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SECURITIZATION OF ULTRA MICRO FINANCING ASSET IN THE FORM COLLECTIVE INVESTMENT CREDIT OF ASSET-BACKED SECURITIES: CONCEPTUAL DESIGN AND TAX IMPLICATION IN INDONESIA

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Abstract
The Government's concern for a micro-based economy has materialized through the provision of Ultra Micro (UMi) Financing to Micro, Small, and Medium Enterprises (MSMEs) by the Government Investment Center Public Service Agency or Badan Layanan Umum Pusat Investasi Pemerintah (BLU PIP). UMi financing, as part of program credit, aims to promote self-reliance among micro-businesses that are not facilitated by the banking sector. However, limited capital from the APBN can hinder the desirability of this credit program. In order to leverage UMi financing hence it can be benefitted by more MSMEs beyond the capabilities of the APBN, the Government should diversify the funding sources for micro-businesses, not solely relying on the State Budget (APBN) but also incorporating funds from other sources. To realize this objective, the Government, through BLU PIP, can securit of receivables of Ultra Micro Financing in the form of Collective Investment Credit for Asset-Backed Securities (CIC-ABS). The objective of this research is to propose a conceptual design of CIC-ABS of UMi and examine tax implication of CIC-ABS of UMi in Indonesia. The question in this research is how to create a conceptual CIC-ABS UMi that is suitable for implementation and what are the tax implications in Indonesia. The contribution of this research is that it is pioneering concept of asset leveraging of MSME credits through Collective Investment Credit for Asset-Backed Securities (CIC-ABS) and tax implication in the unique context of Indonesia. The methodology used in this research includes the conceptual design of securitization and qualitative description to analyze tax implication of securitization of UMi's financing in the form of CIC-ABS in Indonesia. The conclusion that can be drawn from this research is that the UMi CIC-ABS conceptual design is suitable for implementation in Indonesia and tax implications are CIC-ABS of UMi subject to Corporate Income Tax at 25%, Originator incurs Corporate Income Tax on profits from the transfer, ABS Holders face varying tax treatments based on ABS class, and CIC-ABS of UMi is exempt from Value Added Tax (VAT).
Keywords: Asset-backed securities, Microfinance, Securitization, Tax implication, Ultra micro

INTRODUCTION

The Government's concern for a micro-based economy has materialized through the provision of Ultra Micro (UMi) Financing to Micro, Small, and Medium Enterprises (MSMEs) by the Government Investment Center Public Service Agency or Badan Layanan Umum Pusat Investasi Pemerintah (BLU PIP). UMi financing, as part of program credit, aims to promote self-reliance among micro-businesses that are not facilitated by the banking sector. UMi financing is channeled through Non-Bank Financial Institutions (NBFIS), providing a maximum financing facility of Rp20 million per customer. UMi financing distribution has reached 34 provinces, and 509 districts/cities nationwide, from Sabang to Merauke. UMI beneficiaries reached 7.4 million micro-businesses with a total distribution of funds of 26.2 trillion from 2017 until 2022 (Government Investment Center, 2022).

However, limited capital from the APBN can hinder the desirability of this credit program. In order to leverage UMi financing hence it can be benefitted by more MSMEs beyond the capabilities of the APBN, the Government should diversify the funding sources for micro-businesses, not solely relying on the State Budget (APBN) but also incorporating funds from other sources. With a market capitalization of 9,455 trillion in 2022 (Otoritas Jasa Keuangan, 2023), the capital market is a choice of source of funds. This approach will also endeavor to encourage investors to actively support and strengthen micro-businesses directly. To realize this objective, the Government, through BLU PIP, can securitize receivables of Ultra Micro Financing in the form of Collective Investment Credit for Asset-Backed Securities (CIC-ABS).

The objective of this research is to propose a conceptual design of CIC-ABS of UMi and examine tax implication of CIC-ABS of UMi in Indonesia. The question in this research is how to create a conceptual CIC-ABS UMi that is suitable for implementation and what are the tax implications in Indonesia.

The contribution of this research is that it is pioneering concept of asset leveraging of MSME credits through Collective Investment Credit for Asset-Backed Securities (CIC-ABS) and tax implication in the unique context of Indonesia.

LITERATURE REVIEW

Ultra Micro Financing

In the implementation of Ultra Micro (UMi) Financing, governmental policies have been introduced to rejuvenate the Government Investment Center Public Service Agency (BLU PIP) as the coordinated fund for supporting Micro, Small, and Medium Enterprises (MSMEs) financing. BLU PIP is entrusted with the task of disbursing financing and fostering the development of MSMEs in Indonesia through the Ultra Micro Financing (UMi) program.

The legal framework governing the business processes of UMi financing distribution activities and establishing organizational strategic targets and Key Performance Indicators (KPI) is outlined in Regulation of the Minister of Finance Number 91/PMK.01/2017 regarding the Organization and Work Procedures of the Government Investment Center (Minister of Finance of the Republic of Indonesia, 2017), and Regulation of the Minister of Finance Number 193/PMK.05/2020 regarding Ultra Micro Financing (Minister of Finance, 2020).

Functioning as a non-echelon work unit under the Directorate General of Treasury, BLU PIP also manages the financial aspects of BLU. Minister of Finance Regulation Number 1/PMK.05/2021 concerning BLU PIP Service Tariffs (Minister of Finance, 2021) specifies the tariffs for direct and indirect distribution patterns. The maximum rate for financing with an annual effective interest rate is set at 4% (four percent) for the direct distribution pattern, imposed on the realized financing distribution by the Government Investment Center Public Service Agency under the Ministry of Finance. For the indirect distribution pattern, UMi Dealers face a maximum tariff of 2% (two percent) of the realized financing distribution. Linkage institutions, on the other hand, have a maximum tariff of 6% (six percent) of the realized distribution of financing by UMi Dealers.

UMi financing serves as an extension of social assistance programs aimed at enhancing the capacity and self-reliance of businesses. Designed with simple loan requirements and low financing ceilings (up to Rp 20 million) for micro-business practitioners, UMi financing aims to reach a broader spectrum of micro-businesses and stimulate the emergence of new entrepreneurs. Operating in tandem with People's Business Credit (KUR), UMi financing motivates micro-business practitioners to advance, providing them access to larger financing through KUR. As the coordinated fund, BLU PIP channels UMi financing through Non-Bank Financial Institutions (NBFI) or Lembaga Keuangan Bukan Bank (LKBB).

