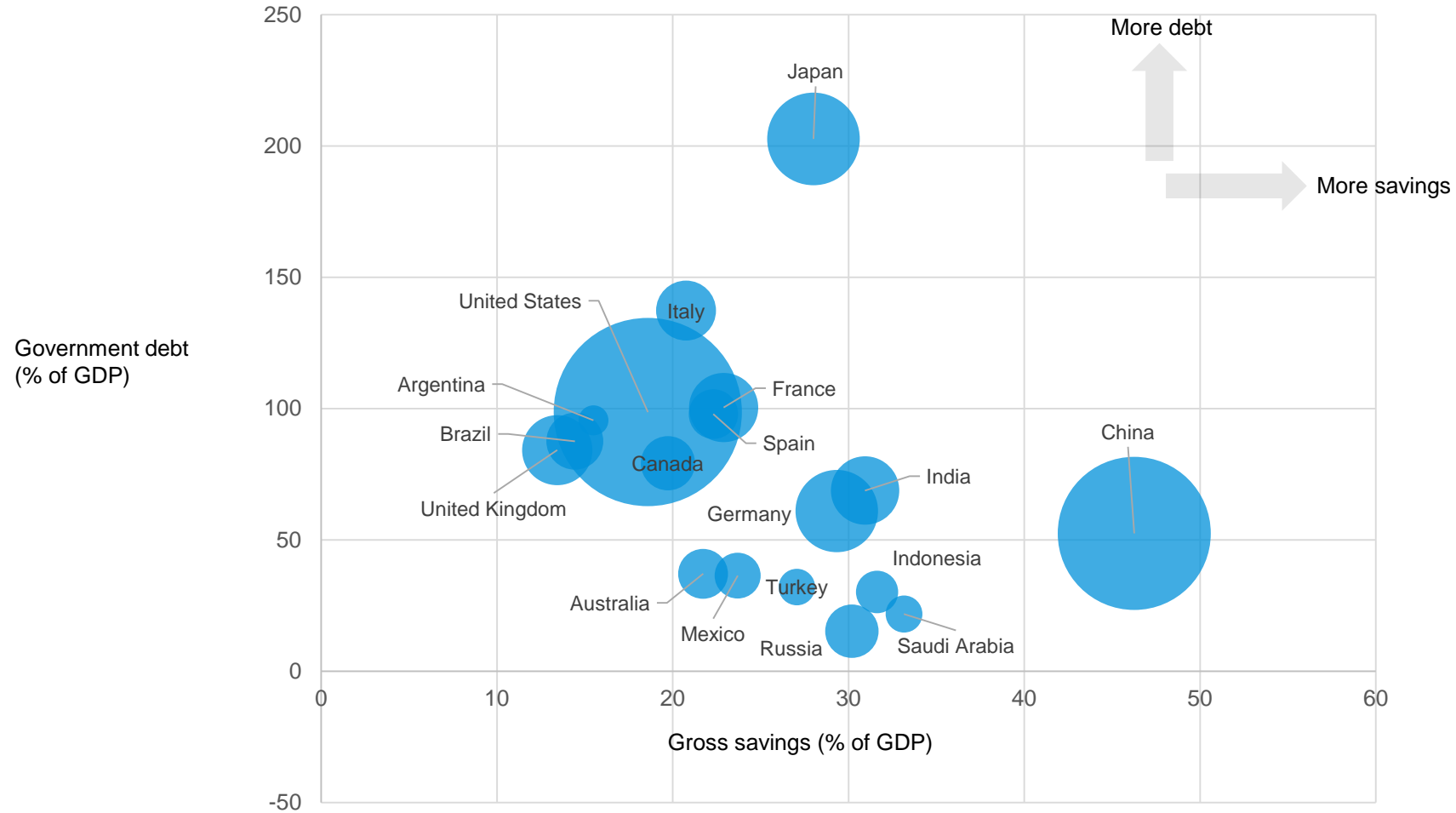


Source: Amap, Wind, KPMG analysis. T represents Chinese New Year day.





China still has a lot of room to increase its stimulus measures



Source: BIS, World Bank, KPMG analysis. The size of the bubble represents each country's GDP in USD terms.

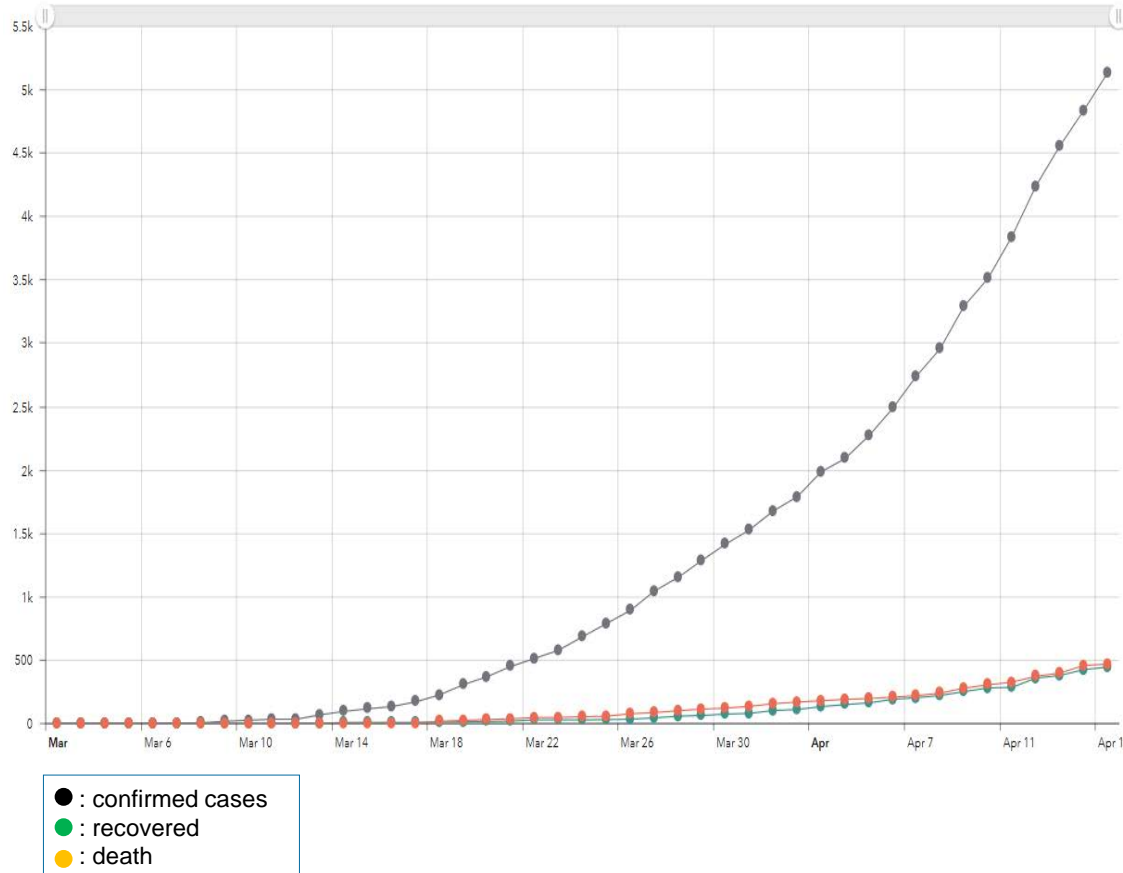


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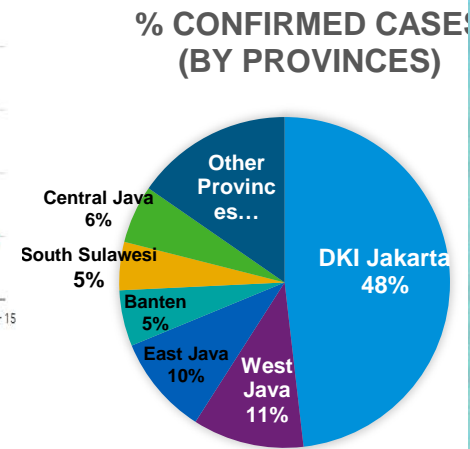


Indonesia's COVID-19 - Current Status (as of 15 April 2020)

| Total Confirmed cases | Recovered | Death |
|-----------------------|-----------|-------|
| 5,136 | 446 | 469 |



Source: Indonesian National Board of Disaster (update as of 15 Apr 2020)

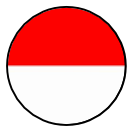


NUMBER OF CONFIRMED COVID-19 CASES
 As per April 15th, 2020 at 07.00 A.M.

