Strengthening of Arrangements regarding the Appointment and Dismissal of Directors and Commissioners of State-owned Enterprises in Government Regulation No. 23 of 2022

In the middle of 2022, the Government promulgated and enacted Government Regulation No. 23 of 2022 concerning Amendment to Government Regulation No. 45 of 2005 concerning the Establishment, Management, Supervision, and Dissolution of State Owned Enterprises ("**GR 23/2022**"). This regulation was issued in order to optimise the role of State Owned Enterprises ("**SOE**") as agents of national development in support of the national economy and conform to the dynamics of SOE management via the strengthening of SOE institutions and resources based on principles of good corporate governance in relation to SOE affairs. This purpose is reflected in the formulation of the provisions in GR 23/2022 which make the mechanisms and requirements for the appointment and dismissal of members of the Board of Directors, Board of Commissioners, and Board of Supervisors explicit. This article will discuss various new arrangements in GR 23/2022 in relation to the management and supervision of SOE in the form of Government Share Companies.

A. Registers and Track Records

GR 23/2022 has tightened up the process for the appointment of Directors with the existence of a register and track records determined by the Minister of SOE, containing amongst others registers and track records of both existing and future directors with criteria and procedures provided for by the Minister of SOE. Under Article 14 paragraphs (1a), (1b), and (1c), the Minister of SOE can request input from the relevant institutions/agencies in establishing registers and track records. These documents are important because SOE General Meetings of Shareholders ("GMS")/the Minister of SOE are required to pay attention to and take into consideration track records in the appointment of directors.

B. Prohibition of Multiple Positions

Apart from the registers and track records which serve as supporting documents for GMS/the Minister of SOE in the appointment of directors, GR 23/2022 also adds criteria directors and commissioners must meet in relation to the holding of multiple posts. Previously Government Regulation No. 45 of 2005 concerning the Establishment, Management, Supervision, and Dissolution of State Owned Enterprises ("**GR 45/2005**") only prohibited directors and commissioners from being the management of political parties and/or candidates for/members of the legislature. Now, Article 22 paragraph (1) and Article 55 paragraph (1) of GR 23/2022 provide that directors and commissioners cannot be:

- 1. managers of political parties;
- candidates for/members of legislatures (the People's Representative Council, Regional Representative Council, Provincial People's Representative Council, or Regency/City Representative Council);
- candidates for heads/deputy heads of regions (governor/vice governor, mayor/deputy mayor, or regent/vice regent); and/or
- 4. heads/deputy heads of regions.

The above prohibitions are intended to avoid conflicts of interest arising. Basically, this provision is in line with Article 25, Article 33 paragraphs (1) and (3), and Article 62 of the State Owned Enterprise Act Law No. 19 of 2003 (the "**SOE Act**"), which prohibit directors and commissioners from holding other positions (a multiplicity of positions) with the potential of causing conflicts of interest.

This prohibition demands directors and commissioners fully devote their energy and thought and/or attention to their duties and obligations and the achievement of the SOE's purpose, always while avoiding any conflict of interest.

C. Reasons for Dismissal

Article 23 paragraph (1) and Article 56 paragraph (1) of GR 45/2005 provided that directors and commissioners of a government share company may be dismissed from time to time pursuant to a GMS resolution for the government share company which mentions the reasons for the dismissal, as provided in paragraph (2) of each of the above articles. GR 23/2022 adds the following list of reasons for dismissal of directors and commissioners:

Re	easons for Dismissal of Directors	Reasons for Dismissal of Commissioners
1.	Inability to fulfil the obligations agreed upon	 Inability to carry out the duties properly;
	in the management contract;	2. Failure to implement the provisions of laws and
2.	Inability to carry out the duties properly;	regulations and/or of the articles of
3.	Failure to implement the provisions of laws and regulations and/or of the articles of association;	 association; 3. Involvement in actions damaging to the SOE and/or the state finances;*
4.	Involvement in actions damaging to the SOE and/or the state	 Unethical and/or inappropriate actions;* Being found quilty by a
-	finances;*	5. Being found guilty by a court decision which
5.	Unethical and/or inappropriate actions;*	has absolute legal effect; or
6.	Being found guilty by a court decision which has absolute legal effect; or	6. Resignation.
7.	Resignation.	
*nev	provision	L