BLU PIP has disbursed UMi financing since July 2017, collaborating with three NBFISs as UMi Dealers, namely PT Permodalan Nasional Madani (PNM), PT Pegadaian, PT Bahana Artha Ventura (BAV), cooperatives, microfinance institutions, and other corporations. Those NBFIs implement UMi financing through group and/or individual schemes. In the case of PT BAV, it cooperates with applies a linkage scheme to distribute UMi financing to cooperatives and NBFIs as UMi Linkages under its supervision. The financing provided to each NBFIS takes the form of executing financing. If an NBFIS experiences default or delays in installment payments from UMi financing facilities to debtors/linkage institutions, the NBFIS is fully responsible for and must replace the defaulted financing or overdue installments. As collateral for UMi financing, BLU PIP requires UMi Dealers to submit their well-performing receivables as fiduciary collateral. The value of these fiduciary collaterals must be greater than or equal to the outstanding value of UMi financing extended to the UMi Dealers. The following are the financing products offered by each NBFIS, each with characteristics aligned with UMi financing:

1. Mekaar (PT PNM)
   Mekaar is a financing product provided by PT PNM with characteristics aligned with UMi financing. Some characteristics of Mekaar include:
   a. Group lending.
   b. Targets economically challenged women in groups.
   c. Provides capital loans and guidance to start businesses.
   d. Emphasizes discipline in group meetings and installment repayments.
   e. Women majority.
2. Kreasi UMi (PT Pegadaian)
3. Kreasi UMi is a financing product offered by PT Pegadaian, funded by BLU PIP through a UMi financing agreement. Some characteristics of Kreasi UMi include:
   a. Individual lending.
   b. Rapid and easy credit application.
   c. Flexible loan tenure.
   d. Repayment can be made at any time.
   e. Collateralized by non-bankable vehicle registration certificates.
4. Other various kinds of products with various combinations distributed by Linkages of PT BAV, Cooperatives, and Microfinance Institutions.

Asset-Backed Securities (ABS)

Based on the Regulation of the President of the Republic of Indonesia Number 1 of 2008, securitization is the transformation of illiquid assets into liquid assets through the purchase of financial assets from the original creditor and the issuance of Asset-Backed Securities (ABS) or Efek Beragun Aset (EBA) (President of the Republic of Indonesia, 2008). Meanwhile, according to Bank Indonesia Regulation Number 7/4/PBI/2005, asset securitization is the issuance of securities by ABS issuers based on the transfer of financial assets from the original creditor, followed by payment derived from the sale of ABS to Investors (Bank of Indonesia, 2005).

Securities refer to negotiable instruments, including debt certificates, commercial papers, stocks, bonds, debt securities, collective investment contract units, futures contracts on securities, and any derivatives of securities. Asset-backed securities (ABS) are securities issued by CIC-ABS whose portfolio consists of financial assets. The legal basis for ABS is regulated by:

1. Financial Services Authority or Otoritas Jasa Keuangan (OJK) Regulation Number 65/POJK.04/2017 concerning Guidelines for the Issuance and Reporting of Collateralized Debt Securities in the Form of Collective Investment Contracts (Financial Services Authority, 2017),
2. OJK Regulation Number 23/POJK.04/2014 concerning Guidelines for the Issuance and Reporting of Collateralized Debt Securities in the Form of Participation Letters for Secondary Housing Financing (Financial Services Authority, 2014),

3. OJK Regulation Number 20/POJK.04/2017 on Amendments to OJK Regulation Number 23/POJK.04/2014 concerning Guidelines for the Issuance and Reporting of Collateralized Debt Securities in the Form of Participation Letters for Secondary Housing Financing, and the Indonesia Central Securities Depository (KSEI) Regulation Number II-D regarding the Registration of Collateralized Debt Securities in KSEI (Financial Services Authority, 2017). The types of ABS regulated by OJK include:
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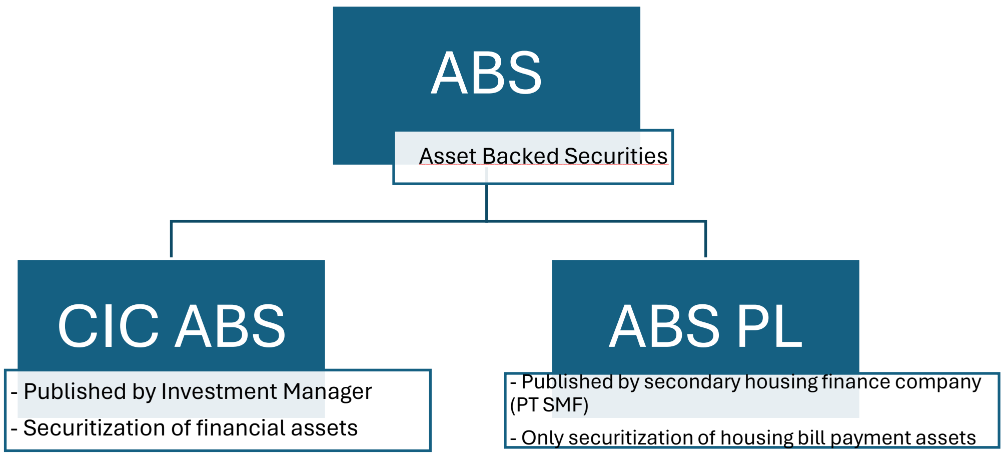

Figure 1. Type of Asset-Backed Securities. Source: OJK

Collective Investment Contract for Asset-Backed Securities (CIC-ABS)

When implementing securitization through the Collective Investment Contract for Asset-Backed Securities, the Investment Manager and Custodian Bank collaborated to establish a Collective Investment Contract for Asset-Backed Securities, known as CIC-ABS. This contract binds holders of collateralized debt securities and grants the Investment Manager authority to oversee the collective investment portfolio, while the Custodian Bank is authorized for collective custody execution. The Investment Manager, excluding insurance companies, pension funds, and banks following prevailing regulations, manages securities portfolios for clients or collective investment portfolios for a client group. The Custodian Bank, approved by the Financial Services Authority, offers custody services for securities and related assets, handling dividends, interest, and other entitlements, and representing their clients who are account holders. The advantages of CIC-ABS encompass:

1. Issuer's Benefits: Cost-effective funds aligned with the improved rating of collateralized receivables.
2. Initial Creditor's Benefits:
    a. Unique liquidity source, particularly beneficial for small and medium-sized enterprises facing traditional borrowing challenges, facilitating their development.
    b. Diversification of funding sources, extending beyond large companies to include small or non-investment businesses.
    c. Liquidity of assets, providing an additional stream of fee-based income (if serving as a Service Provider).
    d. Efficient capital utilization through ABS, enhancing companies' leverage.
3. Investor's Benefits:
    a. An alternative for long-term funding, spanning from 3 to 10 years.

b. Bankruptcy remoteness assures investors are shielded from bankruptcy risks of the Initial Creditor and other parties, preserving their claims.

The acquisition of financial assets for the CIC-ABS portfolio occurs through legal sale, purchase, or exchange between the Initial Creditor and the CIC-ABS. The Initial Creditor, transferring its financial assets collectively to the holders of Collateralized Debt Securities, engages in loans, sales, and/or related services associated with its business to acquire these financial assets. The criteria for financial assets in the CIC-ABS investment portfolio are outlined as follows:

1. The financial assets must involve cash flows.
2. Legally, they must be owned or under the control of the Initial Creditor (Originator).
3. They must be freely transferable to the CIC-ABS.