| Country | Number of Case | Death | Population | Deaths / 1 M Pop |
|------------------|----------------|------------|--------------------|------------------|
| World | 1,848,439 | 117,217 | 7,794,798,739 | 15 |
| USA | 553,822 | 21,972 | 331,002,651 | 66 |
| Spain | 169,496 | 16,972 | 46,754,778 | 363 |
| Italy | 159,516 | 20,465 | 60,461,826 | 338 |
| Germany | 125,098 | 2,969 | 83,783,942 | 35 |
| France | 97,050 | 14,946 | 65,273,511 | 229 |
| UK | 88,625 | 11,329 | 67,886,011 | 167 |
| China | 83,696 | 3,351 | 1,439,323,776 | 2 |
| Iran | 74,877 | 4,683 | 83,992,949 | 56 |
| Turkey | 61,049 | 1,296 | 84,339,067 | 15 |
| Belgium | 30,589 | 3,903 | 11,589,623 | 337 |
| Indonesia | 5,136 | 469 | 269,603,400 | 2 |

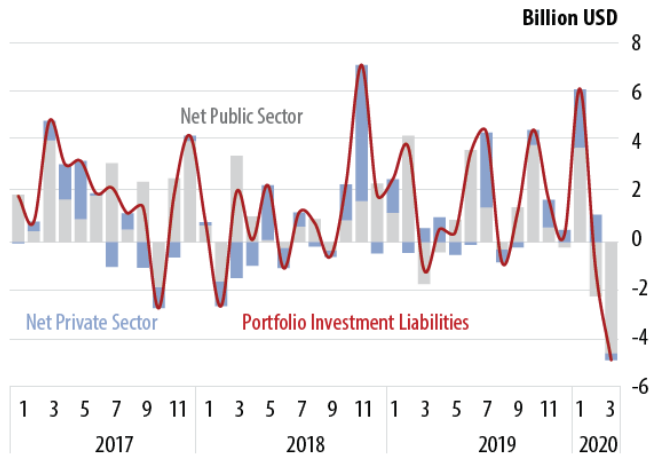
Source : World Health Organization (WHO), worldpopulationreview.com, bps.go.id





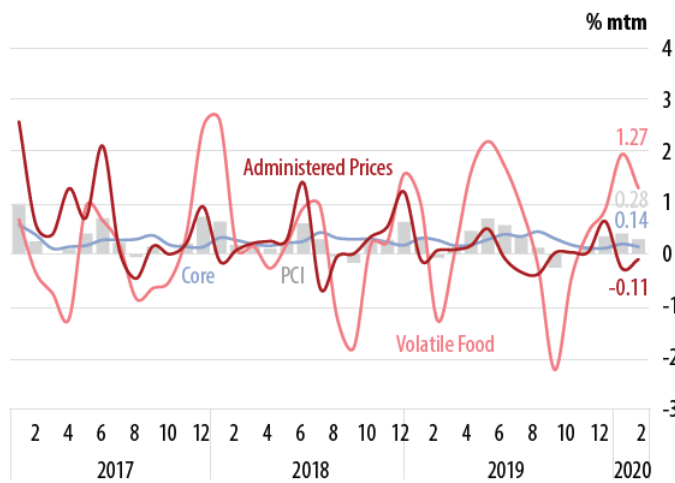
Indonesia's Economic Indicator

Capital Flow Portfolio



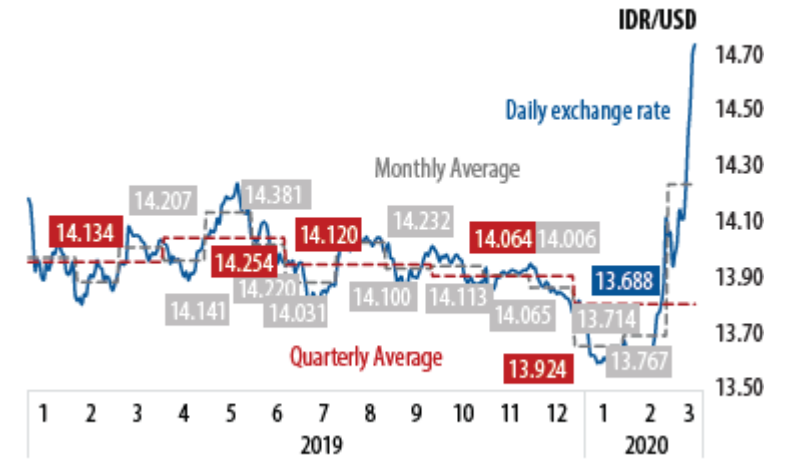
Source: Bank Indonesia; data as of March 17th, 2020

Inflation



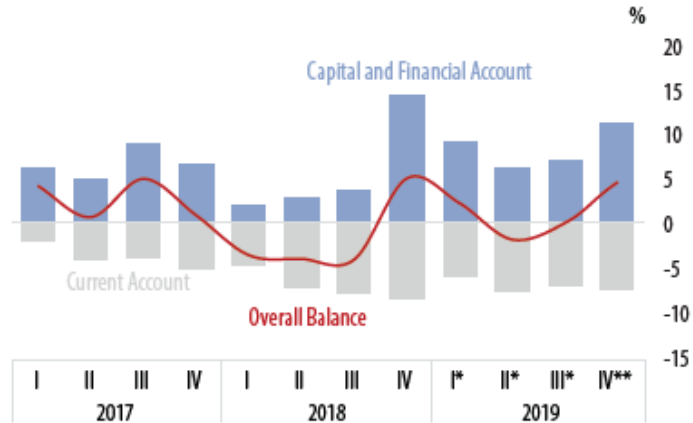
Source: BPS, calculated

Rupiah Exchange Rate Movements



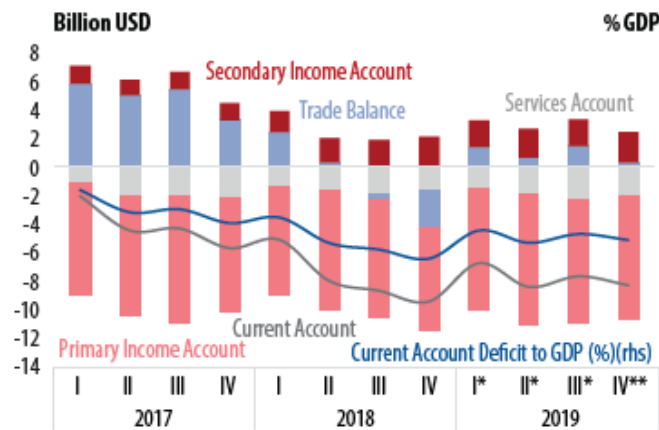
Source: Reuters, data as of March 18th, 2020

Indonesia's Balance of Payment



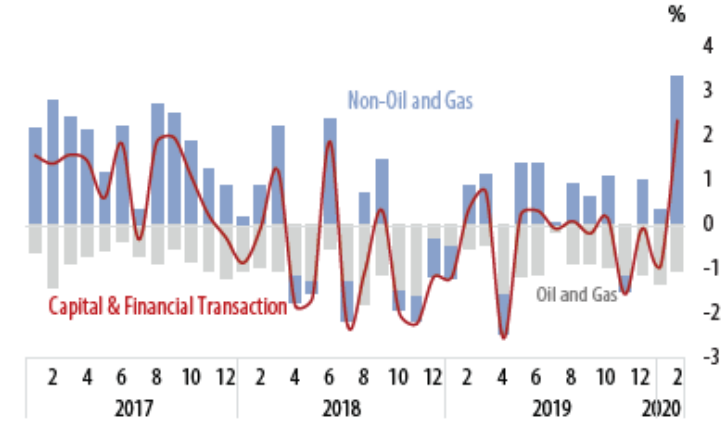
Source: Bank Indonesia; *Preliminary Data **Very Preliminary Data