*new provision

As shown the above table, directors in and unethical commissioners who commit and/or inappropriate actions may be dismissed at any time through a GMS resolution. Besides, GR 23/2022 also strengthens the role of the GMS/Minister of SOE in the dismissal of directors and commissioners. Under Article 23 paragraph (2a) and Article 56 paragraph (2a), apart from the above reasons for dismissal, the GMS/Minister of SOE may dismiss directors and commissioners for other reasons they think fit for the sake of the SOE's interests and purpose. Nevertheless, GR 23/2022 does not further explain what "reasons they think fit" includes or what the vardstick for their assessment might be.

Article 25 of GR 23/2022 and Article 58 of GR 45/2005 provide that further provisions regarding the dismissal of directors and commissioners will be made by a regulation of the Minister of SOE.

If we consider the regulations issued by the Minister of SOE prior to GR 23/2022, the dismissal of director on the basis of reasons the GMS/Minister of SOE thinks fit is provided for in Regulation of the Minister of SOE PER-11/MBU/07/2021 No. concerning the Requirements and Procedures for the Appointment and Dismissal of Directors State Owned of Enterprises ("Ministerial Regulation 11/2021") and the regulation of the Minister of SOE revoked by Ministerial Regulation No. 11/2021, Regulation of the Minister of SOE No. PER-03/MBU/02/2015 concerning Requirements and Procedures for the Appointment and Dismissal of Directors of State Enterprises ("Ministerial Regulation Owned 03/2015"). Ministerial Regulation 03/2015 provides one condition in which the GMS/Minister of SOE might think fit to dismiss a director, viz., lack of harmony between directors. On the other hand, Ministerial Regulation 11/2021, which to date is still in effect, does not provide any elucidation on the dismissal of directors for other reasons the GMS/Minister of SOE thinks fit.

Similar arrangements can be found on the topic of the dismissal of commissioners. Regulation of the SOE No. PER-02/MBU/02/2015 Minister of concerning the Requirements and Procedures for the Appointment and Dismissal of Commissioners and Supervisors of State Owned Enterprises, as amended by Regulation of the Minister of SOE No. PER-10/MBU/10/2022 concerning Amendment of Regulation of the Minister of SOE No. PER-02/MBU/02/2015 concerning the Requirements and Procedures for the Appointment and Dismissal of Commissioners and Supervisors of State Owned Enterprises provides that commissioners may be dismissed by the GMS/Minister of SOE for other reasons they think fit for the sake of the SOE's interests and purpose, among which are: (1) in the context of company restructuring; (2) reaching retirement age for Civil Servants, for commissioners who are assigned from technical ministries or other government agencies.

The regulation of provisions regarding the dismissal of directors and commissioners for other reasons the GMS/Minister of SOE thinks fit at the level of a government regulation strengthens the authority of the GMS/Minister of SOE to dismiss directors at the discretion of the Minister of SOE or by a resolution of the GMS.

D. Exemption from Accountability of Directors and Commissioners

GR 45/2005 confirmed that each director and commissioner is obliged to perform his/her duties in good faith and full accountability for the SOE's interests and business, and so they are personally fully responsible if they are proven to be at fault or negligent in the performance of their duties. By the issuance of GR 23/2022 the government has provided an explicit demarcation of the positions of directors and commissioners if the SOE suffers losses. Article 27 paragraph (2a) and Article 59 paragraph (2a) of GR 23/2022 provide that no director or commissioner can be held liable for the losses of an SOE if the following can be proven:

Exemption from	Exemption from
Accountability of	Accountability of
Directors	Commissioners
 The losses were not due to his/her fault or negligence; He/she carried out the management in good faith and prudently for the interest of and in accordance with the purpose and objectives of the SOE; He/she had no conflict of interest, direct or indirect, in the actions of management which resulted in the losses; and 	 He/she carried out the supervision in good faith and prudently for the interests of the company and in accordance with the purpose and objectives of the SOE; He/she had no conflict of interest, direct or indirect, with the actions of management of the board of directors which resulted in the losses; and He/she gave advice to the directors to avoid the losses arising or continuing.

amongst others through the forum of the meeting of the board of directors.