Financial assets suitable for collateral in the CIC-ABS portfolio encompass:

1. Commercial paper receivables.
2. Credit card receivables.
3. Future receivables.
4. Receivables from credit provision.
5. Government-guaranteed debt securities.
6. Credit enhancement tools.
7. Future cash flows or securities representing future cash flows.
8. Future income or securities representing future income.
9. Equivalent financial assets and other associated financial instruments.

The quality of the ABS portfolio is crucial as it affects investors' confidence in the ABS's quality and reflects the ABS's risk factors, determining its sale and yield levels. Billio et al. (2023) observe that the enhanced quality of the underlying loans surpasses the potential adverse impacts of reduced subordinated tranches in securitizations that comply with the recent regulatory guidelines.

Risks associated with the financial asset portfolio of the ABS may manifest as:

1. Liquidity risk and market risk of Asset-Backed Securities.
2. Currency exchange rate risk and interest rate risk.
3. Credit risk of financial assets in the CIC-ABS portfolio.
4. Payment risk for financial assets in the CIC-ABS portfolio before maturity.
5. Operational risk in the execution activities of the Investment Manager, Custodian Bank, and Service Provider.
6. Legal-related risks.

To improve the quality of the ABS portfolio, the Investment Manager and other relevant parties involved in the CIC-ABS can employ credit enhancement mechanisms. Credit Enhancement is a tool aimed at improving the quality of the collective investment portfolio to facilitate payments to holders of Asset-Backed Securities. Credit enhancement mechanisms may include:

1. Subordination of specific classes of Collateralized Debt Securities to other classes of Collateralized Debt Securities within the same Collective Investment Contract.
2. Letter of credit (L/C).
3. Guarantee funds.
4. Provision for doubtful receivables.
5. Insurance.
6. Interest rate guarantees.
7. Liquidity availability guarantees maturity.

8. Tax payment guarantees.
9. Options.
10. Interest rate or foreign exchange swaps.

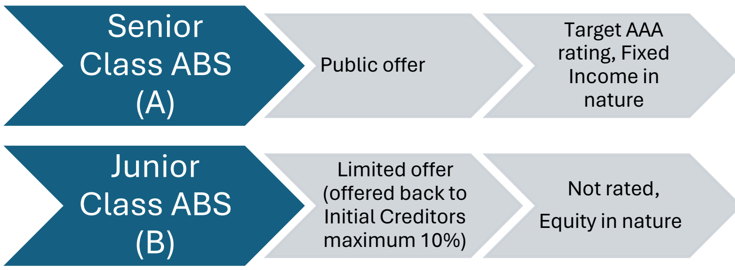

Figure 2. ABS Classes. Source: OJK, Author

Upon fulfilling the Collateralized Debt Securities (ABS) issuance requirements in compliance with regulations, the Investment Manager proceeds to sell the ABS to investors either through public offerings or private placements. A Public Offering, governed by procedures outlined in the Capital Market Law and its implementing regulations, involves the Issuer presenting securities to the public for sale. The proceeds generated from ABS sales to investors are transferred from the Collateralized Debt Securities Fund (CIC-ABS) to the Initial Creditor in exchange for the financial assets sold by the Initial Creditor.

Subsequently, the Service Provider takes charge of collecting payments from the Debtor. The Service Provider's responsibilities encompass processing and overseeing debtor payments, initiating actions like warnings or other measures in cases of late or non-compliance with obligations, negotiating, settling claims against debtors, and providing other services specified in the contract. In practical operations, the Initial Creditor may be appointed as the Service Provider, considering factors such as the Initial Creditor's comprehensive understanding of its debtors and the desire to maintain the debtor's payment habits established before securitization, where payments were made directly to the Initial Creditor.

The debtor's payments represent cash flows entering the CIC-ABS, subsequently distributed to investors after deducting agreed-upon fees within the CIC-ABS framework. The ensuing transaction scheme illustrates the process for CIC-ABS.

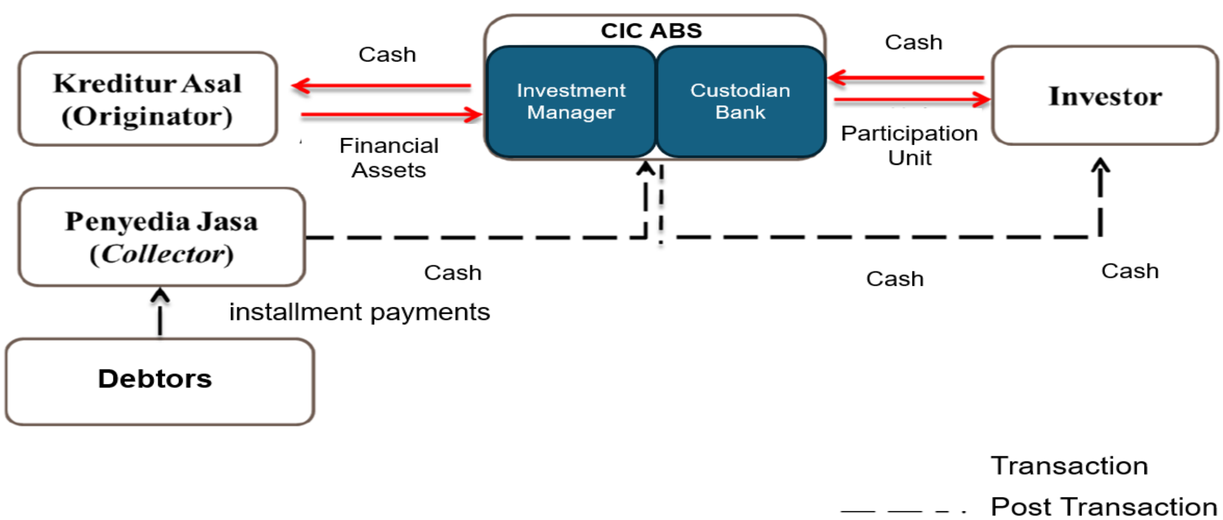

Figure 3. CIC-ABS Scheme. Source: OJK

Asset-Backed Securities Participation Letter (ABS-PL)

In addition to CIC-ABS, the Financial Services Authority or Otoritas Jasa Keuangan (OJK) has also issued Regulation No. 23/POJK.04/2014 concerning Guidelines for Issuance and Reporting of Collateralized Debt Securities in the Form of Participation Letters for Secondary Housing Financing (Financial Services Authority, 2014). Collateralized Debt Securities in the Form of Participation Letters (ABS-PL) are implemented by PT Sarana Multigriya Financial (Persero) (SMF) for secondary housing financing. In conducting securitization through ABS-PL, SMF is authorized to manage collective investment portfolios.

The financial assets that form the ABS-PL portfolio are acquired from the Initial Creditor (Originator) through legal purchase, sale, or exchange with SMF. The requirements for financial assets in the ABS-PL investment portfolio are as follows:

1. They must be financial assets that have or generate cash flows from Home Ownership Loans or Kredit Pemilikan Rumah (KPR) to debtors, including collateral/guarantees and associated encumbrances.
2. The financial assets must be legally owned or controlled by the Initial Creditor (Originator);
3. The financial assets must be freely transferable to SMF.

