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Prudential Principles in Managing Offshore Borrowings by Non-Bank Corporations

Offshore Borrowings

NewsFlash



Prudential Principles in Managing Offshore Borrowings by Non-Bank Corporations

Bank Indonesia has issued a new regulation No 16/20/PBI/2014 on the implementation of Prudential Principles in Managing Offshore Borrowings by Non-Bank Corporations which will be effective from 1 January 2015.

The objective of this regulation is to enable Bank Indonesia to manage offshore borrowings to optimise their contribution to national economic and macroeconomic stability. In order to achieve this, Bank Indonesia would also like to emphasise the importance of financial risk management, especially in foreign exchange currency, liquidity risk and overleverage financing. As a result, financial information is required to be reported to Bank Indonesia as evidence of fulfilling this regulation.

Impact

All non-bank corporations with offshore borrowings must implement prudential principles by fulfilling the following conditions:

1. The minimum hedging ratio is 25% of the negative difference between current assets¹ and current liabilities² (both are in foreign currencies) which will be due within three months after the end of a quarter and (ii) between three months and six months after the end of a quarter. Prior to 1 January 2016, the minimum hedging ratio is 20%.
2. The minimum liquidity ratio is 70%. This is calculated by comparing the company's current assets and current liabilities (both are in foreign currencies) which will be due up to three months after the end of the reporting quarter. Prior to 1 January 2016, the minimum liquidity ratio is 50%.
3. The minimum credit rating is maintained at BB or its equivalent from certain credit ratings agencies approved by the Indonesian Financial Services Authority. This requirement will be applicable for offshore borrowings which will be signed 1 January 2016 onwards.

As the regulation's effective date is on 1 January 2015, the first reporting quarter will be 31 March 2015.

Exemption

- a. Trade related borrowings are exempted from the three prudential requirements
- b. Offshore borrowings resulting from refinancing and bilateral/multilateral agencies which relate to infrastructures financing are exempted from the credit ratings requirement.

Reporting obligation

The companies subject to this regulation are to report their financial information quarterly as evidence that they have fulfilled the requirements above. The format of this report is yet to be regulated by Bank Indonesia. We suspect that a circulate letter that gives more clarification to this regulation will be issued in the near future.

For those companies who failed to fulfil the requirements above, Bank Indonesia will issue a warning letter and inform, among others, the related offshore creditors, the Ministry of State Owned Enterprise (for SoE corporations), Tax Office, Indonesian Financial Services Agency, and the Indonesian Stock Exchange (for listed corporations). This sanction will be effective from the third quarter of 2015.

What's next?

We encourage all entities with offshore borrowings to start evaluating the impact of this regulation on their financial position. Early discussion with creditors/ the bank may be necessary if there is doubt that the companies will be able to fulfil the requirements above. We also encourage to all entities to keep themselves informed of the regulation developments by reading the circulate letter that should be issued following this regulation.

¹ Current assets in a foreign currency are: cash, current accounts, saving accounts, time deposits, marketable securities and receivables from derivative transactions which will be realised up to three months ahead since the last quarter period.

² Current liabilities in a foreign currency are: current liabilities and liabilities from derivative transactions.



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