The arrangements described above mirror Article 97 paragraph (5) and Article 114 paragraph (5) of the Limited Liability Companies Act Law N. 40 of 2007 which has often been mentioned as an application of the principle of the Business Judgement Rule. This principle originates from common law countries which still serve as topics of discussion in the field of corporate law in Indonesia.

Hopefully, by providing for limits on the responsibility of directors and commissioners, the directors and commissioners can avoid doubts in carrying out corporate acts or actions of management/supervision because such actions are now protected by regulations, so long as there is no conflict with such

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Comparison between GR 45/2005 and GR 23/2022

No.	GR 45/2005	GR 23/2022
1.	Register and Track Record in the Appointmer	nt of Directors
	Article 14	Article 14
	(1) The appointment and dismissal of members of the Board of Directors shall be carried out by the GMS for Share Companies and by the Minister for Public Companies.	
	 (2) In appointing directors, the Minister may seek input from the Minister of Finance 	in paragraph (1) the Minster shall determine a register and track record.
	and/or Technical Ministers.	(1b) In the register and track record contemplated in paragraph (1a), the Minister may request input from the relevant government institutions/agencies.
	-0N	(1c) In the appointment of directors contemplated in paragraph (1), the GMS/Minister shall pay attention to and take into consideration the track records contemplated in paragraph (1a).
	DEN	(2) In appointing directors, the Minister may seek input from the Minister of Finance and/or Technical Ministers.
2.	Elucidation of Criteria for Prospective Directo	ors Eligible for Appointment
	Elucidation of Article 17	Elucidation of Article 17
	Sufficiently Clear	(1) The registers and track records established by the Minister shall evaluate the integrity, good conduct, and honest behavior of the prospective directors.
		(2) Sufficiently Clear
		(3) Sufficiently Clear
3.	Conduct and Behaviour Directors Must Have	
	-	Article 17A
		In their day-to-day conduct, directors must be loyal and fully adhere to Pancasila, the 1945 Constitution of the Republic of Indonesia, the Unitary State of the Republic of Indonesia, and the Government.

4.	Prohi	bition of Multiple Posts for Directors		
		Article 17		Article 17A
	(1)	SOE directors are prohibited from being the management of political parties and/or candidates for/members of the legislature. Further provisions regarding the prohibition contemplated in paragraph (1) shall be made by a Regulation of the Minister.		SOE directors are prohibited from being the management of political parties and/or candidates for/members of the legislature, candidates for heads/deputy heads of regions and/or heads/deputy heads regions. Further provisions regarding the prohibition contemplated in paragraph (1) shall be made by a Regulation of the Minister.
5.	Roas	ons for Dismissal of Directors		
5.	Reas	Article 23		Article 23
	(1)	Directors may be dismissed at any time by a GMS resolution for Share Companies or the Minister for Public Companies, mentioning the reason therefor.	(1)	Directors may be dismissed at any time by a GMS resolution for Share Companies or the Minister for Public Companies, mentioning the reason therefor.
	(2)	The dismissal of directors contemplated in paragraph (1) shall be carried out if in actual fact the director concerned:	(2)	The dismissal of directors contemplated in paragraph (1) shall be carried out if in actual fact the director concerned:
	a.	is unable to fulfil the obligations agreed upon in the management contract;	a.	is unable to fulfil the obligations agreed upon in the management contract;
	b.	is unable to carry out the duties properly;	b.	is unable to carry out the duties properly;
	c.	fails to implement the provisions of laws and regulations and/or of the articles of		fails to implement the provisions of laws and regulations and/or of the articles of association;
	d.	association; is involved in actions damaging to the	d.	is involved in actions damaging to the SOE and/or the state finances;
		SOE and/or the state;	e.	commits unethical and/or inappropriate acts;
		is found guilty by a court decision which has absolute legal effect; or	f.	is found guilty by a court decision which has absolute legal effect; or
	f.	resigns.	g.	resigns.
	(3)	The Minister or the official appointed by him/her shall inform the director concerned of the planned dismissal contemplated in paragraph (1) orally or in writing.	(za)	Apart from the reasons for dismissal of a Director contemplated in paragraph (2), a Director may be dismissed for other reasons the GMS/Minister thinks fit for the interest and purpose of the SOE.
			(3)	The Minister or the official appointed by him/her shall inform the director concerned of the planned dismissal contemplated in paragraph (1) orally or in writing.

