

Indonesia Regulatory Update

October 2016



Regulatory Highlights

This publication sets out to highlight at summary level, some of the key current regulatory changes in Indonesia. These important changes have implications for industry, covering a wide range of industries and within these, specific and complex business processes. For further details on any of the items covered, a listing of KPMG Contact Points for further discussion is included at the end of the document. If you wish to receive a full research pack of all of the Indonesia regulatory change then please contact Susanto, contact details provided at the end of this document. Hyperlinks to the source documentation (Bahasa Indonesia for most items) are provided as appropriate.

Regulatory updates covered in this publication are as follows:

- Technical Accounting Instructions for Non-Tax State Revenue from the Upstream Oil-and-Gas Business
- Business Activities of Commercial Banks Based on Their Core-Capital Levels
- Form and Contents of Annual Reports for Issuers and Public Companies
- Insurance Product Marketing Channel under Cooperation with Banks (Bancassurance)
- Transparency and Publication of Bank Reports
- Money Market

Energy and Natural Resources Sector

Technical Accounting Instructions for Non-Tax State Revenue from the Upstream Oil-and-Gas Business

Ministry of Finance ("MoF") has issued Regulation No. 124/PMK.02/2016 on Technical Accounting Instructions for Non-Tax State Revenue from the Upstream Oil-and-Gas Business, which covers technical accounting instructions for the recognition, measurement, presentation and disclosure of

elements in financial statements. The technical instructions in this Regulation shall be used by Working Units, Implementing Authorities, the State Treasurer, and other related institutions in the upstream oil-and-gas business. The technical accounting instructions cover, among others: general accounting technical guidelines; book-entry technical guidelines; and technical guidelines on the measurement of non-tax state revenue from natural resources for each contractor. This Regulation has been in force since 9 August 2016.

(Issued regulation in Bahasa: [MoF Regulation No. 124/PMK.02/2016](#))

Financial Services and Capital Market Sector

Business Activities of Commercial Banks Based on Their Core-Capital Levels

OJK Circular Letter No. 27/SEOJK.03/2016 of 2016 dated 14 July 2016 is issued to regulate the implementation of [OJK Regulation No. 6/POJK.03/2016](#) on Business Activities and Branch Offices Based on Core Capital of a Bank. This Circular Letter is applicable to all commercial banks in Indonesia.

The Circular Letter elaborated the business activities of commercial banks and the approval process for the products/services offered, which ultimately depends upon their core-capital levels (*Bank Umum berdasarkan Kegiatan Usaha – "BUKU"*). The higher the core-capital level, the wider the scope of the business activities that can be engaged in by the banks:

1. **BUKU I:** Funding and lending with basic banking activities, trade finance, limited agency and cooperation, limited payment and electronic-banking services, and other services. Banks can have temporary share investment in relation with credit restructuring, and be a foreign exchange trader. All activities should be in Rupiah.

2. **BUKU II:** Wider coverage of funding and lending activities, trade finance, limited treasury activities, wider payment and electronic systems, wider agency and cooperation, and other services. Banks can have temporary share investments in relation with credit restructuring and be a foreign exchange trader. All activities can be in Rupiah or foreign currencies.
3. **BUKU III (IDR 5 trillion – IDR 30 trillion):** All activities mentioned above, both in Rupiah or foreign currencies, and can invest in shares of financial institutions in Indonesia or Asia region.
4. **BUKU IV (> IDR 50 trillion):** All activities mentioned above, both in Rupiah and foreign currencies, bigger share investment in financial institutions compared with BUKU 3 in Indonesia and world wide.

(Issued regulation in Bahasa: [OJK Circular Letter No. 27/SEOJK.03/2016](#))

Form and Contents of Annual Reports for Issuers and Public Companies

OJK Circular Letter No. 30/SEOJK.04/2016 dated 3 August 2016 on Form and Contents of Annual Reports for Issuers and Public Companies, act as a technical guidance for the implementation of Article 6 of [OJK Regulation No. 29/POJK.04/2016](#).

