

Access to capital markets for small and medium enterprises (SMEs)

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It is public knowledge that the newly re-elected President Joko Widodo has a grand vision to transform the national economy of Indonesia from a country that relies upon its abundant natural resources into a country with manufacturing and service sectors which are able to compete in the region. It is expected that small and medium enterprises (SMEs) will be the main contributor to the national economy, which in turn will create new job opportunities for Indonesian citizens. The newly-elected Minister of Cooperatives and SMEs for the second-term cabinet 2019-2024, Minister Teten Masduki, has publicly stated that he intends to implement this vision by empowering the more than 60 million active Indonesian SMEs.

OJK's SMEs initiatives

The Indonesian Financial Services Authority (OJK) was supporting initiatives long before President Widodo assumed his second term of office. The OJK assisted SMEs in accessing third party funding through innovative regulations, such as those on peer-to-peer (P2P) lending (OJK Regulation No. 77/POJK.01/2016 issued on 29 December 2016) and equity crowd funding (OJK Regulation No. 37/POJK.04/2018 issued on 31 December 2018). The P2P lending platform provides SMEs with third party funding in the form of debt finance, and conversely equity crowd funding provides SMEs with equity capital injections.

To further maximize SME growth and provide easier access for SMEs to alternative funding channels in the capital markets, the OJK issued OJK Regulation No. 53/POJK.04/2017 on Registration Statements for Public Offerings and Capital Increases by Providing Preemptive Rights to Subscribe for Securities in Issuers with Small or Medium-Sized Assets (POJK 53); and OJK Regulation No. 54/POJK.04/2017 on the Form and Content of Propectuses for Public Offerings and Capital Increases by Providing Preemptive Rights to Subscribe for Securities in Issuers with Small or Medium-Sized Assets (POJK 54). These OJK regulations have been in effect since 27 July 2017. POJK 53 effectively serves as guidance for SMEs in their submission of registration statement documents to OJK for their intended initial public offering of shares, rights issues, and bonds/sukuk issuance.

We set out below key features of POJK 53:

- Definition of small and medium-sized issuers.

Issuers are categorised as small-sized issuers if their asset value is not more than IDR50 billion (c. US\$3.5 million), while issuers with an asset value of IDR50 - 250 billion (c. US\$3.5 - 17.5 million) are

deemed medium-sized issuers. Both categories of issuer must not be controlled (whether directly or indirectly) by a company that is a controller of an issuer or public company that is not a small or medium-sized issuer and/or has assets of more than IDR250 billion. Please note that asset value is based on the financial statements used in the submission of the registration statement to the OJK.

- Maximum size of public offering.

Small-sized issuers can only offer the securities to the public of up to a maximum amount of IDR50 billion, while middle-sized issuers can offer the securities to the public of up to a maximum amount of IDR250 billion.

- Registration statement documents.

The documents that are required to be submitted to OJK for the purpose of public offering include a covering letter (using the form provided in the appendix of POJK 53), the prospectus, audited financial statements, a legal opinion issued by a registered capital market legal consultant, and the curriculum vitae's of the issuer's directors and commissioners. There are dispensations afforded to small and/or medium-sized issuers, particularly in relation to financial statements, the timing for corporate governance compliance, and the prospectus announcement media.

14 issuers have conducted initial public offering of shares under POJK 53, with offering sizes ranging between IDR21 billion up to IDR85 billion (c. US\$1.5 - 6 million).

IDX's SMEs initiatives

To facilitate up-and-coming SMEs with initial public offerings (IPOs), on 22 July 2019, the Indonesian Stock Exchange (IDX) issued Rule No. I-V on Specific Provisions for the Listing of Shares and Equity Securities other than shares on the IDX Acceleration Board (IDX acceleration rules). The IDX acceleration rules introduced the Acceleration Board, which relaxes listing standards vis-à-vis standard listings under Rule I-A on General Provisions for the Listing of Equity Securities on the IDX (IDX standard rules).

Under the IDX acceleration rules, at a later date the IDX may assess an issuer and transfer its listing from the Acceleration Board to the main board or development board if certain criteria are fulfilled. Thereafter the IDX standard rules apply to that issuer.

We set out below key criteria that differentiate the acceleration board with the existing boards:

Issuer Criteria	Main Board	Development Board	Acceleration Board
Operational period	≥ 36 months	≥ 12 months	Since establishment
Operating profit	Profitable in the preceding 12 months.	Can be loss-making at the time of listing, provided that it generates operating and net profits (based on its financial projections) within the period between the end of the second financial year-up, and the sixth financial year after listing.	Can be loss-making at the time of listing, provided that it generates operating profits (based on its financial projections) at the latest by the end of the sixth financial year after listing.

Submission of audited financial statements	<ul style="list-style-type: none"> • Minimum for the last three years. • The last two years to obtain opinion of reasonable without exception. 	Minimum for the last one year with the opinion of reasonable without exception.	Minimum for the last one year or since establishment, and obtain the opinion of reasonable without exception.
Net Tangible Asset	≥ IDR100 billion.	Met one of the following requirements: <ul style="list-style-type: none"> • Minimum Net Tangible Assets of IDR5 billion; or • Operating profit for the last one year of ≥ IDR1 billion and share capitalisation of ≥ IDR100 billion; or • Operating income for the last one year is ≥ IDR40 billion and share capitalization of ≥ IDR200 billion. 	Not regulated.
Total offered shares	Minimum 300 million shares.	Minimum 150 million shares.	Minimum 20 percent of the issuer's issued and paid-up capital.
Number of shareholders at the completion of IPO	≥ 1,000 shareholders.	≥ 500 shareholders.	≥ 300 shareholders.
Initial price per share	≥ IDR100.	≥ IDR100.	≥ IDR50.
Registration fee	IDR25 million.	IDR25 million.	IDR10 million.
Listing application fee	IDR25 million – IDR250 million.	IDR25 million – IDR150 million.	IDR25 million (fixed).
Annual listing fee	IDR50 million – IDR250 million.	IDR50 million – IDR250 million.	IDR25 million (fixed).

Closing statement

Whilst we understand from IDX that there are currently no listings on the Acceleration Board, if used effectively it offers huge potential for SMEs, as both the OJK and the IDX have shown their commitment to support growing SME businesses.

Hogan Lovells DNFP is well-placed to assist SMEs in their fund raising activities, with OJK registered capital market legal consultants.

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