THE OBLIGATION TO USE RUPIAH IN INDONESIAN TERRITORY

Following the issuance of Law No. 7 of 2011 on Indonesian Currency ("Law 7/2011"), Bank Indonesia issued Bank Indonesia Regulation No. 17/3/PBI/2015 on the Obligation to Use Rupiah in the Indonesian Territory ("PBI 17/2015") on 31 March 2015. One of the goals of the use of Rupiah is to support the stability of the Rupiah exchange rate.

According to Law 7/2011, Indonesian territory covers the whole of the Republic of Indonesia and includes vessels and aircraft carrying the Indonesian flags, embassies and other representative offices of the Republic of Indonesia overseas.

Obligation to use Rupiah

According to Law No. 17/2015 as further regulated by PBI 17/2015, Rupiah must be used for any payments or the settlement of other obligations which require the use of money and/or other financial transactions.

In addition, business actors (who are conducting transactions within the Indonesian Territory) may only quote prices for certain goods/services in Rupiah.

Exemption to use Rupiah

The obligation to use Rupiah above does not apply to the following:

1. Certain payment transactions:

a. Certain transactions to implement the State Budget. Under PBI 17/2015, this covers payments of offshore loan installments; payments of onshore loan installments in foreign currency; the offshore procurement of certain goods; offshore capital expenditures; state revenue from the sale of state bonds in foreign currency; and other transactions implementing the state budget.

b. The receipt or provision of grants from or to overseas. Under PBI 17/2015, this type of transaction is only exempt if one of the parties to the transaction is domiciled overseas.

c. International trade transactions. Under PBI 17/2015, international trade transactions include the export/import of goods out of or into the Indonesian Customs area; and/or the cross border provision of services through: (i) cross border supply; and (ii) overseas consumption.

Transactions other than those involving the export/import of goods out of or into the Indonesian Customs area are not deemed international trade transactions. Therefore, they requires to use Rupiah.

d. Foreign currency savings in banks; and

e. International financing transactions. These types of transaction are only exempt if one of the parties is domiciled overseas.

2. Foreign currency transactions conducted under the laws, which cover:

a. Foreign currency business transactions conducted by banks;

b. The transaction of commercial papers issued by the government in foreign currency; and

c. Other transactions in foreign currency conducted under the laws.

3. The following certain activities:

a. foreign exchange transactions conducted by money changers according to the prevailing laws; and

b. carrying foreign banknotes (uang kertas) into or out of the Indonesian Customs area in accordance with the prevailing laws and regulations.

In addition, no one may reject payment in Rupiah for a transaction, unless (i) there is concern about the genuineness of the Rupiah in cash transactions; and/or (ii) payment or settlement in foreign currency has been agreed to in writing.

Written agreements only apply to (i) the transactions which are exempt from the obligation to use Rupiah (ii) strategic infrastructure projects with approval from Bank Indonesia (respectively referred to as “Written Agreement”).

Sanctions

Non-compliance with PBI 17/2015 may be imposed sanctions, as follows:

a. prison for up to 1 (one) year and a fine of up to IDR 200 million;

b. administrative sanctions ie (i) written warnings; (ii) payment of a fine. The fine to be imposed is 1% of the transaction value limited to a maximum fine of IDR 1 billion; (iii) a prohibition against participating in payment transactions; and

c. other sanction imposed by the authorities.

Please note the use of Rupiah in non-cash transactions will apply as of 1 July 2015. Therefore, written agreements which are not included under the definition of a Written Agreement and for non-cash transactions purposes entered into before 1 July 2015 remain valid until their date of expiry.