CLIENT UPDATE

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OJK Regulation No. 7 of 2024: Transformative Changes in Indonesia's Rural Banking Sector

With the enactment of Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector ("**P2SK Law**"), significant transformations have been introduced in Indonesia's financial sector, including in the rural banking industry. The P2SK law further mandates implementing regulation to be enacted within 2 (two) years from the enactment of the P2SK Law. In line with this legislative mandate, on April 2024, the Financial Services Authority (*Otoritas Jasa Keuangan* – "**OJK**") issued OJK Regulation No. 7 of 2024 addressing Rural Banks (*Bank Perekonomian Rakyat* – "**BPR**") and Sharia Rural Banks (*Bank Perekonomian Rakyat Syariah* –"**BPRS**") ("**POJK 7/2024**"). The issuance of POJK 7/2024 supersedes OJK Regulation No. 21/POJK.3/2019 on Merger, Consolidation, and Acquisition of Rural Banks and Sharia Rural Banks and OJK Regulation No. 62/POJK.03/2020 on Rural Banks, while amending certain provisions of OJK Regulation No. 26 of 2022 on BPRS ("**Previous Regulation**").

The changes under POJK 7/2024 encompass notable adjustments to nomenclature, harmonization of legal entities, revisions to provisions

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governing establishment and ownership, the introduction of access to capital markets, and compulsory consolidation. These changes aim to stimulate economic growth and development, leading to an increase in contributions to the nation's economy.

This Client Update focuses on the notable changes to the regulations of BPR and BPRS under POJK 7/2024 that should be noted by existing BPR and/or BPRS stakeholders and those who are considering to participate in the BPR and/or BPRS industry.

No	Matters	Previous Regulation	POJK 7/2024	Notes
1.	Change of Nomenclature	a. *Bank Perkreditan Rakyat*; and b. *Bank Pembiayaan Rakyat Syariah*.	a. *Bank Perekonomian Rakyat* (“**BPR**”); and b. *Bank Perekonomian Rakyat Syariah* (“**BPRS**”).	In line with the P2SK Law, the new nomenclature "Bank Perekonomian Rakyat" and "Bank Perekonomian Rakyat Syariah" reflect a broader role envisioned for these institutions in the national economy. BPR and BPRS that still use the nomenclature “Bank Perkreditan Rakyat” or “Bank Pembiayaan Rakyat Syariah” are required to change their nomenclature to “Bank Perekonomian Rakyat” or “Bank Perekonomian Rakyat Syariah” **within 2 (two) years** of the enactment of P2SK Law.
2.	Scope of Activities	Does not provide **payment traffic services**.	Does not directly provide **giro traffic services**.	Pursuant to POJK 7/2024, BPR and BPRS are no longer

				prohibited from providing payment traffic services.
3.	Establishment and Ownership	BPR and BPRS, **founded** and **owned** by a. Indonesian citizen; and/or b. Indonesian legal entity **fully owned by Indonesian citizen**; or c. Regional Government.	BPR and BPRS, **founded** by: a. Indonesian citizen; and/or; b. Indonesian legal entity.	The new regulation removes explicit restrictions on ownership, potentially allowing foreign ownership, and opens new avenues for capital inflow and strategic partnership.
4.	Forms of Business Entities	a. Regional company; b. Regional corporation company; c. Cooperatives; or d. Limited liability company.	a. Cooperatives; or b. Limited liability company.	BPR and BPRS must now be in the form of a Cooperatives or Limited liability company. BPR with legal forms other than Limited Liability Company or Cooperative must change their legal forms to either Limited Liability Company or Cooperative **within 3 (three) years** after the enactment of the P2SK Law.
5.	Public Offering	Does not contain provisions stipulating whether BPR is allowed to offer securities through the Capital Market.	Allows BPR or BPRS to conduct public offerings (equity and/or debt) through the Capital Market.	BPR and/or BPRS must fulfill the following criteria: a. The proposed public offering has been

				included in the business plan; b. The minimum core capital required for a public offering by BPR or BPRS is Rp80,000,000 (eighty billion rupiah); and c. Minimum second level in Corporate Governance, Risk profile, and soundness in the last 2 (two) periods.
6.	Domicile of the Board of Directors ("**BOD**") and the Board of Commissioners ("**BOC**")	The Previous Regulation stipulates that all members of the BOD must be domiciled in the same area as the BPR head office, while all members of the BOC must be domiciled in Indonesia, with at least one of them must be domiciled in the same area as the BPR head office.	Not regulated.	POJK 7/2024 allows more flexibility for the domicile of BOD and BOC members**.**
7.	Compulsory Consolidation	Under POJK 62/2020, there are no obligations for BPR or BPRS owned and/or controlled by the same controlling shareholder (*Pemegang Saham Pengendali* – "**PSP**") to consolidate within the same zone.	BPR and BPRS entities that share the same PSP and are located within single region, are required to merge or consolidate within 2 years after the enactment of POJK 7/2024 ("**Compulsory Consolidation**	In the event that the PSP, BPR, or BPRS does not carry out the compulsory consolidation, OJK may issue a written directive to enforce such action.