The Circular Letter mandated that the annual report should contain the following matters, among others:

1. **BOC Report:** supervision of the implementation of Company's various strategies; BOC's feedback relating to the business prospects; Commissioners' perspective on the implementation of corporate governance; frequency and manner of advisement to members of the Company's BOD;
2. **Company profile:** BOD's and BOC's profiles should include any concurrent positions of the members of the BOD and the BOC; the Commissioners' profiles to include profiles of independent commissioner(s); further elaboration on the shareholding structure and classifications information;
3. **Management discussion and analysis:** Company should disclose the reasons behind its capital structure policy and must disclose its investments in capital goods realized in the last financial year;

4. **Good Corporate Governance:** Good Corporate governance information for the BOD and BOC should include: the duties and responsibilities of BOD and BOC; Company's policy for assessing each Director's and Commissioner's performance and its implementation; the procedure, basis for determination, structure, and amount of remuneration for each Director and Commissioner; the correlation between the remuneration and Company's performance; and whether or not nomination and remuneration committee has been appointed.

(Issued regulation in Bahasa: [OJK Circular Letter No. 30/SEOJK.04/2016](#))

Insurance Product Marketing Channel under Cooperation with Banks (Bancassurance)

OJK Circular Letter No. 32/SEOJK.05/2016 dated 30 August 2016 sets out provisions on the requirements that must be met by insurance companies and banks in order to engage in cooperation in the form of Bancassurance. Any Bancassurance cooperation must satisfy at least the following general requirements:

1. Must be implemented through a reference, distribution agreement or product-integration business model;
2. Participating banks must not be insured by, be participants in, or have any of their assets covered by the insurance company in question; and
3. The insurance company must have secured OJK approval for the Bancassurance program.

Insurance companies and banks under any Bancassurance agreement are required to meet the following conditions, among others:

1. Insurance companies and banks are allowed to enter into more than one Bancassurance agreement;
2. Any single Bancassurance agreement should contain only one business model for either a single or bundled-insurance product;
3. A Bancassurance agreement should be drafted in Bahasa Indonesia or, if the agreement has been drawn up in two languages, then Bahasa Indonesia will be considered the dominant language in terms of any interpretation. This Regulation has been in force since 1 September 2016.

(Issued regulation in Bahasa: [OJK Circular Letter No. 32/SEOJK.05/2016](#))

Transparency and Publication of Bank Reports

OJK Regulation No. 32/POJK.03/2016 dated 8 August 2016 is an amendment of [OJK Regulation No. 6/POJK.03/2015](#) regarding transparency and publication of bank's reports. The key amendments covered in this regulation are:

- The amendment now mandates that banks should also include the following information in their Quarterly Reports for June position:
 1. Quantitative information on Banks' risk exposure (reporting requirement starts from June 2017 reports). Banks should also publish details of their risk exposure (as well as their implemented risk management measures) on their websites on a quarterly basis;
 2. Liquidity Coverage Ratios ("LCR") Report (reporting requirement starts from September 2016 reports). The LCR reports include quantitative and qualitative information about calculation and amount of LCR.
- In the Yearly Publication Reports of a bank which is part of group companies and/or having a subsidiary, it is required to disclose consolidated capital and implemented risk management, as well as if there is any prohibition, limitation or other barriers to transfer the capital fund from the bank to other entities in the group.
- The amendment requires Material Information and/or Facts Report if there is any material information and/or fact. The bank should publish it on the bank's website within two business days since the information/fact is known. Failure to do so will result in various sanctions from written warning, downgrading of soundness rating, business suspension, and/or blacklisting of the bank's shareholders, directors, commissioners or executives.

(Issued regulation in Bahasa: [OJK Regulation No. 32/POJK.03/2016](#))

Money Market

To establish an efficient money market in Indonesia, which will contribute to the stability of Rupiah, Bank Indonesia issued a regulation about money market (BI Regulation No. 18/11/PBI/2016 dated 31 August 2016). The regulation revokes Decision Letter of the Directors of Bank Indonesia No. 21/55/KEP/DIR, dated 27 October 1988, regarding Money Market and Inter-Bank Fund Placement, and BI Circular Letter No. 21/32/UPG, dated 27 October 1988 on the same issue. The new regulation becomes effective since 31 August 2016.

The Regulation regulates the arrangement, licensing, development, and supervision of money market in order to increase the effectiveness of monetary policies, prevent and reduce systemic risks, increase efficiency of money market, increase sustainable intermediary function, and develop the money market.

The regulation covers the money market players and supporting institutions; activities and type of transactions in money market; license to issue money market instruments; benchmark price; prudential principles and risk management; infrastructures to do transactions, settlements and clearing; administration and data management; custody and guarantees; reporting; supervision of money market; and sanctions for non-compliance.

(Issued regulation in Bahasa: [BI Regulation No. 18/11/PBI/2016](#))

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