PT SMF applies several criteria in selecting the Portfolio Assets of ABS-PL as follows:

1. Each KPR Agreement Debtor must be an Indonesian citizen (for the avoidance of doubt, excluding a company, foundation, partnership, or other legal entity, other than a natural person) and is a resident in Indonesia proven by a Resident Identity Card, as well as physically residing in Indonesia.
2. Each Debtor has not been released from its obligations under the KPR Agreement other than full payment at the maturity date of payment of the principal amount and interest obligations.
3. Each Financed Property is within the territory of the Republic of Indonesia and is privately owned housing Debtor and inhabited or in a state of maintenance.
4. Each property financed is proven by a valid land title certificate.
5. Each Financed Property is secured by a Mortgage for the proven benefit of the Original Creditor with a valid mortgage right or Hak Tanggungan (HT) certificate, or a valid power of attorney imposing mortgage rights or Surat Kuasa Membebankan Hak Tanggungan (SKMHT) provided by the Debtor to allows installation of HT on Financed Property. Financed Property is not burdened with other collateral.
6. Original certificates of land rights and HT are in the control of the Original Creditor.
7. Property financed in the form of land and houses in pre-built condition.
8. Each Financed Property is guaranteed by fire insurance with a minimum coverage value equal to the results of the building assessment of the relevant Financed Property at the time of granting the KPR, and each Debtor has been guaranteed by life insurance with a minimum coverage value equal to the original credit value given.
9. Each KPR Agreement is entered into by the Original Creditor in compliance with all policies, practices, procedures, and other requirements that apply to KPR business from the Original Creditor.
10. The Financed Property must be owned by the Debtor. If the Financed Property is owned by more than one person, then that person must be registered together with the Debtor as joint owners of the Financed Property and become joint debtors under the Credit Agreement and Deed Granting Mortgage Rights. If the Debtor is married and therefore the husband and the wife jointly own the Financed Property, the Debtor must have obtained written approval

from the husband/wife to purchase financed property, enter into a mortgage agreement, and guarantee the property Funded by HT.

11. Each mortgage agreement must be free and clear of promises not to be collateralized, other collateral arrangements, or cross-default conditions/settings on the First Cut-Off Date and Final Cut-Off Date.
12. All legal documentation and credit archives/files relating to each KPR Agreement, including documents HT guarantee and Building Construction Permit or other equivalent permit issued by the local government, available. All legal documents regarding each KPR and HT Agreement must remain valid and effective, and is a legal, valid, and binding obligation on the Debtors, and must be carried out based on Indonesian law on the First Cut-Off Date and Final Cut-Off Date and does not violate or conflict with applicable Indonesian laws and regulations.
13. The relevant mortgage agreement provides that only full repayment of the amounts is due paid based on the KPR Agreement, the creditor-debtor relationship and the guarantee statement between the Original Creditor and The related debtor ends.
14. No Debtor has entered into more than one KPR Agreement with the Original Creditor.
15. Each KPR Agreement is for the purchase of 1 (one) Financed Property.
16. In connection with the KPR Agreement, guarantee (if any), and insurance policy, there is no legal process, action, or ongoing investigation or, to the knowledge of the Original Creditor after holding tracing/investigating, threats to the relevant Debtor before the court, or Government Institutions.
17. For each KPR Agreement, the amount required to be paid by each Debtor must only be denominated in currency Rupiah and must be paid based on the same monthly installment payments, consisting of principal and interest valid until the maturity of the KPR Agreement.
18. Each KPR Agreement must originate from and be based on a KPR Agreement and other related agreements where The Debtor becomes a party and must be properly signed and completed by the Debtor and contain no content inaccurate representations warranties, or other representations made by the Debtor. The mortgage agreement in all material matters must be the same as the standard documents used by the Original Creditor.
19. Housing loans are made according to the KPR Agreement between the Original Creditor and the Debtor which the Original Creditor must pay the purchase price (together with the down payment made personally by the Debtor who is the full purchase price) of the Property Financed in the name of the Debtor based on a sale and purchase agreement between the Debtor as buyers and sellers of property.
20. Each KPR Agreement must originate from one branch of the Original Creditor located in Jakarta Kuningan, Surabaya, Makassar, Yogyakarta, Bandung, Denpasar, Palembang, Padang, Malang, Semarang, Jakarta Harmoni, Bogor, Bekasi, Batam, Bangkalan, Madiun, Jember, Solo, Pekalongan, Purwokerto, Tasikmalaya, Cirebon, Purwakarta, Tangerang, Ciputat, Kediri, Cilegon, Depok, Gresik, Sidoarjo, Cimahi, Kebon Jeruk, Cikarang, Karawaci, Bumi Serpong Damai, Cibubur, Karawang, Kelapa Gading Square, Jakarta Cawang, Harapan Indah, Surabaya Bukit Darmo, East Bandung.
21. Each KPR Agreement, at the time of making it, has a maximum principal amount of no more than IDR 500 million.
22. For mortgage claims in the current category: Each mortgage agreement must not have any outstanding payments that exceed 0 days from the last due date on the First Cut-Off Date

and Final Cut-Off Date and has never been restructured or rescheduled. For mortgage claims in the substandard category: Each mortgage agreement must not have any arrears payments that exceed 120 days from the final due date on the First Cut-Off Date and Date of Final Cut-Off and has never been restructured or rescheduled.

23. All KPR Agreements that are billed through the Collective Billing Mechanism, on the First Cut-Off Date and The Final Cut-Off Date have a valid and duly signed Billing Agreement between the Original Creditor and related institutions carrying out the collective collection.
24. Each KPR Agreement must be recorded in the Original Creditor's books for a minimum of 18 months.
25. Each mortgage agreement must have an original loan-to-value (OLTV) of no more than 90%.
26. Each KPR Agreement has an outstanding loan size of not less than IDR 10 million as of the Cut-Off Date First and Final Cut-Off Dates and has a fixed adjustable interest rate of no less than 11% per annum on the Cut-Off Date.
27. The original term of the loan is up to maturity (original term to maturity or OTM) of each Agreement KPR no more than 15 (fifteen) years.
28. On the First Cut-Off Date and Final Cut-Off Date, the remaining loan term is up to maturity The maturity (remaining term to maturity or RTM) of each KPR Agreement is not less than 12 months and not more than 180 months.
29. Each KPR Agreement Debtor must not default on previous payments to the Original Creditor for any type of financing and/or be declared bankrupt.
30. Each KPR Agreement Debtor must not be less than 21 years old and not more than 60 years old at the time of the date each mortgage agreement is made.
31. Each Financed Property must have an appraisal carried out by an independent appraisal company or Original Creditor date of creation/procurement of each loan.
32. Each KPR Agreement has a scheduled maturity date which is no more than 18 months before the Due Date Final Tempo.