			Period"). For entities owned by the local government, the maximum period is extended to 3 years. Moreover, POJK 7/2024 also mandates compulsory consolidation for PSP acquiring BPR and/or BPRS that meet the specified conditions within the Compulsory Consolidation Period. This must be completed within 1 year after the Compulsory Consolidation Period. Following the end of the Compulsory Consolidation Period, any PSPs owned and/or controlled BPR and/or BPRS entities within a single region must merge or consolidate within one year after meeting the conditions. Furthermore, based on certain considerations, OJK has the right to determine: a. The number of BPR or BPRS taking part	

			in a Consolidation; and/or b. The region of the BPR of BPRS as a result of the consolidation.	
8.	Rules of Merger, Consolidation and Acquisition	Under Previous Regulation, it is permissible for: a. BPR with BPR; b. BPR with BPRS; and c. BPRS with BPRS. To conduct a merger, or consolidation within the **same province**. Additionally, it was permissible for: a. BPR with BPR to conduct a merger, or consolidation in different provinces, as long as the network of the BPR office that results from the merger or consolidation complies with OJK Regulation No. 21 of 2016 on Business Activities and the Office Network Area of BPR. b. BPR with BPRS or BPRS with BPRS, to conduct a merger, or	In contrast to the Previous Regulation, POJK 7/2024, allows: a. BPR with BPR; b. BPR with BPRS; c. BPRS with BPRS; d. Microfinance institution (*Lembaga Keuangan Mikro* – "**LKM**") with BPR; and e. LKM with BPRS. To conduct a merger, or consolidation within the **same province** or **different provinces**, provided that the BPR or BPRS office network that results from a merger, or consolidation in different provinces must be located within a single region in: a. Sumatera; b. Java; c. Kalimantan; d. Bali and Nusa Tenggara; e. Sulawesi; and	Merger, consolidation, and acquisition still require OJK approval and are subject to prevailing laws and regulations. However, POJK 7/2024 now allows LKM to merge or consolidate with BPR or BPRS, provided the entity resulting from the merger or consolidation is a BPR or BPRS. Furthermore, POJK 7/2024 also expands the scope of the geographical area for the merger or consolidation.

		consolidation in different provinces, as long as the network of the BPRS office that results from the merger or consolidation is situated within the same provincial area.	f. Maluku and Papua.	

Conclusion:

The enactment of POJK 7/2024 marks a significant milestone in the regulatory framework governing Indonesia's rural banking sector. By addressing key areas such as nomenclature, scope of activities, establishment and ownership, and the rules of mergers, consolidations, and acquisitions, this regulation aims to bolster the institutional robustness and operational flexibility of BPR and BPRS. The removal of previous restrictions on payment traffic services and the introduction of capital market access are strategic moves designed to enhance their operational scope and financial capabilities.

The compulsory consolidation of BPR and BPRS under common control within specified regions, aims to create stronger and more resilient banking entities. This measure, coupled with the allowance for mergers and consolidations across provincial lines, signifies a shift towards a more integrated and efficient rural banking network.

While these reforms present opportunities for growth and development, they also pose significant compliance challenges. Existing BPR and BPRS must navigate the transitional requirements, such as changing their legal forms and adhering to the new nomenclature within stipulated timelines. The successful implementation of these changes will require diligent effort and strategic planning from all stakeholders involved.

ABOUT TRILEXICA

TRILEXICA is a firm that resulted from a merger of two established boutique law firms in 2023, Trifida at Law and Legalexica. With the merger, TRILEXICA successfully combines solid track records from the previous two firms and forms a global-oriented and full-service law firm providing wide-range expertise in M&A, capital markets, banking& finance, good corporate governance, commercial dispute (including disputes in the financial services and capital markets sector) and fraud investigation. We are mainly focusing our legal service on financial services, technology, media and telecommunication, transportation, and renewable energies sectors. Each of the 8 partners in TRILEXICA has a PQE of more than 12 years in the legal industry.

We were named '2021 and 2022 Top 100 Indonesian Law Firm' , '2021 and 2022 Rising Star Law Firm', '2021 and 2022 Mid-Size Full-Service Law Firm' and '2022 In-House Counsel Choice – Most Recommended Law Firm' by Hukum Online. These awards recognize our milestones as a recognised mid-size law firm. We were also rewarded the '2023 Project Finance Deal of the Year' and 'the 2023 Firm to Watch'by Asian Legal Business (ALB).
