

Significance Changes of the Draft Financial Service Authority Regulation on the Conduct of Investment Manager Business Activities

Background

The Financial Service Authority (*Otoritas Jasa Keuangan – OJK*) recently issued a draft regulation on investment manager activities (*Rancangan Peraturan Otoritas Jasa Keuangan tentang Penyelenggaraan Kegiatan Usaha Manajer Investasi – Draft Regulation on Investment Manager Company*). This new regulation will change some existing provisions outlined in OJK Regulation No. 3/POJK.04/2021 (**OJK Reg No. 3/2021**) and OJK Regulation No.52/POJK.04/2020 (**OJK Reg No. 52/2020**). Below, we highlight several key points from the draft regulation.

The Comparison: OJK Reg No. 3/2021, OJK Reg No. 52/2020, and Draft Regulation on Investment Manager Company

Topics	Existing Provisions	Draft New Regulation	Remarks
Types of Investment Manager Business Licenses	Investment managers are currently classified as either (i) conventional investment manager; and (ii) sharia investment manager. ¹	<p>Draft Regulation on Investment Manager Company introduces a new concept of investment manager classification based on the types of investment product that can be managed, namely:</p> <p>a. <u>Investment Manager Classification 1</u>, which can only manage: (i) Fund Management Contracts (<i>Kontrak Pengelolaan Dana</i>); and (ii) alternative investment products, such as Limited Participation Mutual Funds (<i>Reksa Dana Penyertaan Terbatas</i>), Asset-Backed Securities (<i>Efek Beragun Aset</i>), Real Estate Investment Funds (<i>Dana Investasi Real Estate</i>), Infrastructure Investment Funds (<i>Dana Investasi Infrastruktur</i>); and</p>	<ul style="list-style-type: none"> All existing investment managers will initially be classified as Investment Manager Classification 2 but can apply to be reclassified as Investment Manager Classification 1 through submission letter to OJK.

¹ Article 1 number 3 and 15 of POJK Regulation No. 10/POJK.04/2018 of 2018 on the Application of Investment Manager Governance

Topics	Existing Provisions	Draft New Regulation	Remarks
		<p>b. <u>Investment Manager Classification 2</u>, which can manage all kind of investment product.</p> <p>Please note that either conventional investment manager or sharia investment manager will be classified either to Investment Manager Classification 1 or Investment Manager Classification 2</p>	
Capital Structure	Investment manager companies are required to have minimum issued and paid-up capital amounting to Rp25,000,000,000 (twenty-five billion Rupiah). ²	<p>a. Investment Manager Classification 1 are required to have minimum issued and paid-up capital amounting to Rp50,000,000,000 (fifty billion Rupiah); and</p> <p>b. Investment Manager Classification 2 are required to have minimum issued and paid-up capital amounting to Rp100,000,000,000 (one hundred billion Rupiah).</p>	<ul style="list-style-type: none"> Investment managers have three years after the enactment of the Draft Regulation on Investment Manager Company to comply with the new capital requirements.
Adjusted Net Working Capital (Modal Kerja Bersih Disesuaikan)	Investment manager must maintain an Adjusted Net Working Capital in the amount of at least Rp200,000,000 (two hundred million Rupiah) plus 0.1% (zero point one percent) of the investment manager's asset under management. ³	Investment manager (whether Investment Manager Classification 1 or Investment Manager Classification 2) must maintain an Adjusted Net Working Capital in the amount of Rp20,000,000,000 (twenty billion Rupiah) plus 0.01% (zero point zero one percent) of the investment manager's asset under management.	<ul style="list-style-type: none"> This requirement must be met immediately upon enactment of the Draft Regulation on Investment Manager Company.

² Article 41 paragraph (4) of POJK No. 3/2021

³ Article 2 paragraph (4) of OJK Regulation No. 52/2020

Topics	Existing Provisions	Draft New Regulation	Remarks
Asset Under Management (Dana Kelolaan)	Currently, there are no provisions regulating the minimum amount of assets under management that must be managed and/or maintained by an investment manager.	a. Investment Manager Classification 1 must have at least Rp500,000,000,000 (five hundred billion Rupiah) of asset under management; and b. Investment Manager Classification 2 must have at least Rp1,000,000,000,000 (one trillion Rupiah) of asset under management.	<ul style="list-style-type: none"> The Draft Regulation on Investment Manager Company stipulates that all investment managers are required to comply with the provisions of asset under management requirement no later than 3 (three) years after the enactment of the Draft Regulation on Investment Manager Company.
<i>Note:</i> According to the Draft Regulation on Investment Manager Company, the compliance of Capital Structure, Adjusted Net Working Capital, and Asset Under Management can be achieved through corporate actions such as merger and consolidation.			

Reporting Obligation

Based on our analysis of the Draft Regulation on Investment Manager Company, OJK regulates that all investment manager companies are required to submit an action plan to comply with the requirements on (i) Capital Structure, (ii) Adjusted Net Working Capital, (iii) Asset Under Management; or (iv) the plan to conduct merger or consolidation to OJK, by the latest of 6 (six) months after the date of enactment of the Draft Regulation on Investment Manager Company. The investment manager is also required to submit the progress on the fulfilment of such an action plan to OJK on the 12th date of each month.

Our Remarks

Based on the foregoing, we are of the view that the new concept and regulation of several investment manager's key aspects, as introduced by the Draft Regulation on Investment Manager Company, will significantly improve and strengthen the financial circumstance of investment manager companies. Further, we view that for large-size investment managers (specifically market leader investment managers), these proposed changes of regulation will not have a significant impact since, according to our analysis, the majority of large-size investment manager companies already fulfil the key points as we outlined above.

However, on the other hand, we view that the implementation of the Draft Regulation on Investment Manager Company may pose challenges for small to medium-scale investment manager business actors, since the requirements that required to be achieved by small to medium-scale investment manager companies may potentially trigger challenge by its shareholders and/or the management of investment manager companies.

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