Credit Enhancement Measures by PT SMF:

1. Priority of principal payments for Class A. Principal payments are based on the principal receipts from the pool of receivables, where Class A receives payments first, and Class B follows after Class A is fully paid.
2. Reserve account. Equivalent to interest payments and senior costs for a period of 3 months. This reserve account will decrease quarterly in line with the decrease in mortgage balances.
3. Subordination. ABS-SP includes subordination in the form of ABS-SP Class B, which will bear the first loss allocation.
4. Transition fund account for Service Providers. Reserved in advance for use in the event of Service Provider replacement.

PT SMF sells ABS-SP to investors through public offerings or private placements. The proceeds from the sale of ABS obtained from investors are paid by SMF to the Initial Creditor for the sale of financial assets owned by the Initial Creditor. The Initial Creditor in the issuance of ABS-SP includes PT Bank Tabungan Negara (Persero) (BTN). Subsequently, the collection of debtor payments is carried out by the Service Provider. In its operations, the Initial Creditor can be appointed as the Service Provider with several considerations, including a better understanding of its debtors and not changing the payment habits of debtors who, before securitization, paid the Initial Creditor. Payments by debtors constitute cash flows into ABS-SP, which are then distributed to investors after deducting the costs within ABS-SP. The following is the ABS-SP transaction scheme:

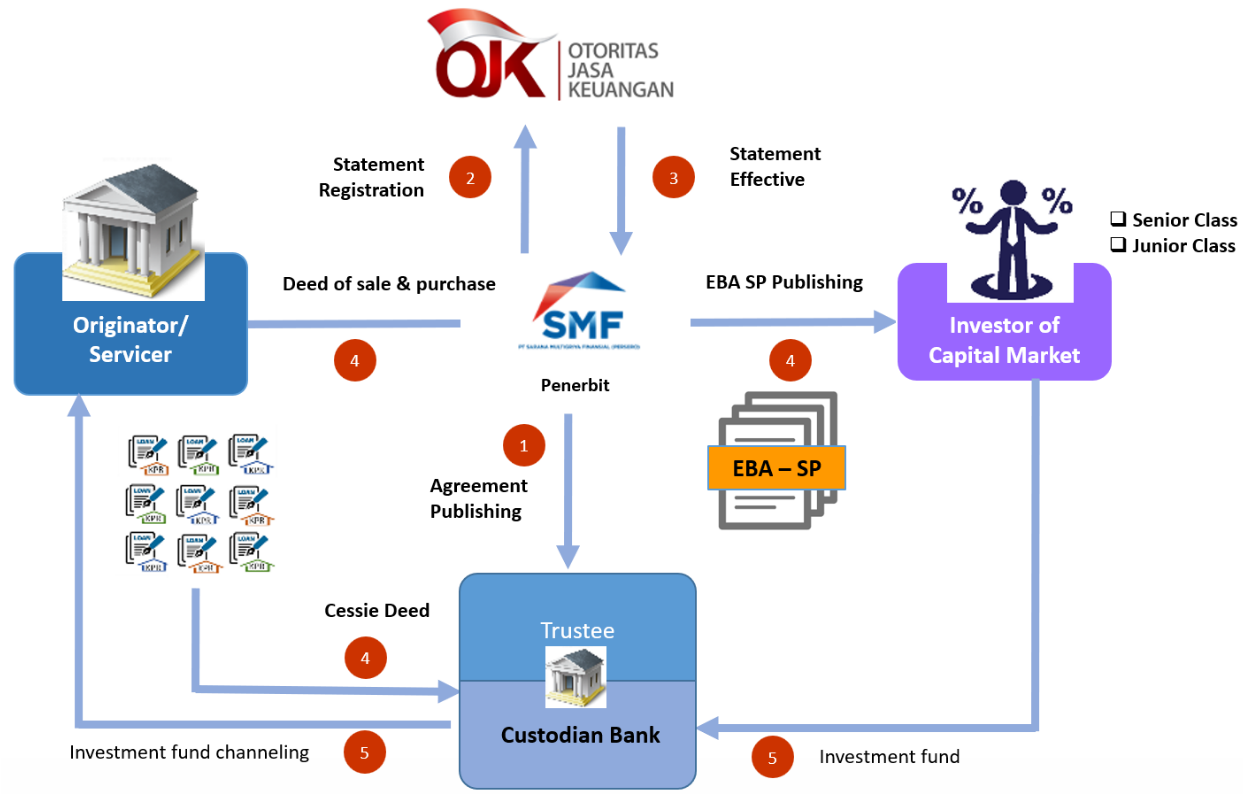

Figure 4. ABS-PL Scheme. Source: PT SMF

Based on the data obtained from the Indonesia Stock Exchange (IDX) website as of January 20, 2024, there are a total of 10 Asset-backed Securities (ABS) products that have been issued through public offerings and are still active in Indonesia. The following are the ABS products in Indonesia:

Table 1. ABS Products. Source: IDX

No	Code	Name	Value	Due Date	Rating	ISIN Code
1	MGIA01	Efek Beragun Aset Mandiri GIAA01 - Surat Berharga Hak Atas Penjualan Tiket Kelas A	935.325.000.000,00	31 Des 2032	idAA+	IDU000002107
2	SPSMFBRIS01A	EBAS SP SMF-BRIS 01 KELAS A	297.700.000.000,00	30 Okt 2041	idAAA-sfsy	IDU0000029A7
3	SPSMFBTN02A2	EBA-SP SMF-BTN 02 Kelas A Seri A2	14.588.917.800,00	7-Jun-27	idAAA	IDU0000014A9
4	SPSMFBTN03A2	EBA-SP SMF-BTN 03 Kelas A Seri A2	111.917.728.000,00	7-Jul-29	idAAA	IDU0000016A4
5	SPSMFBTN04A2	EBA-SP SMF-BTN 04 Kelas A Seri A2	290.157.658.000,00	07 Mei 2029	idAAA	IDU0000020A6
6	SPSMFBTN05A1	EBA-SP SMF-BTN 05 kelas A Seri A1	120.397.791.000,00	27-Jun-25	idAAA(sf)	IDU0000023A0
7	SPSMFBTN05A2	EBA-SP SMF-BTN 05 Kelas A Seri A2	706.186.100.000,00	27-Mar-28	idAAA(sf)	IDU0000024A8

8	SPSMFBTN06A	EBA-SP SMF-BTN 06 Kelas A	262.381.552.000,00	27 Agt 2027	idAAA(sf)	IDU0000027A1
9	SPSMFBTN07A	EBA-SP SMF-BTN 07 Kelas A	382.219.878.000,00	7-Jan-34	idAAA(sf)	IDU0000028A9
10	SPSMFMRI01A2	Efek Beragun Aset Berbentuk Surat Partisipasi SMF-BMRI 01 Kelas A2	31.156.441.100,00	27 Okt 2029	idAAA	IDU0000012A3

However, Sri Liani Suselo et al. (2013) indicate that the limited number of originators, particularly on the supply side, has led to the insufficient growth of asset securitization in Indonesia, evident in both primary and secondary markets.

METHODOLOGY

The methodology used in this research includes:

1. conceptual design of asset securitization of UMi's financing in the form of CIC-ABS in Indonesia;
2. qualitative description to analyze tax implication securitization of UMi's financing in the form of CIC-ABS in Indonesia.

