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INVESTMENT REGULATION UPDATE: KEY PROVISIONS UNDER BKPM REGULATION NO. 5 OF 2025

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Overview & Introduction

Effective October 2, 2025, the Ministry of Investment and Hiliritation Industry/BKPM (Investment Coordinating Board) Regulation No. 5 of 2025 was implemented to consolidate the framework for Risk-Based Business Licensing (PBBR) and Investment Facilities delivered through the Online Single Submission (OSS) system ("**BKPM Regulation No 5 of 2025**"). This new regulation replaces and integrates previous rules, aiming to simplify market entry, strengthen government oversight, and improve legal certainty for both domestic and foreign investors. The key provisions focus on reducing financial barriers to entry, streamlining bureaucratic processes, and tightening compliance monitoring to ensure real investment realization.

Key Takeaways from BKPM Regulation No 5 of 2025

1. New Capital Requirements and Lock-up Period

One of the most notable amendments introduced under BKPM Regulation No. 5 of 2025 concerns the capital requirements for Foreign Investment Companies (Perseroan Terbatas Penanaman Modal Asing or PT PMA). The regulation reduces the minimum issued and paid-up capital from IDR 10 billion to IDR 2.5 billion, providing a more accessible investment landscape for smaller foreign investors and early-stage enterprises seeking to establish a presence in Indonesia. This reduction marks a structural shift in Indonesia's investment policy, designed to encourage innovation and competitiveness by lowering financial entry barriers while still maintaining prudent control through mandatory reporting and oversight mechanisms.

Despite the lower paid-up capital threshold, the minimum total investment value remains set at more than IDR 10 billion per 5-digit Indonesian Standard Business Field Classification (KBLI) code for each project location, excluding land and building costs. This distinction underscores the government's intent to facilitate ease of entry without compromising the fundamental principle that foreign investments should remain large-scale and productive in nature. In other words, while initial capitalization requirements have been relaxed, the commitment to significant and sustainable investment activities remains intact to ensure alignment with Indonesia's macroeconomic priorities.

In addition, the regulation introduces a mandatory 12-month lock-up period for the paid-up capital, which must remain in the company's bank account for at least one year from the date of placement. The funds may only be used for legitimate operational purposes such as asset acquisition, construction, or initial working capital, thereby preventing fictitious capital placements made solely for compliance. This measure strengthens transparency and ensures that every foreign investment supports genuine business activity, aligning with Indonesia's broader goal of maintaining integrity and substance in the investment ecosystem.

2. Investment Incentives through OSS Automation

A major policy innovation introduced by BKPM Regulation No 5 of 2025 lies in its new framework for automated investment incentives, set out under Articles 330 to 370. For the first time, fiscal and non-fiscal facilities, such as tax holidays, tax allowances, import duty exemptions (Masterlist), and incentives for businesses operating within Special Economic Zones (KEK), Free Trade Zones (KPBPB), and the Nusantara Capital City (IKN) can now be processed directly through the Online Single Submission (OSS) platform. This marks a significant modernization of Indonesia's investment regime by transitioning from a manual, paper-based application system toward a fully digital, data-driven approval mechanism.

Under this integrated system, investors no longer need to file separate applications with multiple government bodies. Instead, the OSS platform automatically determines eligibility for incentives based on verified data drawn from several official databases, including the Investment Activity Report (Laporan Kegiatan Penanaman Modal – LKPM), taxpayer compliance records maintained by the Directorate General of Taxes (DJP), and import-export activity data from the Directorate General of Customs and Excise (Bea Cukai). Once the system confirms compliance across these sources, it can directly issue the corresponding investment facility approval without the need for additional bureaucratic review.

The automation of incentive administration represents a substantial step toward regulatory transparency, consistency, and efficiency. By reducing human intervention and eliminating unnecessary administrative bottlenecks, the system minimizes opportunities for procedural delay while enhancing investor confidence through predictability. More broadly, this development aligns Indonesia's investment facilitation framework with international standards set by the OECD and ASEAN, reinforcing the country's positioning as a digitally capable, reform-driven economy that provides clarity and efficiency in the implementation of fiscal and non-fiscal incentives.

3. Simplified Mechanism for Investment Status Conversion

Another significant feature of BKPM Regulation No. 5 of 2025, articulated under Articles 226 to 228, is the formalization of a streamlined process for changing investment status between Domestic Investment (Penanaman Modal Dalam Negeri – PMDN) and Foreign Investment (Penanaman Modal Asing – PMA). Historically, companies seeking to convert their investment classification were required to establish a new legal entity or execute amendments through a notarial deed before

re-registration, an approach that often prolonged the investment realization process. The new regulation eliminates this obstacle by enabling direct status conversion through the OSS-RBA (Risk-Based Approach) system, without the need for creating a new company at the initial stage.

When a PMDN transitions into a PMA, the company must meet the updated minimum paid-up capital requirement of IDR 2.5 billion and maintain a total investment value exceeding IDR 10 billion per KBLI classification per project site, excluding land and buildings. These thresholds ensure that foreign investments remain consistent with Indonesia's national policy of prioritizing large-scale and sustainable capital inflows. Conversely, when a PMA reverts to PMDN status, typically following a transfer of shares to Indonesian shareholders, the change must also be recorded within the OSS system to maintain transparency and compliance.

This procedural innovation facilitates joint ventures, equity restructuring, and cross-border acquisitions, offering flexibility to foreign investors seeking to collaborate with local partners or expand their participation in Indonesian businesses. By enabling seamless conversion between investment classifications, the regulation promotes a dynamic business environment, removes redundant formalities, and supports Indonesia's broader objective of creating a responsive and integrated investment ecosystem governed by legal certainty and administrative efficiency.

4. Digital Oversight and Automated Compliance Enforcement

The provisions contained in Articles 371 to 397 introduce a comprehensive digital supervision framework that integrates monitoring, compliance verification, and sanction mechanisms directly into the OSS platform. This approach transforms the OSS system from a mere licensing tool into an active regulatory instrument capable of conducting real-time oversight. It allows the government to automatically detect and respond to specific compliance failures, such as a company's failure to deposit its paid-up capital, failure to file an LKPM, or submission of inaccurate or misleading information during the licensing process.

When the OSS system identifies a potential violation, it automatically issues a formal electronic notification to the company concerned and records the infraction within its digital compliance registry. Depending on the severity of the non-compliance, administrative actions can range from written warnings and temporary suspension of business licenses to the ultimate sanction—revocation of the company's Business Identification Number (Nomor Induk Berusaha – NIB). All actions are electronically time-stamped and stored within the OSS system to ensure full traceability and accountability.

The integration of data-sharing protocols between the Ministry of Investment/BKPM, the Directorate General of Taxes, and the Directorate General of Customs and Excise enhances cross-agency coordination, enabling data-driven audits and verification of declared investment values, import activities, and tax compliance. This digital enforcement structure represents a paradigm shift from reactive supervision to preventive and predictive regulation, where compliance is

continuously monitored and enforced through technology. In doing so, Indonesia strengthens its investment governance architecture, ensuring that regulatory obligations are not merely formal requirements but actively enforced standards aligned with the nation's commitment to transparency, efficiency, and integrity in business operations.

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