

## **PRESS RELEASE**

### **FINANCIAL CONGLOMERATES REQUIRED TO SET UP HOLDING COMPANIES: OJK DRAFT REGULATION**

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Jakarta, June 12, 2017 — The Financial Services Authority (OJK) is going to issue a regulation on Financial Holding Companies (PIKK) that requires financial conglomerates (KK) to have holding companies. The draft OJK regulation (POJK) also specifies a new definition on financial conglomerates (KK).

This regulation, which concerns the establishment of financial holding companies and amendment to definition of financial conglomerates, marks an effort to complement and strengthen policies of integrated supervision on financial conglomerates, based on feedback from the financial services industry and results of the researches conducted on prevailing practices in several countries.

The draft regulation states that the parties required to set up a financial holding company are the Controlling Shareholder or the Ultimate Shareholder. Applying this requirement might lead to changes in ownership structure, especially when there is a financial services company (LJK) owned, directly or indirectly, by an entity appointed as the financial holding company. The financial holding company can be one of the financial services companies under a financial conglomerate. Alternatively, the financial holding company can also be an existing or a newly established non-financial services company (LJK) entity.

The draft regulation will also come with implementing guidelines on the process of designating a financial holding company (PIKK). If the PIKK candidate is a non-LJK entity, it shall be first stated as Other LJK by the OJK—as regulated by Law No. 21 of 2011 on the OJK—thus, it shall comply with, and supervised by, the OJK. Next, that Other LJK shall be designated as the PIKK.

The Main Entity (EU) concept currently in use has a drawback in that an EU does not have any control on other financial services companies belonged to a financial conglomerate, and this might hamper the application of integrated risk management, governance, and capitalization.

Some countries, like Malaysia, Korea, and Singapura have imposed regulations on Financial Holding Companies (PIKK). The presence of special holding companies for the financial services sector makes it possible for a financial holding company to consolidate and control all of the financial conglomerate's activities. The functions of a main entity, which so far has been run by one of the financial services companies under the financial conglomerate, will later be carried out by the financial holding company.

With financial holding companies playing the role of parent companies, it should be easier for controlling shareholders or ultimate shareholders to monitor the performance of their financial services concerns.

Moreover, it will smooth the way for a financial conglomerate's coordination in relation to risk management, governance and integrated capitalization implementation, compared to the EU concept. Also, that will help the OJK, as the regulator, conduct supervision on financial conglomerates.

In the OJK draft regulation on Financial Holding Companies, the OJK will also regulate about changes in the criteria for financial conglomerates. Earlier, the criteria only take into account ownership relationships with the same parties, but now they will consider as well the financial sector diversity aspect and a financial conglomerate's total assets.

In compliance with OJK Regulation No. 17/POJK.03/2014 on Implementation of Integrated Risk Management for Financial Conglomerates, the financial services companies found in the same group due to interlinked ownership and/or management are considered as a financial conglomerate.

In this OJK Draft Regulation, a group of financial services companies will only be stated as a financial conglomerate when it has financial services companies operating in at least two of the following sectors: banking, insurance and reinsurance, securities companies, and/or financing companies, and has total assets worth IDR 2 trillion or more.

Based on the new criteria, currently there are 48 financial conglomerates with total assets amounted to IDR 5,919 trillion (as of December 31, 2016), which represents 67.6 percent of the financial services sector's overall assets.

Provisions in this OJK draft regulation on PIKK are in line with the Joint Forum principle and general practices at international level. At the moment, the OJK is seeking public response to the draft regulation. The OJK has also requested written feedback from financial conglomerates' controlling shareholders/ultimate shareholders, main entities, and related associations.

In addition, the OJK has published the draft regulation on its website in order to receive general responses from the public. All stakeholders certainly need to give their full support for implementation of this regulation, especially financial conglomerates and their controlling shareholders/ultimate shareholders.

The OJK draft regulation on PIKK is an implementation of the OJK integrated supervision model, which has been included in the OJK Integrated Supervision Roadmap 2017 – 2019 that will be launched soon.

The roadmap describes how the OJK will equip and strengthen integrated supervision policies, develop systems and methodologies for such supervision, and reinforce implementation of the integrated supervision.

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