Conceptual design is a systematic approach or design methodology that, utilizing existing resources such as structural, technological, cultural, and creative elements, endeavors to facilitate the exploration of solutions for a given project or structural challenge (Cockton, 1992). While qualitative description refers to a term employed in qualitative research to denote studies that are primarily descriptive, especially in the exploration of related phenomena (Polit & Beck, 2017). In qualitative description methods, data gathering encompasses interviews, focus groups, observation, and document review (Jiggins Colorafi & Evans, 2016).

The data that will be used in this study is a document of the KIK-EBA prospectus. The KIK-EBA prospectus that will be discussed is Prospectus of Mandiri Asset-Backed Securities GIAA01 – Securities Rights From Ticket Sales Revenue Class A (PT Mandiri Manajemen Investasi, 2018).

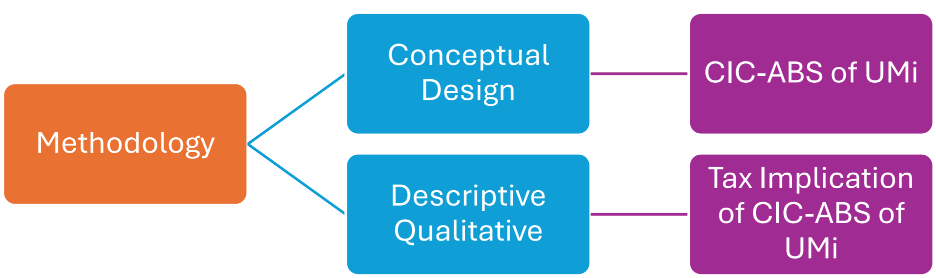

Figure 5. Methodology

FINDINGS AND DISCUSSION

Conceptual Design

To encourage investors to actively support and strengthen micro-businesses, thereby reinforcing the funding for Ultra Micro Financing (UMi), BLU PIP can leverage its assets through the securitization of Collateralized Receivables. According to Regulation of the President of the Republic of Indonesia Number 1 Year 2008, securitization is the transformation of illiquid assets into liquid assets by purchasing Financial Assets from the Original Creditor and issuing Asset-Backed Securities. Meanwhile, according to Bank Indonesia Regulation Number: 7/4/PBI/2005, Asset Securitization is the issuance of securities by the issuer of asset-backed securities based on the transfer of financial assets from the original creditor, followed by payment derived from the sale of asset-backed securities to investors (Bank of Indonesia, 2005).

Characteristics of UMi's financing receivables portfolio are short terms (generally under 1 year) with weekly or monthly installments. These characteristics are similar to credit card receivable assets. Therefore, CIC-ABS of UMi design was formed by adopting a credit card ABS mechanism. Higgins & and Mason (2004) also state that credit card securitizations generally feature simple arrangements, typically comprising one or two sets of investor securities supported by an underlying credit enhancement. The potential for UMi financing securitization for conceptual design in the capital market includes:

1. UMI financing products in the form of financial assets, such as collateralized receivables, have undergone several safety mechanisms to reduce default risks.
2. The government (BLU PIP) acts as a coordinator actively involved in monitoring financing.
3. UMI debtors have the potential for high receivable returns, as indicated by the low Non-Performing Loan (NPL) values.
4. The UMi financing interest rates are suitable for offering in the Capital Market (20%-25% per annum).
5. The UMi financing scheme includes insurance coverage.
6. The appointed NBFIS operates in the financing sector and is a government-owned state-owned enterprise, minimizing the likelihood of default.

Based on the available legal basis, the securitization of collateralized receivables can be implemented in the form of CIC-ABS. BLU PIP acts as a coordinator, initially formulating the ABS scheme in the form of CIC-ABS for UMi. In the formulation of the ABS scheme, BLU PIP may involve Legal Consultants, Tax Consultants, Auditors, and/or relevant parties.

Following PT Mandiri Manajemen Investasi (2018), financial assets forming the portfolio of CIC-ABS of UMi are obtained from the UMi Dealers as the Original Creditor through legal purchase, sale, or exchange with CIC-ABS of UMi. The Collateralized Receivables are receivables owned by the UMi Dealers or Linkage Institutions, collateralized by fiduciary to BLU PIP. The requirements for financial asset portfolios of CIC-ABS of UMi are as follows:

1. In the form of receivables assets;
2. Receivables are legally owned or under the control of the UMi Dealers; and
3. Receivables must be freely transferable to CIC-ABS.

Financial assets forming the portfolio of CIC-ABS of UMi are acquired from the Originator (in this case UMi Dealers) through legal purchase, sale, or exchange with CIC-ABS of UMi. The financial assets in question are Receivables owned by the UMi Dealers or Linkage Institutions. The requirements for the financial asset portfolio of CIC-ABS of UMi are as follows:

1. Receivables that are legally owned or under the control of the UMi Dealers and UMi Linkage Institutions;
2. In the case of pledged receivable assets, they can be freely transferred to Two-Step CIC-ABS.

Criteria for receivables that can be used in CIC-ABS of UMi include:

1. Each receivable must originate from NBFIS/Linkage Institutions.
2. Supported by a Fiduciary Guarantee Deed.
3. Protected by insurance.

4. Not in an uncollectible condition for more than 30 days from the billing date as of the cut-off date and has not been restructured or rescheduled.
5. Already recorded in the UMi Dealers's books for a minimum of 1 month.
6. Has a loan-to-value ratio not exceeding 90%.
7. Maximum tenure of 3 years.
8. The remaining tenure of the receivable is not less than 1 month.
9. The receivable limit is a maximum of IDR 10 million.

Risk factors for CIC-ABS of UMi that may arise are as follows:

1. Liquidity risk and market risk of Asset-Backed Securities;
2. Currency exchange rate risk and interest rate risk;
3. Credit risk of financial assets in the CIC-ABS portfolio;
4. Risk of payment for financial assets in the CIC-ABS portfolio before maturity;
5. Operational risk in the implementation of activities by the Investment Manager, Custodian Bank, and Service Provider (Servicer); and
6. Legal-related risks.

Credit enhancement mechanisms that can be implemented in CIC-ABS of UMi include:

1. Priority of principal payment for Class A. Principal payment follows the principal receipts from the billing group, where Class A receives payment first, and Class B after Class A is fully paid.
2. Reserve account. Provision equivalent to interest payments and senior costs for 3 months. This reserve account will decrease every quarter according to the decrease in mortgage balances.
3. Subordination. CIC-ABS of UMi has subordination in the form of CIC-ABS of UMi Class B, which will bear the first loss allocation.
4. Transition fund account of the Service Provider. Reserved in advance for use in case of Service Provider replacement.
5. Insurance.
6. Provision for doubtful receivables.