Current Account



Source: Bank Indonesia; *Preliminary Data **Very Preliminary Data

Trade Balance

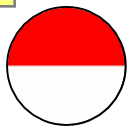


Source: BPS, calculated

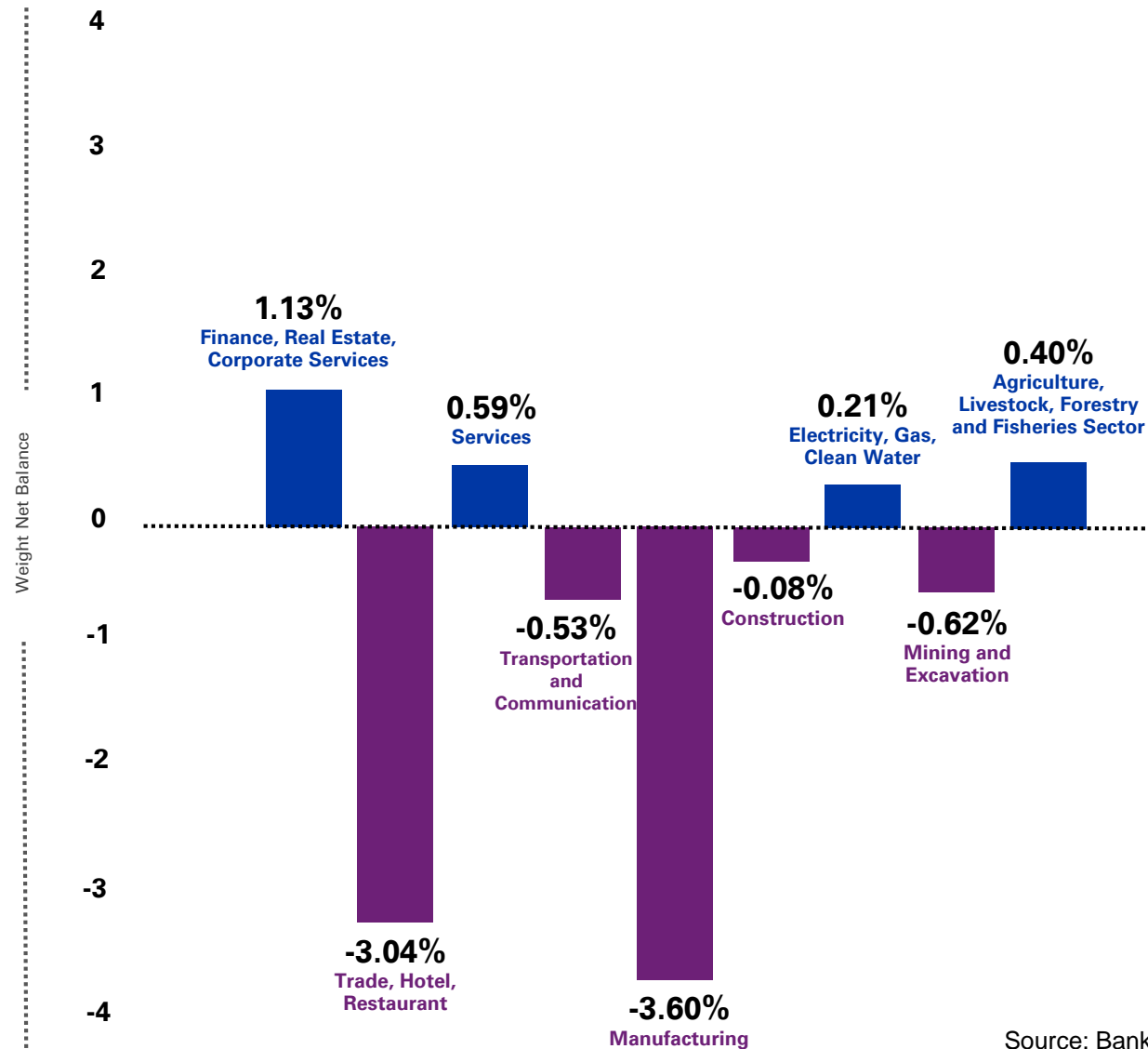
Source: Bank Indonesia (Monetary Policy Review March 2020)



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BI Survey: Manufacturing & Tourism Took the Hardest Blow from Corona



Source: Bank Indonesia (Business Sector Survey Q1 2020)





Indonesia's 2020 macroeconomic growth projection (Scenario – impact of COVID-19)

| Indicator | State Budget | Forecast Scenario 1 | Forecast scenario 2 (Worst) |
|---------------------------------|--------------|---------------------|-----------------------------|
| Economic Growth (%.yoy) | 5.3 | 2.3 | (0.4) |
| ICP Price (USD/barrel) | 63.0 | 38.0 | 31.0 |
| Nominal exchange rate (IDR/USD) | 14,400.0 | 17,500.0 | 20,000.0 |
| Inflation | 3.1 | 3.9 | 5.1 |
| GDP Nominal (IDR trillion) | 17,464.7 | 16,829.8 | 16,574.9 |

Source: Ministry of Finance (Press Conference April 2020)

| Indicator (%.yoy) | State Budget | Forecast Scenario 1 | Forecast scenario 2 (Worst) |
|------------------------|--------------|---------------------|-----------------------------|
| Private consumption | 5.0 | 3.22 | 1.6 |
| Government consumption | 4.3 | 6.83 | 3.73 |
| Investment (GFCF) | 6.0 | 1.12 | -4.22 |
| Exports | 3.7 | -14 | -15.6 |
| Imports | 3.2 | -14.5 | -16.65 |

Source: Ministry of Finance (Press Conference April 2020)

- The **budget deficit** is estimated to reach **5.07% of GDP** (compared to current ceiling at 3%). Relaxation of the State Budget deficit policy above 3% of the GDP will apply for only **3 fiscal years** (2020, 2021 and 2022). The government will revert to a fiscal discipline of below 3% deficit starting in 2023.
- According to Ministry of Finance, Indonesian **economy will only grow 2.3% or down by 3%** compared to the assumption of the 2020 State Budget. The worst case scenario is that the Indonesian economy may experience a decline or **-0.4%**.
- Annual **inflation** projected in range of **3.9% - 5.1%** compared to a previous estimate of 3.1%
- Rupiah exchange rate may tumble to as low as **17,500** per US dollar. Under the worst-case scenario, the currency may plunge to **20,000** per US dollar



The Economic Impact of COVID-19

- ▶ As the world economy balances mitigating the health risks of COVID-19 with the economic risks, unprecedented measures are being taken. This includes quarantines and the closure of non-essential businesses as well as the fiscal and monetary measures aimed at cushioning the economic blow.
- ▶ Social distancing is necessary but comes at a great economic cost. Government efforts to mitigate the economic cost are evolving in response to the crisis.
- ▶ Longer-term impact is felt by indebted companies or those with poor cash flows, those that cannot remain open, cannot employ people or cannot make debt payments.
- ▶ Coordinated and individual government action is underway to mitigate negative health and economic impacts.
- ▶ KPMG economist team anticipates unprecedented U.S. job losses of nearly 20 million in Q2 (this compares to 8.6 million jobs lost over 23 months during the financial crisis.) Many firms have simply not been able to hold out until fiscal assistance arrives.
- ▶ A complicating factor is the level of debt in certain sectors of the economy, many of which are highly impacted, such as the consumer discretionary sector. Additionally, the steep fall in oil prices, exacerbated by a supply glut from Saudi Arabia and Russia, will likely hobble portions of the highly levered energy sector.
- ▶ The unwind of leverage always creates collateral damage. As investors sell good assets to fund non-performing assets, the prices of all assets decline. The role of the Federal Reserve as lender of last resort will be a critical component of mitigating the damage from this unwind, but it will not prevent the unwind from happening. The sharp decline in growth will result in bankruptcies and all of the spillovers from debt unwinding episodes of the past can be expected this time around as well.
- ▶ Based on information available as of 1 April 2020, KPMG economist team in the US expects the best case scenario will be a “U” shaped recovery with 50% probability. In April 2020, IMF projected that global economy will contract sharply by -3% in 2020, a -6.3% drop from the January 2020 projection, the impact of COVID-19 was much worse than during the 2008-2009 global financial crisis.