	(4)	The resolution for dismissal due to the reasons contemplated in paragraphs (2) a, b, c, and d, shall be adopted after the person concerned has been given the opportunity to defend himself/herself.	(4) The resolution for dismissal due to the reasons contemplated in paragraphs (2) a, b, c, d, and e, shall be adopted after the person concerned has been given the opportunity to defend himself/herself.
	(5)	The defence contemplated in paragraph (4) shall be delivered in writing to the GMS for a Share Company or to the Minister for a Public Company or the official appointed by him/her within 14 (fourteen) days as from when the director concerned was informed as contemplated in paragraph (3).	 (5a) It will not be necessary to provide the opportunity for defence contemplated in paragraph (4) if the person concerned does not object to the dismissal. (6) While the planned dismissal is still in process,
	(6)	While the planned dismissal is still in process, the director concerned must carry out his/her duties as he/she should.	(7) Dismissal for the reasons contemplated in
	(7)	Dismissal for the reasons contemplated in paragraphs (2) d and e shall constitute a dishonourable discharge.	paragraphs (2) d and f shall constitute a dishonourable discharge.
		a alemente al anti ger	
6.	Impl	ementing Regulations	
6.	Impl		Article 25
	Furth and Regu	ementing Regulations Article 25 her provisions regarding the appointment dismissal of Directors will be made by a ulation of the Minister.	Article 25 Further provisions regarding the appointment and dismissal of prospective Directors and the compilation of registers and track records shall be made by Regulation of the Minister.
6. 7.	Furth and Regu	ementing Regulations Article 25 her provisions regarding the appointment dismissal of Directors will be made by a allation of the Minister.	Further provisions regarding the appointment and dismissal of prospective Directors and the compilation of registers and track records shall be made by Regulation of the Minister.
	Furth and Regu	ementing Regulations Article 25 her provisions regarding the appointment dismissal of Directors will be made by a ulation of the Minister.	Further provisions regarding the appointment and dismissal of prospective Directors and the compilation of registers and track records shall be made by Regulation of the Minister. Article 27

	(3)	The owner of the capital may file suit in the courts on behalf of a public company against a Director who caused losses to	(2a) I	No Director shall be held accountable for the losses contemplated in paragraph (2) if it can be proved:
		the public company due to his/her fault or negligence.	a.	the losses were not due to his/her fault or negligence;
			b.	he/she carried out the management in good faith and prudently for the interest of and in accordance with the purpose and objectives of the SOE;
			C.	he/she had no conflict of interest, direct or indirect, in the actions of management which resulted in the losses; and
			d.	he/she took action to avoid the losses arising or continuing,
			(3)	The owner of the capital may file suit in the courts on behalf of a public company against a Director who caused losses to the public company due to his/her fault or negligence.
8.	Con	duct and Behaviour Commissioners Mu	st Ha	ve
		-		Article 50A
		DENTON	loyal Cons State	Article 50A eir day-to-day conduct, commissioners must be and fully adhere to Pancasila, the 1945 titution of the Republic of Indonesia, the Unitary of the Republic of Indonesia, and the ernment.
9.	Prof	nibition of Multiple Posts for Commission	loyal Cons State Gove	eir day-to-day conduct, commissioners must be and fully adhere to Pancasila, the 1945 titution of the Republic of Indonesia, the Unitary of the Republic of Indonesia, and the ernment.
9.	Prof	nibition of Multiple Posts for Commission Article 55	loyal Cons State Gove	eir day-to-day conduct, commissioners must be and fully adhere to Pancasila, the 1945 titution of the Republic of Indonesia, the Unitary of the Republic of Indonesia, and the ernment.
9.	Prof (1)	-	loyal Cons State Gove	eir day-to-day conduct, commissioners must be and fully adhere to Pancasila, the 1945 titution of the Republic of Indonesia, the Unitary of the Republic of Indonesia, and the ernment.

