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Capital Market

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Client Alert

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OJK Amends its Rule on Mutual Funds in the Form of Collective Investment Contracts

Recent Developments

On 8 January, the Indonesian Financial Services Authority (*Otoritas Jasa Keuangan* - "**OJK**") enacted a new rule that amends the rules on Mutual Funds in the Form of Collective Investment Contracts.

What's Amended?

Under OJK Rule No. 2/POJK.04/2020 on the Amendment of OJK Rule No. 23/POJK.04/2016 on Mutual Funds in the Form of Collective Investment Contracts, OJK imposes greater requirements and restrictions on mutual fund investments, as well as prohibitions on certain activities conducted by Investment Managers. We set out below a summary of the key changes.

Investment Limitations

The previous rule added several additional types of securities that mutual funds in the form of collective investment contracts ("**CIC**") can invest in. They included debt securities and fixed income sharia securities that are offered not through a public offering and have already obtained an investment rating by a licensed rating agency. The new amendment sets out that those securities must have an investment rating of at least idAA or equivalent, at all times. There are also new additional requirements for those securities, such as the following:

a. Information regarding the investment rating must have been announced to the public and/or the Bond Pricing Agency (*Lembaga Penilai Harga Efek)* must be able to access it.

b. Investments made on debt securities and fixed income sharia securities that have not been offered through a public offering must be those that are monitored by an OJK registered trustee (*Wali Amanat*).

Further investment prohibitions are imposed through the new amendment, which now prohibits money market mutual funds and protected mutual funds from investing in debt securities or fixed income sharia securities that are offered not through a public offering.

Prohibited Activities for Investment Managers

With the new amendment, Investment Managers are now prohibited from causing mutual funds to purchase securities from potential unit holders or existing unit holders, and/or affiliated parties of potential unit holders or existing unit holders. Previously, such transactions were allowed if they were done at fair market value.

Transitional Provisions

Under the transitional provisions, Investment Managers will need to comply with, and ensure that their mutual fund's portfolios comply with certain rules within three years after the enactment of the rule (i.e., by 8 January 2023). Those rules are the rules that prohibit:

a. Investment Managers from causing mutual funds to purchase securities from potential unit holders or existing unit holders, and/or affiliated parties of potential unit holders or existing unit holders

b. protected mutual funds from investing in debt securities or fixed income sharia securities that are offered not through a public offering

Notwithstanding the transitional period above, protected mutual funds are now prohibited from making further investments in debt securities or fixed income sharia securities that are offered not through a public offering.

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