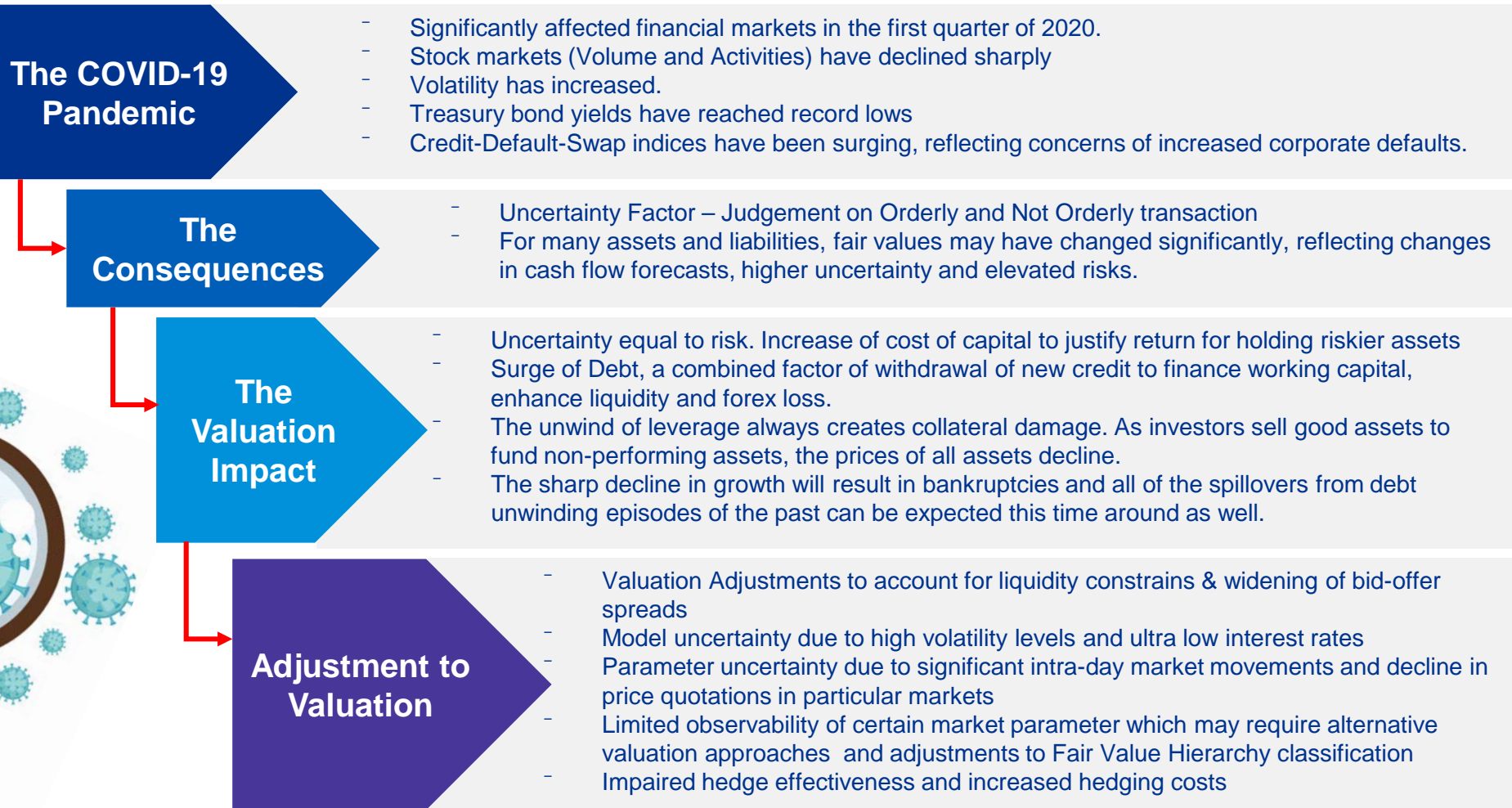




The background of the slide features a dark teal wireframe globe with a grid of lines and nodes. Overlaid on the globe is a bar chart with several vertical bars of varying heights. Numerical values are displayed in a light teal font: 70.111 at the top right, 69.928 in the upper middle, 44.870 in the middle right, 20.556 at the bottom right, and 12.002 in the lower middle. A horizontal bar composed of five colored segments (purple, blue, cyan, light blue, and white) is positioned below the main title area.

Fair Value Measurement

Covid 19 : Adjustment to Valuation



Are fair value appropriately determined ?

Base : IFRS 13 Fair Value
Measurement

| | |
|-----------|---|
| 1. | Definition of fair value |
| 2. | The most reliable evidence of fair value |
| 3. | Unobservable inputs (Level 3 hierarchy) |

Fair value is a market-based measurement – it is measured using assumptions that market participants would use, reflecting market conditions at the measurement date.

According to IFRS 13 *Fair Value Measurement*, a quoted price in an active market provides the most reliable evidence of fair value and if one is available then it has to be used to measure fair value.

Performing a valuation that uses significant unobservable inputs is challenging, especially at times, as now, when markets are volatile and the economic outlook is highly uncertain and may change quickly due to COVID-19 situation

Source: KPMG Global insight website, KPMG Advisory Indonesia

IFRS Measures: Asset, Liabilities and Equities

| Assets | IFRS measure | Equity | IFRS measure |
|---|---|---|------------------------------------|
| Unimpaired land (PPE) & indefinite life intangibles | Historical cost (HC) or fair value (FV) (choice) | Residual (assets minus liabilities) | What does it mean? |
| Other PPE, intangibles, and bearer plants | Modified (M) HC or modified FV (choice) | Liabilities | IFRS Measure |
| Investment property | MHC or FV (choice) | Bank loan | Amortised cost (AC) |
| Biological assets | FV less costs to sell | Trade payable | AC |
| Investments in associates | Equity method | Derivatives and others when FV option is used | FV |
| Other financial instruments | MHC or FV (depends on cash flow characteristics and the business model) | Provisions | Amount to settle or transfer today |
| Inventories | Lower of HC and net realizable value; exceptions FV and NRV | Defined benefit employee benefits | Projected unit credit method |
| TOTAL | What does it mean? | TOTAL | What does it mean? |

Source: Kaplan



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Fair Value Measurement : PSAK 68 (IFRS 13)



Uncertainty can influence the company judgement on the fair value of financial instruments, reflected in financial statements



PSAK 68 (para 77)

- “Quoted Price” is the best “fact” reference on FV.
- Can be used without necessarily make any adjustment
- Apply on “orderly transaction”



Revisit - Principles of Fair Value Assumptions

- Orderly Transaction
- Traded in Principle Market
- Most Advantageous Market



Key Questions on COVID-19 Situation

- When the transactions are traded at low volume and level of activities, should it still be considered as “Orderly” or it becomes “Non Orderly” Transactions ?
- The Judgement Factor



The Valuation Hierarchy (INPUT)

- Level 1: Quotation Price (no adjustment)
- Level 2: Input other than Quotation Price, Observable, both Direct and Indirect
- Level 3: Input Non-Observable



Disclosure on Valuation Techniques

- PSAK 68 require additional disclosure for No quotation Valuations
- PSAK 68 (para 91) : objective of disclosure is to assist report users to understand the impact of FV measurement to P/L statements or other comprehensive income during the reporting period
- For example : Should the company change the valuation method from level 1 to level 2 or 3, the company should make the disclosure and explain the impact

What do you need to report

What do you need to disclose?

ANNUAL REPORTS

- Given the impact of the increase in economic uncertainty on forecasting cash flows and other unobservable inputs used in valuation techniques (e.g. certain riskadjusted discount rates), Companies may need to provide sensitivity disclosures :
 - together with disclosure of the key assumptions and judgements made by management
 - to enable users to understand how fair value has been determined.
- These disclosures are required under both IFRS 13 Fair Value Measurement and IAS1 Presentation of Financial Statements.
- IFRS 13 also contains specific disclosure requirements when amounts are transferred into Level 3 of the fair value hierarchy, including sensitivity disclosures. [IFRS 13.93(e)(iv), 93(h), IAS1.125, 129]

INTERIM REPORTS

- IAS 34 Interim Financial Reporting requires companies to provide many of the IFRS 13 disclosures on fair value measurement of financial instruments, including the sensitivity disclosures and significant transfers between levels in the fair value hierarchy.
- Additionally, IAS 34 requires companies to explain events and transactions that are significant to an understanding of the changes in a company's financial position and performance since the last annual reporting date. Therefore, fair value disclosures related to non-financial assets and non-financial liabilities are required if they are material to an understanding of the current interim interim period. This may be the case when fair values change significant

Valuation Uncertainty : The Measurement

How to value in
times of
uncertainty



1. Define significance of uncertainty

Determine materiality of uncertainty:

- Adjustment on Valuation assumptions, i.e. interest rates, credit spread, issuance credit risk.
- Increase in cost of capital as investors may require higher yield on investment to justify the uncertainty risk.

Determine the impact:

- Is it only impacting certain assets or the whole portfolio?
- What kind of risk will be exposed to the end user of the valuation result?

2. Measure the value of the uncertainty

- Apply sensitivity analysis of different possible circumstances.
- Provide alternative assumptions based on the probability of occurrence.
 - Forecasting worst case scenario is unnecessary.
- Quantify the uncertainty value and provide detail explanations in regards to the value.
- Ensure that all implications of a change in input are taken into account.

Source: International Valuation Standards Council ("IVSC") article, KPMG Advisory Indonesia



Valuation of Uncertainty



Valuation Uncertainty : Unobservable Inputs

Unobservable inputs

Unobservable inputs are inputs for which market data is not available and that are developed using the best information available about the assumptions that market participants would make in pricing the asset or liability, including assumptions about risk.