10.	Reas	ons for Dismissal of Commissioners a	pervisors		
		Article 56		Article 56	
	(1)	Commissioners and Supervisors may be dismissed at any time by a GMS resolution for Share Companies or the Minister for Public Companies, mentioning the reason therefor.	(1)	Commissioners and Supervisors may be dismissed at any time by a GMS resolution for Share Companies or the Minister for Public Companies, mentioning the reason therefor.	
	(2)	The dismissal of commissioners and supervisors contemplated in paragraph (1) shall be carried out if in actual fact the commissioner or supervisor concerned:	(2) a.	The dismissal of commissioners and supervisors contemplated in paragraph (1) shall be carried out if in actual fact the commissioner or supervisor concerned: is unable to carry out the duties properly;	
	a.	is unable to carry out the duties properly;	b.	fails to implement the provisions of laws and regulations and/or of the articles of association;	
	b.	fails to implement the provisions of laws and regulations and/or of the articles of	c.	is involved in actions damaging to the SOE and/or the state finances;	
		association;	d.	commits unethical and/or inappropriate acts;	
	C.	is involved in actions damaging to the SOE and/or the state;	e.	is found guilty by a court decision which has absolute legal effect; or	
	d.	is found guilty by a court decision which has absolute legal effect; or	f.	resigns.	
	e.	resigns.	(2a)	Apart from the reasons for dismissal of a commissioner or supervisor contemplated in	
	(3)	The Minister or the official appointed by him/her shall inform the commissioner or supervisor concerned of the planned dismissal contemplated in paragraph (1) orally or in writing.		may be dismissed for other re GMS/Minister thinks fit for the in	paragraph (2), a commissioner or supervisor may be dismissed for other reasons the GMS/Minister thinks fit for the interest and purpose of the SOE.
	(4)	The resolution for dismissal due to the reasons contemplated in paragraphs (2) a, b, and c shall be adopted after the person concerned has been given the opportunity to defend himself/herself.	(3)	The Minister or the official appointed by him/her shall inform the commissioner or supervisor concerned of the planned dismissal contemplated in paragraph (1) orally or in writing. The resolution for dismissal due to the reasons contemplated in paragraphs (2) a, b, c, and d	
	(5)	The defence contemplated in paragraph (4) shall be delivered in writing to the GMS for a Share Company or to the Minister for a Public Company or the official appointed by him/her within 14 (fourteen) days as from when the commissioner or supervisor concerned was informed as contemplated in paragraph (3).	(5)	shall be adopted after the person concerned has been given the opportunity to defend himself/herself. Deleted	

