

Client Alert

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New OJK Regulation Relaxes Asset Quality Determination by Banks in Light of COVID-19 Outbreak

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In light of the COVID-19 outbreak, the Financial Services Authority ("**OJK**") has relaxed the requirements for Indonesian banks to determine the asset quality of debtors that are affected by the COVID-19 outbreak ("**Affected Debtors**"). This relaxation is provided in OJK Regulation No. 11/POJK.03/2020 on National Economic Stimulus as a Countercyclical Policy on the Effect of the Coronavirus Disease 2019 Outbreak ("**OJK Regulation**"). The OJK Regulation is applicable until 31 March 2021.

The relaxation of asset quality determination allows banks to manage their non-performing loans and it allows banks to provide a stimulus to the Affected Debtors, including loan restructuring.

What is the stimulus package?

Asset quality determination

Under the OJK Regulation, Indonesian banks can now determine the asset quality of Affected Debtors based only on the timeliness of payments by the debtor, without considering other aspects. Before the enactment of the OJK Regulation, Indonesian banks had to consider many aspects in addition to timeliness of payments, such as business prospects and financial condition of their debtors. While there is ambiguity in the wording of the OJK Regulation, it seems that the relaxation only applies to debtors with loans of up to IDR 10 billion.

Restructuring

Banks may restructure the credit or financing of Affected Debtors. Once the restructuring is approved, the debtor's loan will be considered as a performing loan. This will also be applicable to loans restructured prior to the enactment of the OJK Regulation, as long as the restructuring is due to the effects of the COVID-19 outbreak.

Provision of new funding

As one of the methods to restructure debts, banks may provide additional funding. For funding up to IDR 10 billion, the credit quality determination is based on the timeliness of payments by the debtor. For funding above IDR 10 billion, the credit quality determination is based on the previously existing requirements under OJK regulations on asset quality.



Who will qualify as “Affected Debtors”?

The OJK Regulation provides a general elaboration of Affected Debtors:

"Any debtor that experiences difficulties in fulfilling its obligations to the bank because the debtor or its business is affected by the spread of COVID-19 either directly or indirectly in the economic sector including tourism, transportation, hospitality, trade, processing, agriculture, and mining."

In addition to the (non-exhaustive) list of affected sectors above, the OJK Regulation also acknowledges scenarios such as travel warnings, disturbances in supply chains, and trading or export-import suspensions caused by COVID-19 as things that could have an indirect effect on debtors' ability to perform their obligations to the bank.

Affected Debtors that are facing financial difficulty or expect to encounter hardships in the near future may file a request to their respective banks to restructure their financing or provide new funds.

Banks must establish guidelines to determine which debtors can be considered as Affected Debtors who are eligible to have their loans restructured or to receive new funding.

Closing

In essence, the OJK Regulation gives more room for banks to manage their credit risks and non-performing loans, and provides debtors with the possibility of getting some financial relief in light of the COVID-19 outbreak.

Nevertheless, banks are not required to provide this stimulus; they are merely given the discretion to do so.

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