Some key factors to consider when measuring fair value using discount rate :

| Economic activity levels | Credit risk and liquidity risk | Forecasting risk | Foreign exchange risk | Commodity price risk |
|--|---|--|---|---|
| Decreasing economic activity such as production and demand of goods and sales. This might have a negative impact on future cash flow | Economic uncertainty increased credit risk and liquidity risk for many companies. | Should incorporate the economic uncertainty in financial forecast. | Companies with significant sales or purchases in foreign currencies may be adversely affected by exchange rate movements. | Companies with significant sales or purchases in foreign currencies may be adversely affected by exchange rate movements. |

Significant judgment may be needed to quantify risk premiums and other adjustments for these risks. Also, the number of fair value measurements classified as Level 3 in the fair value hierarchy may increase.

Source: KPMG Global insight website, KPMG Advisory Indonesia



The background of the slide features a dark teal wireframe globe with a grid of lines and nodes. Overlaid on the globe is a bar chart with several bars of varying heights. Numerical values are displayed in a light teal color: 70.111 at the top right, 69.928 in the upper middle, 44.870 in the middle right, 20.556 at the bottom right, and 12.002 in the lower middle. A horizontal bar at the bottom of the slide is divided into five segments of different colors: purple, magenta, blue, cyan, and light blue.

Financial Asset Adjustment

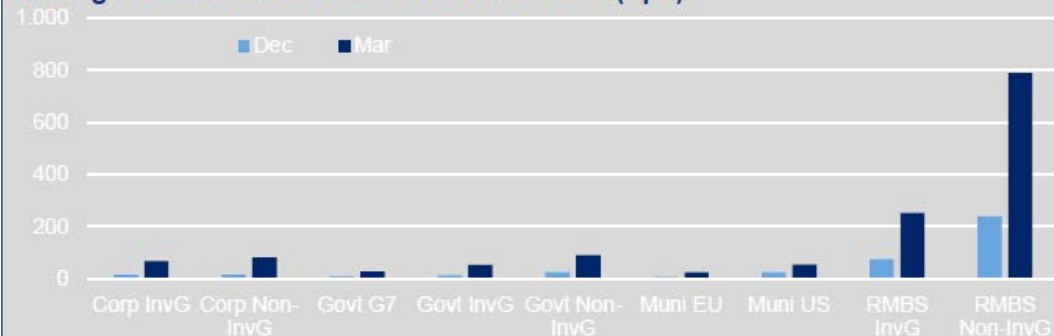
Financial Instruments : Fixed Income and Interest Rate

Bond Markets

Summary of current market developments

- Significant loss in convergence of pricing feeds from established pricing services across almost all asset classes. Most affected are securitizations as well as non-investment grade bonds (both corporate and government).
- Bid-offer spreads have gone up remarkably since December, from corporate bonds, government bonds to securitization.
- The chart below illustrates the average standard deviation of bond prices from different pricing services. The analysis is conducted for a sample portfolio of 810 fixed income securities for which there are 3 or more pricing feeds per security.

Average Standard Deviation of Bond Prices (bps)



Fair Value Considerations

- Thorough quality assurance of pricing feeds from external vendors
- Increased amount of Mark-to-Model positions expected
- Considerations of fair value adjustments to account for liquidity discounts, close-out costs (bid-offer) and movements in funding spreads (FVA)
- Potential implications on Fair Value Hierarchy classification due to reduced observability and consistency of market data

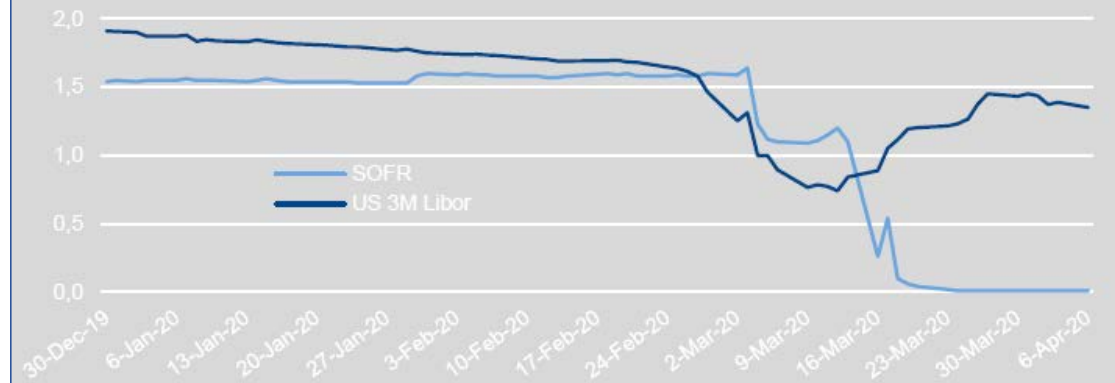
Source: KPMG Germany

Interest Rate Markets

Summary of current market developments

- Reduction in market liquidity lead to an increase in bid-offer spreads and a widening between overnight rates (OIS/SOFR) and term funding (Libor). The chart below illustrates the latter.
- National bank interventions lead to a significant drop in rates across the entire term structure in particular for USD.
- Implied volatilities has increased significantly in particular for short dated expiry dates affecting the valuation of swaptions and Cap/Floors.

USD 3 month LIBOR vs SOFR



Fair Value Considerations

- The drop in interest rates can result in a strong one-sided exposure in the respective interest rate derivatives with effects on counterparty credit risk. Together with the widening of CDS spreads this may give rise to wrong-way-risk.
- Discrepancies between money market rates and OIS rates may constitute challenges in the construction of consistent interest rate curves.
- High volatility levels may constitute a stress to option pricing models which may require additional validation.

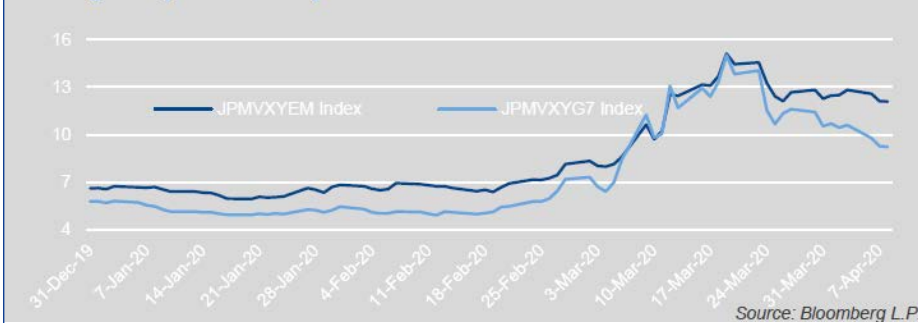
Financial Instruments : FX Market and Equity

FX Markets

Summary of current market developments

- In general we do not observe a clear tendency towards a significant appreciation of any individual major currency.
- However, intraday fluctuation and market volatility (both realized and implied) has increased significantly in the majority of the currency pairs. The chart below shows the development of the JP Morgan G7/Emerging Market (EM) Volatility Indices which measure the ATM implied volatility of G7/EM currency pairs.
- In FX spot and forward markets, market activity remains high with no significant widening of bid-ask spreads. However, bid-ask spreads for FX options have increased.

JP Morgan Implied Volatility Indices



Fair Value Considerations

- Due to the increase in intra-day fluctuations a clear and consistent application of cut-off timing of FX spot and forward rates gets of greater relevance when determining fair values. Concerns could arise over a mismatch in the fair values derived as of end-of-business day as compared valuations which is based on earlier snap shots.
- Valuation of FX Options are affected by the increase in implied volatilities as well as widening of bid-offer spreads which may impact also close out costs and counterparty credit risk.

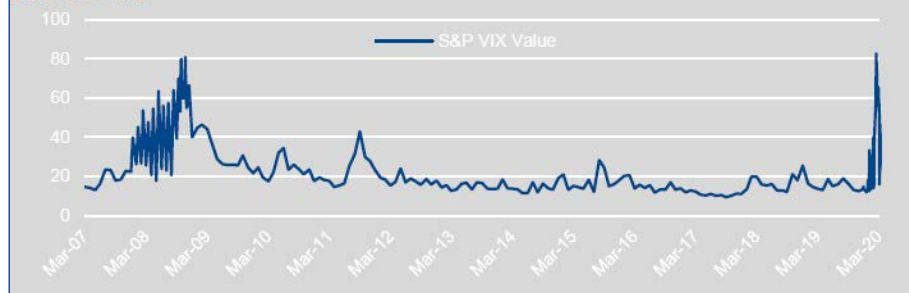
Source: KPMG Germany

Equity Markets

Summary of current market developments

- Stock prices and indices dropped significantly in March 2020. The MSCI World Index fell 34% as of 23 Mar 2020 compared to end of Dec 2019.
- For the constituents of the MSCI World Index the traded volume almost doubled in Mar 2020 driven by investors reallocating their portfolios to less risky asset classes. This accelerated the downturn even more.
- At the same time the volatility of equity markets spiked to similar levels as during the GFC in 2008/2009 as illustrated below for the S&P 500 Volatility Index (VIX):

S&P 500 VIX



Fair Value Considerations

- The significant decline in stock / index prices may push positions in equity derivatives from at-the-money to either deep-in-the-money or out-of-the-money. This may affect the observability of valuation parameter (e.g. volatility) and hence might require a revisit of the Fair Value Hierarchy of such positions.
- The significant increase in market volatilities may constitute a stress scenario for valuation models (e.g. stochastic volatility models) and their calibration. A re-assessment of the adequacy of valuation models in the current market environment may be necessary.
- Un-hedge gap risk may result in fair value losses and increased hedging costs.
- Cancellation of dividends lead to lower dividend projections and higher uncertainty in estimating expected dividend yields.