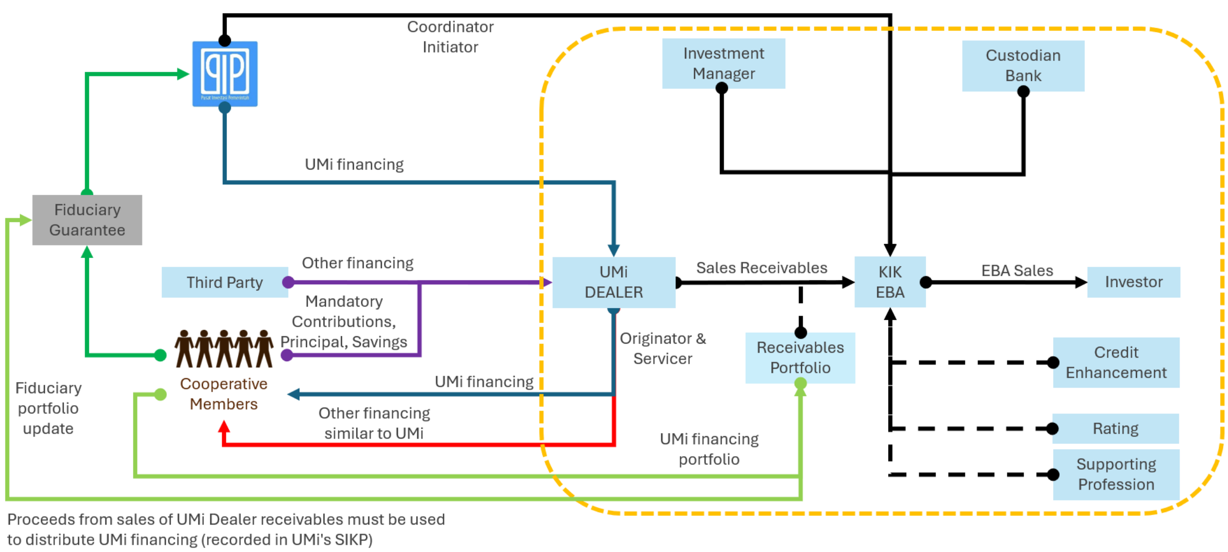

Figure 6. CIC-ABS of UMi Scheme

At a macro level, the parties involved in the pilot issuance of CIC-ABS of UMi may consist of BLU PIP as the Initiator and/or Coordinator, designated UMi Dealers as the Organizing Service

Provider, designated Linkage Institutions as the Initial Creditor and Service Provider, Investment Manager as the portfolio manager, Custodian Bank as the securities custodian, Investors, and Supporting Parties.

The management of CIC-ABS of UMi, organized by the Investment Manager, involves purchasing receivables owned by the originator with a tenor of 3 (three) years. Initially, the Investment Manager acquired the first portfolio of CIC-ABS of UMi amounting to IDR 100 billion. It is estimated that half of the receivables will mature approximately 6 (six) months later. The funds collected from the matured receivables within these 6 months will be used to purchase the second portfolio and so forth until the end of the period of CIC-ABS. The benefits of CIC-ABS of UMi are as follows:

1. Coordinator's Advantages:
    a. Adds an alternative source of funding for ultra-micro financing.
    b. Strengthens and expands the ultra-micro sector.
2. Issuer's Advantages:
    a. Low-cost funding as the quality of secured receivables increases.
    b. Partners with the Government (BLU PIP), enhancing credibility.
    c. Supports the Government's program to strengthen the ultra-micro sector.
3. Initial Creditor's Advantages:
    a. Liquidity source, especially for small and medium-sized enterprises that often face traditional borrowing issues, making securitization beneficial for their development.
    b. Diversifies funding sources, not only for large companies but also for small or non-investment companies.
    c. Assets become liquid, providing additional fee-based income (if acting as a Service Provider).
    d. Efficient use of capital with ABS, increasing the company's leverage.
    e. Reduces credit risk.
    f. Income opportunities from junior class benefits through subordination if NPL is low.
4. Investor's Advantages:
    a. Serves as an alternative for long-term financing, ranging from 3 to 10 years.
    b. Bankruptcy remoteness: Investors are free from the bankruptcy risk of the Initial Creditor and other parties, and their claims will always be present.
    c. Junior class acts as a protector for senior classes through subordination.
5. For the Community/Debtor:
    a. Opens access to relatively inexpensive funding through the capital market.
    b. Bridges the financing needs of ultra-micro businesses between investors and ultra-micro entrepreneurs.
    c. Enhances the people's economy and economic growth in the ultra-micro sector.

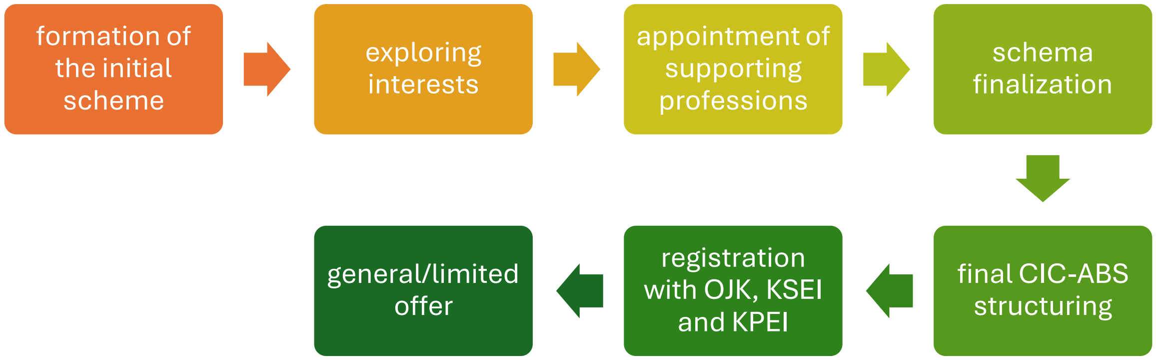

Figure 7. CIC-ABS of UMi issuance stages

Tax Implication of CIC-ABS of UMi

I. Tax Status

Tax obligations related to transactions in the issuance of CIC-ABS of UMi also need to be considered. Based on Article 2 paragraph (1) of Constitution Number 7 of 1983, as amended by Constitution Number 36 of 2008 concerning Income Tax (Constitution, 2008), the Tax Subjects are:

1. Individuals;
2. Undivided inheritances replacing the entitled party;
3. Entities; and
4. Permanent Establishments.

The definition of Entities in the explanation of Article 2 paragraph (1) states that: "Entities are a group of people and/or capital that constitutes a unity, whether engaged in business or not, including limited liability companies, limited partnerships, other companies, state-owned enterprises or regional-owned enterprises by any name and form, firms, partnerships, cooperatives, pension funds, associations, foundations, mass organizations, socio-political organizations, or other organizations, institutions, and other forms of entities, including collective investment contracts and permanent establishments." According to this definition, the CIC-ABS to be established falls under the category of Entities and is therefore a Tax Subject. According to Article 2 of Decision of the Director General of Tax Number KEP-147/PJ/2003 concerning Income Tax on Income Received or Obtained by CIC-ABS and Investors (Director General of Tax, 2003), Collective Investment Contracts for Asset Securitization (CIC-ABS) is also mentioned as a Tax Subject for Entities.