	(6)	While the planned dismissal is still in process, the commissioner or supervisor concerned must carry out his/her duties as he/she should.		It will not be necessary to provide the opportunity for defence contemplated in paragraph (4) if the person concerned does not object to the dismissal.
	(7)	Dismissal for the reasons contemplated in paragraphs (2) c and d shall constitute a dishonourable discharge.	• •	While the planned dismissal is still in process, the commissioner or supervisor concerned must carry out his/her duties as he/she should.
			(7)	Dismissal for the reasons contemplated in paragraphs (2) c and e shall constitute a dishonourable discharge.
11.	Exem	ptions from Accountability of Commission	ers	
		Article 59		Article 59
	(1)	A Commissioner or Supervisor shall perform his/her duties in good faith and full accountability for the interests and business of the SOE.	(1)	A Commissioner or Supervisor shall perform his/her duties in good faith and full accountability for the interests and business of the SOE.
	(2)	A Commissioner or Supervisor shall be personally fully responsible if the person concerned is at fault or negligent in performing his/her duties in accordance with the provision contemplated in paragraph (1).	(2)	A Commissioner or Supervisor shall be personally fully responsible of the SOE's losses if the person concerned is at fault or negligent in performing his/her duties in accordance with the provision contemplated in paragraph (1).
	(3)	The owner of the capital may file suit in the courts on behalf of a public company against a Supervisor who	(2a)	No Commissioner or Supervisor shall be held accountable for the losses contemplated in paragraph (2) if it can be proved:
		caused losses to the public company due to his/her fault or negligence.	a.	he/she carried out the supervision in good faith and prudently for the interests of the share company/public company and in accordance with the purpose and objectives of the share company/public company;
			b.	he/she had no conflict of interest, direct or indirect, with the actions of management of the board of directors which resulted in the losses; and
			c.	he/she gave advice to the directors to avoid the losses arising or continuing.
			(3)	The Minister may file suit in the courts on behalf of a public company against a Supervisor who caused losses to the public company due to his/her fault or negligence.

12.	SOE Employees			
		Article 95		Article 95
		SOE employees are workers for the SOE whose appointment, dismissal, rights, and obligations are determined by a contract of employment in accordance with the laws and regulations in the labour affairs sector.	(1)	SOE employees are workers for the SOE whose appointment, dismissal, rights, and obligations are determined by a contract of employment in accordance with the laws and regulations in the labour affairs sector. All of the provisions on employee affairs and
	(2)	All of the provisions on employee affairs and hierarchy of ranks applicable to Civil Servants do not apply to SOE.	(3)	hierarchy of ranks applicable to Civil Servants do not apply to SOE. In daily life, SOE employees must be loyal and
			(0)	fully adhere to Pancasila, the 1945 Constitution of the Republic of Indonesia, the Unitary State of the Republic of Indonesia, and the Government.
			(4)	In order to meet demand and/or enhance the performance of SOE, the Board of Directors may recruit employees and/or fill positions/posts under the Board of Directors via professional hire.
		Article 96		Article 96
	(1)	If an SOE employee is appointed to become a Director of an SOE, the person concerned shall retire as an SOE employee with his/her highest rank in the SOE counted as from when he/she was appointed as a Director.		If an SOE employee is appointed to become a Director of an SOE, the person concerned shall retire as an SOE employee with his/her highest rank in the SOE counted as from when he/she was appointed as a Director.
	` '	Further provisions regarding employees who are appointed as Directors shall be made by a Regulation of the Minister.	(2)	The provision contemplated in paragraph (1) shall apply to employees who have already reached the age of 50 (fifty) at the time of their appointment or after their appointment as a Director.
			(3)	If the employee is appointed as a Director in another SOE, the person concerned may request retirement when he/she has already reached the age of 50 (fifty), at the time of the appointment or after serving, with the retirement rank and rights according to the provisions applicable in the SOE concerned.

(4) For as long as the SOE employee has been appointed as a Director as contemplated in paragraphs (2) and (3) but has not yet retired, the employee's rank shall continue in accordance with the provisions in the SOE concerned.
 (5) Further provisions regarding SOE employees who are appointed as Directors in the SOE concerned as contemplated in paragraph (1) and employees who are appointed as Directors in another SOE as contemplated in paragraph (3) shall be made by a Regulation of the Minister.

Note:

GR 23/2022 came into effect on the date of its enactment. When GR 23/2022 came into effect, all regulations which constitute implementing regulations of GR 45/2005 were declared still in effect in so far as they do not conflict with the provisions in GR 23/2022.