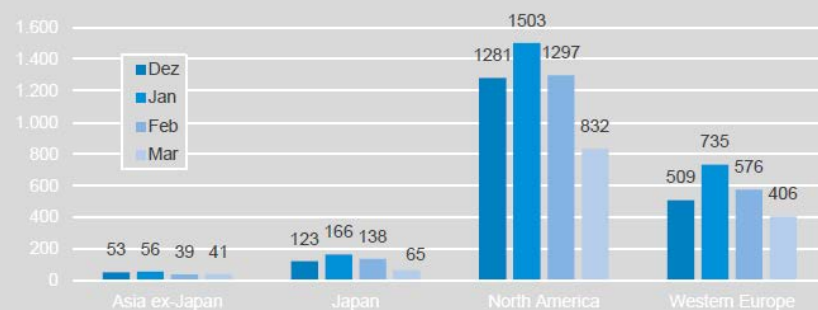
Financial Instruments : Credit Market and Structured Finance

Credit Markets

Summary of current market developments

- CDS Spreads have widened significantly during the first quarter and in particular during March
- On average the increase is 43bps for investment grade and 340bps for non-InvG reference entities as compared to spread levels in December 2019. In both cases this constitutes an increase of more than 100%.
- At the same time bid-offer spreads have doubled from ~19bps in Dec to ~41bps in March (average for 5 year single name CDS) and the number of market participants providing CDS price indications has reduced as illustrated below:

Number of CDS Spread Quotations (5 year single-name CDS)



Fair Value Considerations

- Consideration of Close-out-Costs due to increased bid-offer spreads in particular for non-investment grade exposure.
- Consideration of Observability of CDS spreads due to the reduction of quotations
- Implications on CVA and DVA due to increase in market implied credit risk and widening of spreads
- Wrong-Way-Risk in XVA in particular for non-investment grade exposure.

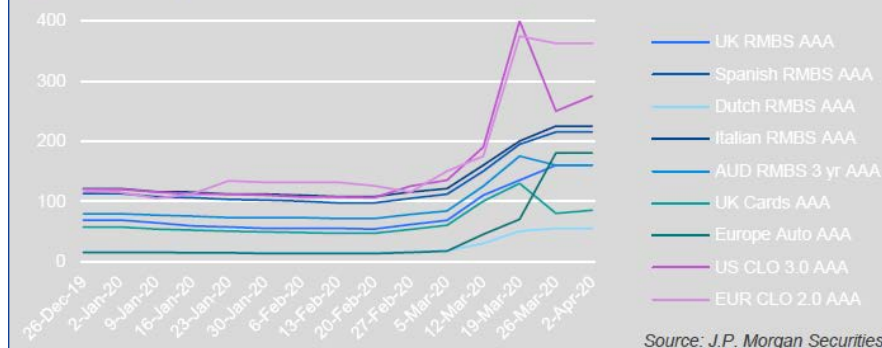
Source: KPMG Germany

Structured Finance

Summary of current market developments

- Spread levels for structured finance assets have widened during the first quarter
- Spread levels and valuation uncertainty increases across all SF exposures while CLOs and non-investment grade tranches in ABS and MBS are mostly affected.
- At the same time market participants are seeking to liquidate SF holdings with BWIC volumes in March being 70% higher as compared to Feb.
- The chart below illustrates the spread developments during Q1 2020 for AAA tranches of selected structured finance types.

Spread Development in selected SF Markets



Source: J.P. Morgan Securities LLC

Fair Value Considerations

- Identify exposure in CLOs as well as other SF assets with exposure to countries which are significantly affected by COVID-19
- Consider modelling assumptions in CLOs in particular with respect to potential rating downgrades in the underlying loan pool and implications on cash diversions
- Re-assess management's pricing sources and models used for SF valuation as well as sample sizes for substantive testing procedures

Non-financial Assets Impairment - The Basis

Conducting an
Impairment Test
is Required



What is the base standard for impairment assets ?

PSAK 68 : Impairment of Assets

What type of non-financial assets does IAS 36 apply to ?

- Property
- Plant and equipment
- Right-of-use assets
- Intangible assets and goodwill
- Investment properties measured at cost
- Investments in associates and joint ventures

When do non-financial assets need to be tested for impairment ?

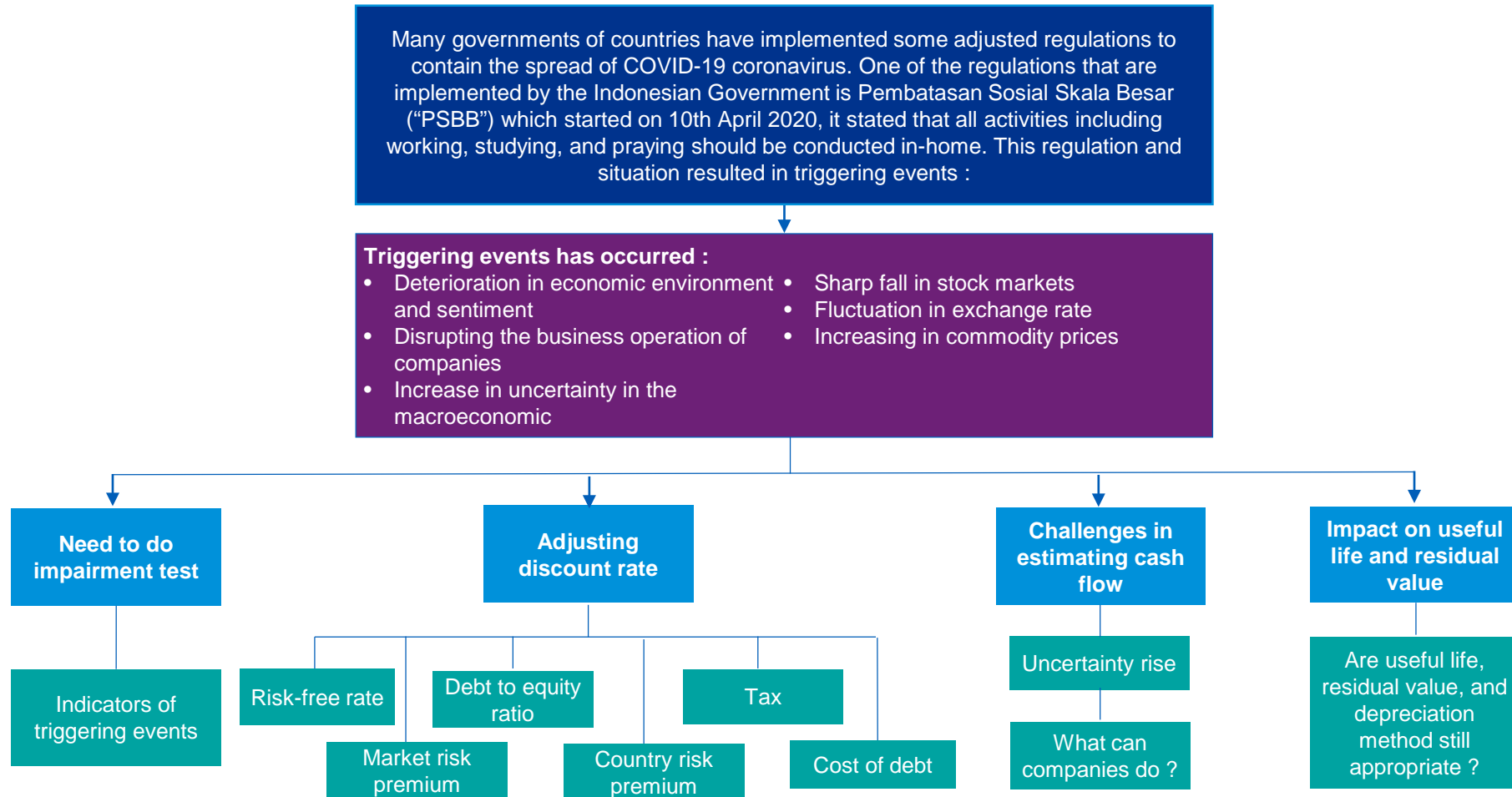
- Indefinite-lived intangible assets , intangible assets not yet available for use, goodwill acquired in a business combination → Annually
- Other non-financial assets → When there are triggering events

What are included in triggering events ?

