

Redenomination of the Rupiah

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Overview of the Bill

The Draft Bill concerning the Redenomination of the Indonesian Currency has been unveiled to members of the House of Representatives' Commission XI. Whether it will appear in the national legislation program of 2017 has prompted much debate and deliberation.

As indicated in the preamble of the Draft Bill, the purpose of redenomination is to maintain the continuity of national economic development and to improve national competitiveness and credibility of the Indonesian Rupiah.

Enforcement of the bill, as specified in Article 2 of the Draft Bill, is through the elimination of the final three digits so that the value of IDR 1,000 of the pre-existing Rupiah currency will be converted to IDR 1, and the value of IDR 1 will be converted to 100 cents. The redenomination process is expected to be completed on the 1st of January, 2020.

The Draft Bill also stipulates, among others, the following matters:

- (i) value-rounding mechanisms, where values or prices must be rounded off (either up or down) to the nearest cent, depending on the decimal values following completion of the redenomination (there is prohibition of a value of less than 0.5 cents after redenomination); and
- (ii) there are phases in the process of circulating the new banknotes, i.e.:
 - a. the first phase will go from January 1, 2020 to December 31, 2024, where BI will issue and circulate the physical currency with the “new” sign incorporated onto it, and such Rupiah notes will be valid until they are revoked by BI (i.e. not later than December 31, 2028), and
 - b. the second phase, which start from January 1, 2025, where there will be no “new” written on the banknotes.
- (iii) The revoked Rupiah currency, as referred to in (ii) a. above, can be exchanged for the new ones at BI, but should be carried out within 10 years following the revocation date.

Prices or values of goods and/or services should be rounded off to the nearest cent, prohibiting a value of less than 0.5 cents after redenomination.

Legal News

Firms must be aware of the implementation of redenomination as utilization of certain pre-existing and future documentation or transactions (a few of which are listed below) must be replaced by the new Rupiah:

1. Prices or values of goods and/or services
2. Value of the exchange rate for foreign currencies
3. Transaction documentation
4. Agreements
5. Commercial paper
6. Financial documents (including invoices and receipts)

Practical Considerations

Public awareness

Much of the literature on the policy of redenomination focuses on macroeconomic indicators. Economists assert that redenomination is not an urgent matter and will not deliver significant benefits to the Indonesian economy. Instead, they argue there is a possibility that it may result in forced inflation. Not only will this affect local communities, where limited access to a credible source of information or formal education may mislead individuals concerning their true purchasing power, but it will also affect small and medium-sized enterprises (SMEs). Individuals and SMEs who adjust to a new currency with a smaller nominal value may have trouble understanding the true value of goods and services when the policy is initially implemented.

Role of Business

It must be noted that political considerations are just as important as economic stability. If the public is skeptical about Indonesia's economic conditions and has little trust in the government, consumer confidence may be impacted negatively.

The role of business is thus critical during the process of redenomination to prevent confusion and skepticism about its implementation. Their role in informing the public to maintain consumer confidence is crucial. Businesses, especially those involved in financial services, can provide insight about the process of redenomination and how it will impact consumers. However, a short-term culture shock will likely occur upon implementation of redenomination. Banks must closely monitor the total amount of consumer withdrawals from ATMs to enable control of price levels and prevent the possibility of inflation.

Legal Issues

Currency Law

Taking into account Law No. 7 of 2011, regarding Currency, which requires the mandatory use of Rupiah for cash transactions as an effort to stabilize the Rupiah exchange rate to prevent depreciation, and control onshore demand for foreign currencies, as a basis of trust and confidence in the Rupiah.

