BANKING, FINANCE & PROJECTS, DISPUTE RESOLUTION & GENERAL CORPORATE/M&A

Indonesia Establishes its International Financial Centre: An Introduction to the PFII Law

 © ASSEGAF HAMZAH & PARTNERS

At the time of publication, the official promulgated text and numbering of the law governing the establishment of one or more Indonesia International Financial Centres (*Pusat Finansial Internasional Indonesia* or "**PFII**") had not yet been publicly released. This alert is based on the latest publicly available version of the law and may be updated if the official text contains material differences.[1]

The Indonesia International Financial Centre Law ("**PFII Law**") establishes a framework under which one or more PFII may be established in Indonesia. The establishment of a PFII will be determined by the Central Government (*Pemerintah Pusat*) following an evaluation of factors including location, capital requirements, and feasibility considerations. More than one PFII may be established, although a PFII may not be located within an existing special economic zone.

Following enactment of the PFII Law, President Prabowo Subianto publicly indicated that Jakarta is expected to serve as the initial PFII location, with Bali also envisaged as a future PFII location and additional locations potentially being considered over time.[2]

The PFII regime is intended to attract domestic and international financial institutions, investors, and multinational businesses, whilst supporting financing for strategic sectors of the Indonesian economy. It also seeks to promote the development of capital markets, financial technology, sustainable finance, and Islamic finance, as well as to attract family offices, regional headquarters, treasury centres, professional services providers, and international-standard dispute resolution institutions.

Positioning Indonesia as an International Financial Centre

International financial centres have become an important feature of the global financial landscape. Many jurisdictions have established specialised financial centres to attract international capital, financial institutions, investment managers, family offices, treasury centres, and professional services providers. These centres often operate under tailored legal, regulatory, tax, and dispute resolution frameworks intended to facilitate cross-border financial and commercial activity.

Against this backdrop, the PFII Law appears to reflect Indonesia's ambition to position itself more competitively as a destination for internationally mobile capital and financial services activity. Consistent with this objective, the PFII framework introduces a number of features that differ from Indonesia's conventional legal and regulatory framework, including a dedicated financial regulator, specialised dispute resolution institutions, a foreign-currency operating environment, and the potential application of international legal principles in specified circumstances.

Institutional Architecture

The PFII Law establishes a dedicated governance, supervisory, and dispute resolution framework applicable within the PFII. The framework comprises:

- **Dewan Pertimbangan PFII (PFII Advisory Council)** — chaired by the Minister of Finance, with the Governor of Bank Indonesia, the Chairs of OJK's and LPS's Boards of Commissioners, and the Head of PPATK as members. PFII Advisory Council issues non-binding policy recommendations to Dewan PFII.

[1] At the time of publication, the official promulgated text and numbering of the PFII Law had not yet been publicly released. This alert is based on the latest publicly available version of the law. We may update this alert if the official text, once released, contains material differences.
[2] Arnoldus Kristianus, "*Prabowo: Jakarta dan Bali Jadi Lokasi Resmi PFII*", Investor Daily, 14 August 2026, available at: Investor Daily article.

- **Dewan PFII (PFII Board)** — the principal governing body of the PFII, responsible for setting strategy and issuing *Peraturan Dewan PFII* (PFII Board Regulations) as the primary regulatory instruments applicable within the PFII.

- **Lembaga Pengelola PFII (LP PFII)** — responsible for the day-to-day management and operation of the PFII.

- **Lembaga Pengawas Jasa Keuangan PFII (LPJK PFII)** — a dedicated financial services regulator responsible for licensing, supervision, and enforcement in relation to financial sector and financial-sector-supporting activities conducted within the PFII. Notably, LPJK PFII sits alongside, not within, OJK's existing supervisory perimeter.

- **Lembaga Arbitrase PFII** — provides arbitration, mediation, conciliation, expert determination, and other alternative dispute resolution services.

- **Pengadilan PFII** — a specialised court with jurisdiction over specified PFII-related civil disputes, including commercial, contractual, insolvency, regulatory, and tax-facility matters. The PFII court will also administer the recognition and enforcement of arbitral awards.