- Significant changes with an adverse effect such as technological, market, economic, legal environment
- Carrying amount value > market capitalization

Source: KPMG Global insight website, KPMG Advisory Indonesia

Non-Financial Assets Impairment: PPE, Intangible assets, and Goodwill



Source: KPMG Global insight website, KPMG Advisory Indonesia



70.111
69.928
44.870
20.556
12.002

Non Financial Asset Impairment

Non-Financial Impairment - Discount rate

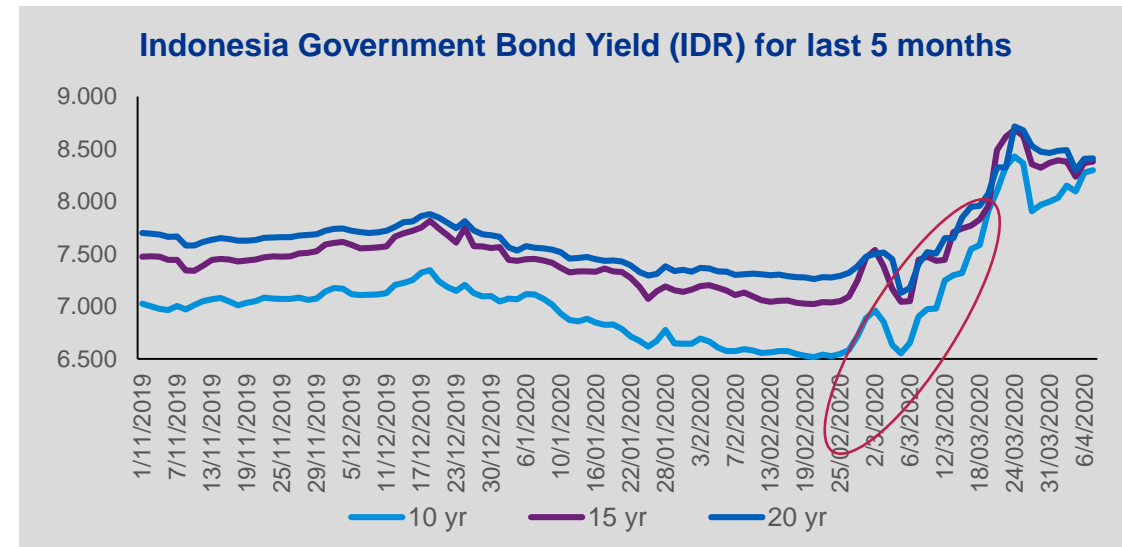
Risk Free Rate

Summary of Indonesian government bond yield

- ❖ Indonesian government bond (FR series for IDR and INDON for US denomination) yield is used as the proxy for risk free
- ❖ Indonesian government bond yield have increased since March.

Considerations

- ❑ Company need to assess long term cost of debt, which stands for the credit worthiness of the company.
- ❑ A constant close monitoring of yield of bond to optimize capital structure.
- ❑ Valuation impact: increase in Risk free, resulting in higher cost of equity



Source: Investing.com access on 7 April 2020, KPMG Advisory Indonesia

Non-Financial Impairment - Discount rate

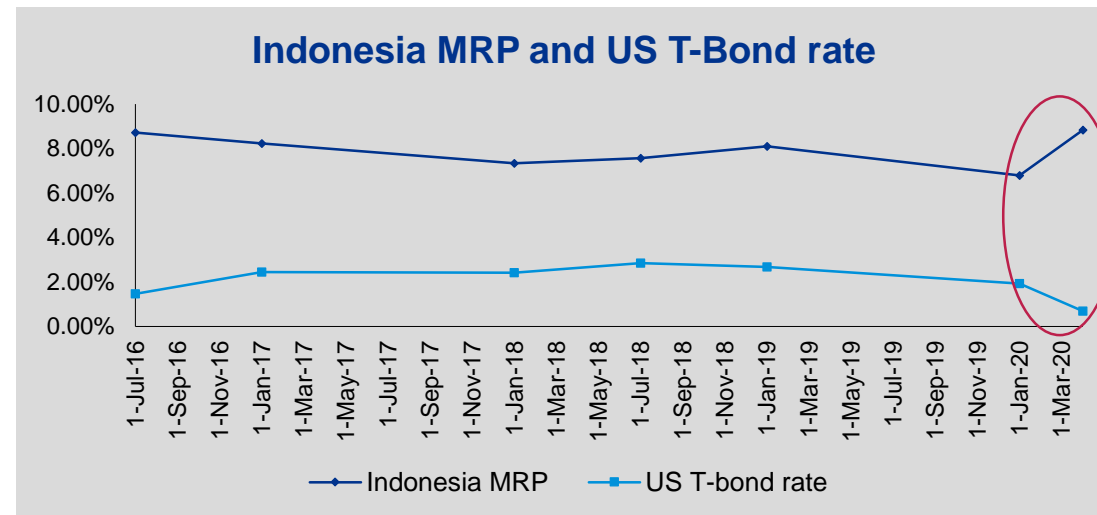
Market Risk Premium (MRP)

Summary of MRP

- ❖ Damodaran has revised the estimation of US market risk premium (“MRP”) and Indonesia country risk premium (“CRP”) as of 1 April 2020, due to unprecedented volatility regarding COVID-19 situation
- ❖ Duff and Phelps also increases its U.S. market risk premium recommendation from 5.0% to 6.0% when developing discount rates beginning on March 25, 2020 and thereafter
- ❖ The chart below illustrates Indonesian MRP (US MRP + Indonesia CRP) and US T-bond rate

Considerations

- Increase of MRP will impact the cost of equity.
- Can consider a temporary - specific risk premium addressing the Covid 19
- Potential triggering on impairment loss for non financial assets



Source: Damodaran's website, KPMG Advisory Indonesia

Non-Financial Impairment - Discount rate

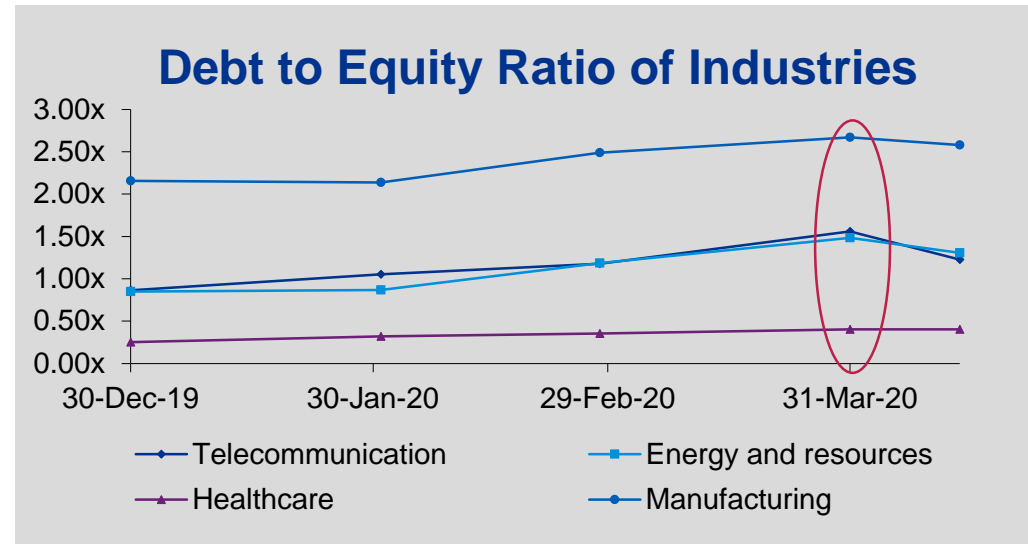
Debt to Equity Ratio

Summary of Debt Equity Ratio

- ❖ Depending on the industry, but in general, Covid-19 impacts adversely both financial and operational performance
- ❖ This condition has given pressure for companies to withdraw unused facility to support working capital and operational.
- ❖ Businesses are assessing financing strategies / options and approaching lenders to access or amend debt facilities or participate in the Government-backed funding schemes
- ❖ DER of the telecommunication, energy and resources and manufacturing show an increase trend since January 2020, while the DER for healthcare sector is relatively flat

Considerations

- ❑ Under current market situation caused by COVID-19, equity market shrink while debt value incline, triggered by new loan and the appreciation of USD denomination loan (due to FX impact)
- ❑ This has resulted into a higher Debt Equity Ratio
- ❑ As cost of debt is cheaper than cost of equity, the higher DER will reduce the cost of capital.