Rounding-off procedures

Prices or values of goods and/or services should be rounded off to the nearest cent, and prohibiting a value of less than 0.5 cents after redenomination. However, these mandatory practices do not apply to firms and companies in several sectors of the economy:

1. Oil and gas in liter/barrel units;
2. Stocks;
3. Liquefied, Petroleum Gas (LPG) and wholesale purposes;
4. Water, electricity, telecommunications and internet services; and
5. Foreign-currency exchange rates

Mandatory Measures that firms must comply with

1. Firms must note that price quotations or price clauses included in any transactions or documentation must be written in the form of the Rupiah and include dual price tagging (i.e., both the old and new Rupiah) from June 1st, 2019 to January 1st, 2023. This obligatory procedure excludes micro-level businesses.
2. Prices and values of goods and/or services must be maintained during the process of redenomination, especially if the increase in price is simply carried out for a firm's profit maximization.
3. Prices of goods and/or services during the Phasing out period require all pre-existing values within financial reporting, documentation and transactions in the old Rupiah to replace the nominal value of the old Rupiah with the new Rupiah.

The inability to comply with the obligations aforementioned mentioned above will result in either:

1. A fine of up to IDR 200,000 (following redenomination of Rupiah) or IDR 200,000,000 (prior to redenomination of Rupiah); or
2. Imprisonment of up to three months.

Legal News

Establishment of an insurance/reinsurance company

(research by the MKK Insurance Team and Jonathan Sadikin, S.H.)

Requirements of the foreign insurance company

- 'A' rating
- Two years of financial statements
- Cooperation agreement
- Sufficient equity (5x the participation amount in the local company)
- Confirmation from country of origin
- Among others...

AoA

- Org structure and objectives
- Procedure for share transfer
- JVco capitalization, limit of powers
- GCG (among others)

MOLHR approval



- Deed of Establishment (DoE)
- MOLHR approval of the DoE

OJK approval



- Principle License
- Business License
- Management Structure
- JV agreement
- Details of insurance products
- Details of the JV's experts
- Retrocession program (if applicable)
- Various other requirements

MoT



- Registration with the Ministry of Trade (MoT)

First GMS

- Appointment of BoD, BoC (one Indonesian on each)
- Opening of JVco's bank accounts
- Approval of the issuance of share certificates (Share Register Book)
- Among others....

Other issues

- Registration of employees under JAMSOSTEK or BPJS Ketenagakerjaan
- Approval of the Company Regulation
- Approval of the JVco's Manpower Plan
- Membership in an insurance association

Minimum paid-up capital for an insurance company	Rp 150B
Minimum equity for insurance company providing Investment-Related Insurance Products	Rp 250 B
Minimum paid-up capital for a reinsurance company	Rp 300B
Minimum paid-up capital for a Shariah Insurance company	Rp 100B
Minimum paid-up capital for a Shariah unit in an Insurance company and Sharia Insurance Company providing Investment-Related Insurance Product	Rp 150B
Minimum paid-up capital for a Sharia Reinsurance company	Rp 175 B

**Limits on foreign ownership requirements should be looked to as well.*

New Regulation on Written Orders from the OJK

(MKK Insurance Team)

A new regulation issued by the Financial Services Authority (POJK) has been issued to better define the role and powers of the OJK. The Financial Services Authority of Indonesia (Otoritas Jasa Keuangan or “OJK”) issued *OJK Regulation Number 35/POJK.05/2016, regarding Procedures for Written Orders in the Insurance Sector* (“OJK Regulation No. 35/2016”). OJK Regulation No. 35/2016 pertains to the supervisory duties of the OJK and elaborates upon principles set out in Article 8 letter f and Article 9 letter d of Law Number 21 of 2011, regarding the OJK. OJK Regulation No. 35/2016 was stipulated specifically for the insurance sector and consists of 3 (three) chapters: General Provisions, the OJK’s Authority in Stipulating Written Orders and Sanctions.

In summary, the POJK sets out that the Chief Executive of the OJK is authorized to stipulate written orders to insurance companies as well as controllers, statutory managers, and/or certain parties (the written orders are given to the Board of Directors, Board of Commissioners and/or the Sharia Supervisory Board). The parties must comply with written orders, and such orders will remain valid until the party to whom the written order is addressed has implemented/executed the order.

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