

NEWSLETTER

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PRUDENTIAL PRINCIPLES IN MANAGING NON-BANK CORPORATE OFFSHORE LOAN

In October 2014, Bank Indonesia (“BI”) has issued Regulation of Bank of Indonesia No. 16/20/PBI/2014 concerning Implementation of Prudential Principles in Managing Non-Bank Corporate Offshore Loan (“PBI”).

The PBI stipulates that a non-bank corporation (“Company”) that has offshore loan in foreign currency, shall implement prudential principles, which consist of the implementation of the followings:

a. Hedging ratio

The minimum hedging ratio shall be 25% (twenty five percent) of:

- i. The negative difference between foreign currency assets (forwards, swaps, and/or options transactions) and foreign currency liabilities (forwards, swaps, and/or options transactions), which will be due within three months after the current quarter ends; and
- ii. The negative difference between foreign currency assets (forwards, swaps, and/or options transactions) and foreign currency liabilities (forwards, swaps, and/or options transactions), which will be due in more than three months up to six months after the current quarter ends.

Further to the above, the PBI stipulates that before 31 December 2015, the minimum hedging ratio shall be 20% (twenty percent).

b. Liquidity ratio

The minimum liquidity ratio shall be 70% (seventy percent) based on the total foreign currency assets (forwards, swaps, and/or options transactions) compared to foreign currency liabilities (forwards, swaps, and/or options transactions) which will be due within three months after the current quarter ends. Before 31 December 2015, the minimum liquidity ratio shall be 50% (fifty percent).

c. Credit rating

The credit ratings shall be at least “BB”, as issued by a recognized ratings agency. This provision applies to offshore loan that is executed as from the 1st of January 2016.

To be noted, the obligation to implement all of the prudential principles mentioned above does not apply to offshore loan in foreign currency in the form of trade credits. Further, the obligation to meet the credit rating does not apply to offshore loans in foreign currency for the refinancing purposes and financing for infrastructure projects obtained from international organization(s).

Moreover, the Company shall report their implementation of the prudential principles along with the supporting documents that outline the hedging ratio, liquidity ratio, credit rating and any applicable exemptions.

Fails to comply with the prudential principles shall cause the issuance of written warnings by BI to the Company, which will be copied to the followings:

- a. The related creditor(s);
- b. Ministry of State-Owned Enterprises (BUMN) (for State-Owned Enterprises);
- c. Ministry of Finance with copy to Director General of Tax;
- d. Financial Services Authority (OJK);
- e. Indonesian Stock Exchange (IDX) (for Company listed at IDX).

These sanctions will become effective after the third quarter report in 2015.

The PBI will come into effect on 1st of January 2015.