Source: CapitalIQ, IDX website, KPMG Advisory Indonesia

Non-Financial Impairment - Discount rate

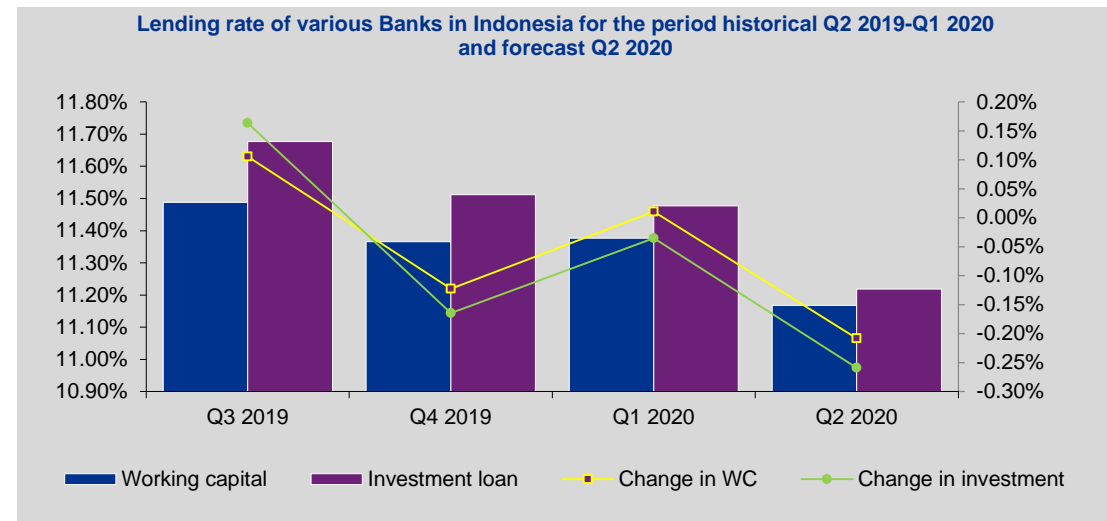
Cost of Debt

Summary of Cost of Debt

- ❖ BI has continued trimming the benchmark rate of SBI in response to Covid 19 pandemic.
- ❖ BI lower the BI 7-day Reverse Repo Rate by 25 bps to 4,50%; Deposit Facility (DF) rates lowered 25 bps to 3,75%; and Lending Facility (LF) rates lowered 25 bps to 5,25%
- ❖ The central bank sees room for further interest rate cuts to boost the economy amid the low inflation rate.

Considerations

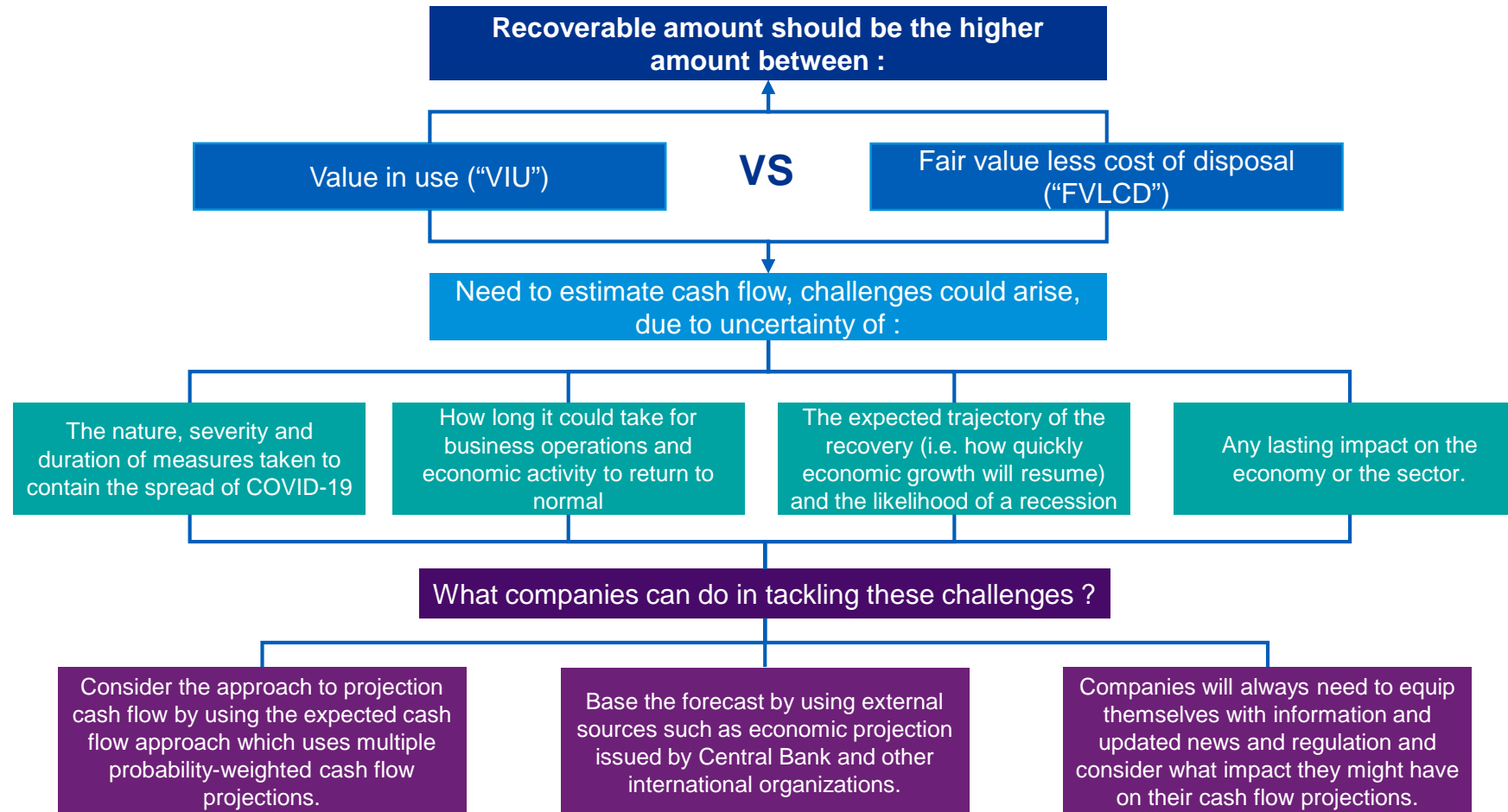
- ❑ The monetary stimulus through reduction of SBI rate, will enhance liquidity in market
- ❑ Lending rate is expected decline, following the cut in SBI rates
- ❑ This will impact favorably to the cost of capital



Source: Bank of Indonesia's website, KPMG Advisory Indonesia

Non-Financial Asset Impairment - Estimating Cash Flow

Challenges in Estimating Cash Flow



Source: KPMG Global insight website, KPMG Advisory Indonesia

Wrap Up – Non Financial Assets

| High level view on impacts | | | |
|--|------------------------------|--|------------------------------------|
| P&L Effect | Cost of Equity Impact | Cost of Debt Impact | Fair Value Impact |
| Increase in Risk Free Rate | ↗ | ↗ | Negative |
| Increase in MRP | ↗ | - | Negative |
| Increase in Debt Equity Ratio | ↗ | ↘ | Neutral or Attention* ² |
| Decrease in Interest rate of lending rate | - | ↘ | Positive |
| Increase yield of return on debt instruments | - | ↗ | Negative |
| Legend | Increase : ↗ Decrease : ↘ | * In some this causes more lower discount rate than previously. However it needs to pay attention to cash flow estimation carefully used for impairment test if the conclusions or variations of value are inconsistent with relevant market | |

Source: KPMG Advisory Indonesia



NEXT ?

ACTIONS to be taken by management

Consider whether the valuation:

- 1. Reflects market participants' assumptions based on information available and market conditions at the measurement date; and**
- 2. Incorporates the risk premiums that would arise from the increased uncertainty and other impacts of COVID-19.**
- 3. Consider whether unobservable inputs have become significant, which would result in a Level 3 categorisation and require additional disclosures.**
- 4. Consider expanding disclosures about the key assumptions, sensitivities and major sources of estimation uncertainty.**
- 5. Reflect the adjustment in the financial report.**



Thank you

