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Summary of “POJK 11/20” Regulation in Relation to The Impact of COVID19 Outbreak

A. Overview

The ongoing outbreak of the Coronavirus Disease 2019 (“COVID-19”) has disrupted the stability of the financial system and economic growth, which particularly include the performance and capacity of the credit. As a response to this situation, the Financial Service Authority (*Otoritas Jasa Keuangan* “OJK”) has issued POJK 11/20, as an effort to stimulate the affected debtors, including micro-small-and medium scale enterprises (*Usaha Mikro, Kecil dan Menengah* “UMKM”). The policy sets out under POJK 11/20 shall be applied to conventional banks, sharia banks, and rural banks (“Banks”).

B. Stimulus Policy based on POJK 11/20

The stimulus policy is mainly focused on allowing banks to implement (i) asset quality determination policy and (ii) credit or financing restructuring policy, as a credit relaxation for affected debtors. In addition to such stimulus policy, POJK 11/20 also regulates providing of new credit by bank to its debtors.

The stimulus policy is not mandatory, and it will be based on each of bank’s self-assessment. there have been more than 50 conventional banks that have declared their statement to support the implementation of POJK 11/20. The banks that are implementing this policy must initially have their own guidance before implementing the credit relaxation policy. Implementing guidance of the credit relaxation policy must contain at least: (1) debtor criteria to be determined as the affected party of COVID 19; and (2) sectors affected by COVID 19.

The following are further explanations related to the stimulus policy based on POJK 11/20:

1. Asset Quality Determination Policy

The provisions related to asset quality determination are mainly set out under POJK No. 40/POJK/03/2019 on Asset Quality Determination for Conventional Bank (“POJK 40/2019”). Under POJK 11/20, for affected debtors with the maximum credit amount ceiling on IDR 10,000,000,000,

the quality may only be determined based on the accuracy of payment of the relevant principal amount and/or interest. The quality determination also applies to the provision of the other funds e.g. issuance of securities and opening for Letter of Credit (L/C). The credit ceiling shall be valid for: (1) one same debtor; (2) one same project; or (3) one same business.

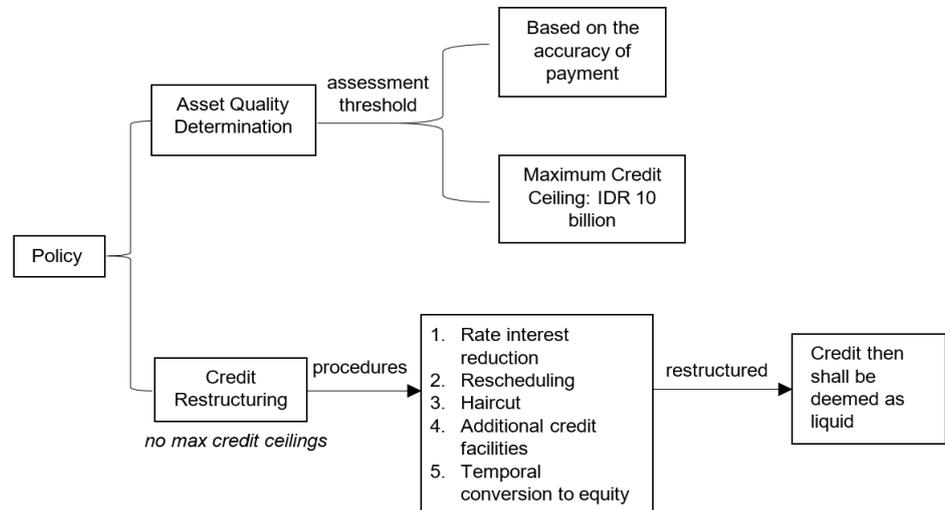
2. *Credit or Financing Restructuring Policy*

It is a method to upgrade the credit quality to become more liquid after being restructured, without regarding any credit/debt ceiling. The restructuring process itself may only be implemented after the debtors have already been affected by the COVID-19 pandemic. If the credit quality determination that has been restructured before debtors are affected by COVID-19 pandemic, therefore the quality shall be determined based on the relevant prevailing POJK, instead of referring to this POJK 11/20.

The following are the restructuring methods that could be an option:

- a. **Rate interest reduction**, which is a form of debt restructuring to relieve the debtors with a lesser amount of interest to be paid.
- b. **Rescheduling**, by which debtors may restructure the existing credit period. Debt can be rescheduled by: (i) extending the payment period and increasing the number of payments, or (ii) pausing the payments or reducing the payment amounts during a given period and increasing the amount of the monthly instalments afterward.
- c. **Deduction of interest and/or principal credit ('haircut')**, where a portion of the outstanding interest payments are written off, or a portion of the principal payment is not to be repaid.
- d. **Additional credit facilities**, which is projected to relieve the debtor's business with new debts; and/or
- e. **Temporary credit conversion to equity**, which is equity participation into debtor's company to prevent any credit defaults, and the creditor must withdraw afterward based on certain circumstances.

C. Flowchart of the Stimulus Policy



As stipulated in the earlier part, POJK 11/20 also regulates the providing of new credit by bank. Pursuant to Article 9 of POJK 11/20, banks may provide new credit to the affected debtors from COVID-19, with a separate credit quality determination between the existing and the new credit. The providing new credit must be carried out through:

1. for new credit with the maximum debt ceiling up to IDR 10,000,000,000, the credit quality may only be determined based on the accuracy of payment of the relevant principal amount and/or interest; or
2. for new credit with the maximum debt ceiling more than IDR 10,000,000,000, the credit quality may only be determined based on the relevant prevailing POJK 40/2019.

D. Conditions to be Met by Debtors

1. The debtors that are directly or indirectly affected by the COVID-19 pandemic, which are engaged with any of these sectors, such as: tourism, transportation, hospitality, trade, processing, agriculture and mining.
2. The total amount of credit/facility in regards to any maximum amount credit ceiling.
3. Conditions that are based on the relevant bank's guidance.

E. Effectiveness of Stimulus Policy

The provisions set out under POJK 11/20 shall be valid until 31 March 2021. Prior to the enactment of this POJK, banks that have restructured credit for affected debtors can determine the quality of the credit as liquid credit. The stimulus policy sets out under this POJK shall be implemented in line with the Government Regulations In Lieu Of Laws Number 1 of 2020 concerning State Financial Policy and Financial System Stability For Handling the Pandemic of Coronavirus Disease 2019 (COVID-19) and/or Handling Threats that Endanger the National Economy and/or Financial System Stability (“GR 1/20”), which generally further sets out OJK’s scope of authority to take pre-emptive steps to maintain the economic stability.

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