In accordance with paragraph (1) of Constitution Number 6 of 1983, coupled with Constitution Number 16 of 2009 regarding General Provisions and Taxation Procedures (Constitution, 2009), it is explicitly stated that every taxpayer who satisfies the subjective and objective criteria stipulated by tax regulations is obligated to register at the tax office under the Directorate General of Taxes within the jurisdiction covering their residence or domicile. Consequently, a Taxpayer Identification Number (NPWP) is allocated to them. Hence, the established CIC-ABS should expeditiously register for an NPWP at the local Tax Service Office (KPP). The Custodian Bank acts as the representative of CIC-ABS in meeting its tax obligations.

In Article 2 paragraph (2) of KEP-147/PJ/2003, the tax treatment of CIC-ABS and unit holders is regulated as follows:

1. CIC-ABS is treated the same as an undivided mutual association without shares.
2. Unit holders of CIC-ABS with irregular cash flows are treated the same as members of a mutual association.

3. Unit holders of CIC-ABS with fixed cash flows are treated the same as creditors of bond mutual associations.

II. Income Tax (PPh) of CIC-ABS

CIC-ABS will obtain income rights as a consequence of the sale and transfer transactions conducted by the Originator to CIC-ABS. Article 3 paragraph (1) of KEP-147/PJ/2003 regulates the income received or obtained by CIC-ABS from the financial asset portfolio, subject to income tax (PPh) based on the general provisions of the Income Tax Law. Corporate Income Tax is imposed based on taxable income at a rate of 25% (general rate). When KIK EBA books a profit, it will be taxed at a rate of 25% (PT Mandiri Manajemen Investasi, 2018). Generally, pre-paid income tax (self-paid or withheld by others) can be treated as a tax credit at the end of the respective tax year.

To calculate taxable income or tax loss, CIC-ABS can deduct reasonable costs to obtain, collect, and maintain income, such as interest payments for Class A Certificates, payments to the Investment Manager, Custodian Bank, Legal Consultants, Tax and Accounting, and others. Some costs need to be adjusted as they cannot be charged, such as the provision of benefits, differences in asset valuation timing, profit-sharing, the formation of tax provisions/reserves, income tax, and others. Some income is also not subject to Corporate Income Tax, such as interest income and savings or deposit interest, which are treated as final tax objects.

III. Income Tax (PPh) of the Originator

The transfer of financial assets (receivables) through sale and transfer by the Originator must be considered in terms of the income flow concept, especially from the perspective of the tax system. The definition of taxable income according to Article 4 paragraph (1) of Constitution Number 36 of 2008 is any additional economic capacity received or obtained by the Taxpayer, whether from Indonesia or abroad, that can be used for consumption or increasing the wealth of the respective Taxpayer in any name and form. The profit gained and recognized by the Originator from the transfer of receivables to CIC-ABS is the subject of Corporate Income Tax for the Originator at the general rate, referring to general provisions regarding Corporate Income Tax.

IV. Income Tax (PPh) of ABS Holders

CIC-ABS is divided into 2 (two) classes with the following tax treatments:

1. Class Senior (A) ABS is treated as fixed-income ABS in the form of interest and/or discount, similar to income received from bonds, and is subject to final income tax deduction (PT Mandiri Manajemen Investasi, 2018) as follows:
   a. 5%, specifically for interest paid to mutual fund taxpayers and taxpayers of asset-backed securities investment funds in the form of KIK registered or listed with the OJK, and this rate applies until 2020, thereafter the rate is 10%;
   b. 15%, if interest is paid to domestic investors; or
   c. 20% (general rate) or a lower rate according to the Double Taxation Avoidance Agreement (DTA or tax treaty) that applies as long as it meets certain criteria, if interest is paid to foreign investors.

   Some entities are exempt from this final income tax deduction, namely Banks in Indonesia and Pension Funds whose establishment has been approved by the Minister of Finance. From the corporate income tax perspective, interest payments are considered expenses charged to the ABS.
2. Class Junior (B) ABS is treated as the distribution of income (profit-sharing) from ABS to unitholders and is not a taxable object (PT Mandiri Manajemen Investasi, 2018). This exception applies to gains from the sale of units. From the corporate income tax perspective, profit distribution is not considered an expense charged to the ABS.

V. Value Added Tax (VAT)

It can be said that CIC-ABS cannot be treated as a financing company, considering that CIC-ABS is not established in the form of a corporation or cooperative and will not obtain approval and permits from the Minister of Finance. Certificates representing the securitized financial assets issued by the Investment Manager fall under the definition of securities. However, the designation of these certificates as securities is determined by the OJK. Since securities are a type of goods not subject to VAT, the transfer of certificates representing securitized financial assets to CIC-ABS is not subject to VAT.

Additionally, according to PT Mandiri Manajemen Investasi (2018), the Director General of Taxes issued a Confirmation Letter number S-295/PJ/2017, dated August 31, 2017, concerning Transactions between PT XXX and KIK-EBA mentioned the following points:

1. The Toll Road Revenue Certificate issued by PT XXX, as mentioned above, is categorized as securities. However, the classification of the certificate as securities is determined by the OJK.
2. Considering that securities are exempt from VAT, the submission of the Toll Road Revenue Certificate mentioned in point a is not subject to VAT.".

CONCLUSION

Several points that can be underlined from our study include:

I. Conceptual Design:

1. Securitization of pledged receivables for Micro Financing at BLU PIP can be implemented in the form of CIC-ABS.
2. The roles of each party in Micro Financing can be identified as follows:
    a. BLU PIP acts as the Initiator and/or Coordinator in the securitization of receivables pledged for Micro Financing.
    b. The UMi Dealers or UMi Linkage, as the owner of receivables pledged for Micro Financing, acts as the Originator.
    c. The UMi Dealers or UMi Linkage, as the provider of microfinancing to the Debtor, can act as the Servicer.

Based on the discussion presented in the previous section, the conclusion that can be drawn from this research is that the conceptual design of the CIC ABS of UMi allows the securitization of UMi's financing assets to be implemented in Indonesia.

II. Tax implications

1. CIC-ABS of UMi falls under the tax category of Entities, subject to Corporate Income Tax at 25%.
2. The Originator incurs Corporate Income Tax on profits from the transfer.
3. ABS Holders face varying tax treatments based on ABS class.
4. CIC-ABS of UMi is exempt from Value Added Tax (VAT) as securities.

The conclusion that can be drawn from this research is that the UMi CIC-ABS conceptual design is suitable for implementation in Indonesia and tax implications are CIC-ABS of UMi subject to Corporate Income Tax at 25%, Originator incurs Corporate Income Tax on profits from the transfer, ABS Holders face varying tax treatments based on ABS class, and CIC-ABS of UMi is exempt from Value Added Tax (VAT).

Finally, several recommendations that we can convey to regulators and for future research are:

1. Collaborate with tax experts to optimize tax planning strategies, ensuring tax efficiency for all stakeholders involved.
2. Regularly review tax obligations and seek opportunities for tax optimization within the legal framework.

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