  Panels must include at least one sitting Supreme Court justice and may also include ad hoc judges, including foreign nationals. Decisions from the PFII court of first instance are subject to appeal to the PFII Court of Appeal. Decisions at the appellate level are generally final and not subject to further appeal, cassation, or judicial review, except in limited circumstances relating to the recognition and enforcement of international arbitral awards.

A notable feature of the PFII regime is the creation of dedicated regulatory and dispute resolution institutions. Businesses operating within the PFII may therefore become subject to a supervisory and judicial framework that differs from the conventional onshore regime administered by OJK and the general courts.

Permitted Business Activities

Permitted activities are grouped into three broad categories under the PFII Law:

- **Financial sector activities** – include banking, insurance, Islamic finance, capital markets and carbon exchange, pension funds, financing, venture capital, fintech, guarantees, international commodity trading, bullion, trusts, financial holding companies, money and FX markets, family offices, and investment management.

- **Financial-sector-supporting activities** – covering public accountants, appraisers, notaries, legal and financial consultants, investment managers, tax consultants, actuaries, and Islamic finance experts.

- **Supporting commercial activities** – such as transportation, accommodation, healthcare, tourism, food and beverage, and waste management services, which are intended to support the PFII as a self-contained business and living zone.

The PFII Law allows businesses to establish various forms of corporate vehicles within the PFII, including unincorporated business entities (*badan usaha*), incorporated legal entities (*badan usaha berbadan hukum*), special purpose vehicles, and trustees, providing greater flexibility in structuring investments and operations.

Financial categories and financial-sector-supporting activities are supervised by LPJK PFII, while supporting commercial activities fall under the supervision of LP PFII.
The breadth of financial sector activities listed under Pasal 5(1)(a) of the PFII Law, including banking, insurance, capital markets, Islamic finance, and a wide range of other financial services, together with the establishment of LPJK PFII as an independent regulator with authority to issue its own licences within the PFII, separate from OJK's ordinary supervisory perimeter, has prompted speculation that the PFII framework may facilitate a form of universal banking licence. Under such a model, a single PFII-licensed entity could potentially engage in a broader range of financial activities than would be permitted under Indonesia's existing sectoral licensing framework. However, the PFII Law does not expressly use the term "universal banking licence", and the mechanism through which any such licence would be structured and issued, including any applicable conditions, prudential requirements, or activity limitations, remains to be clarified through the implementing regulations and LPJK PFII regulations.

Ring-Fencing of PFII Activities from the Onshore Market

A key feature of the PFII regime is the separation of PFII activities from Indonesia's domestic financial system. To preserve this distinction, the PFII Law imposes restrictions on financial-sector business actors (*Pelaku Usaha* or "**PUSK**") operating within the PFII.

Among other things, PUSK are generally prohibited from:

- Raising funds from the public (e.g., in the form of deposits or similar instruments) outside the PFII, in Rupiah or foreign currency;
- Offering financial products to the public outside the PFII without the approval of the relevant Indonesian authority;
- Opening Rupiah-denominated accounts, except where otherwise permitted under PFII regulations; and
- Extending loans within Indonesian territory outside the PFII, subject to limited exceptions for certain foreign currency loans.

Non-compliance may result in administrative sanctions ranging from written warnings and financial penalties to suspension of activities, removal of management, and revocation of licences.

For financial institutions, these restrictions mean that a PFII-licensed entity cannot be used as a vehicle to solicit onshore Indonesian depositors or borrowers without separate onshore authorisation. The PFII licence does not substitute for, or extend to, an onshore banking licence.

Currency, Language, and Applicable Law

The PFII is intended to operate as an international financial centre with a distinct operating environment. A notable feature of many international financial centres is the adoption of operating and legal frameworks intended to be familiar to international investors and financial institutions. The PFII Law adopts a similar approach through its rules on currency, language, and applicable law.

Business activities within the PFII are generally to be conducted in foreign currency, although Rupiah may be used for certain day-to-day operational and supporting transactions. The PFII Law also provides for the unrestricted transfer and repatriation of foreign exchange, capital, profits, dividends, interest, and investment proceeds, subject to applicable PFII regulations. PFII activities remain subject to Indonesia's anti-money laundering, counter-terrorism financing, beneficial ownership transparency, and tax information exchange requirements.

English is designated as the working language of the PFII. More significantly, the PFII operates under a hybrid legal framework. While Indonesian civil and business law continues to apply, the PFII Board may adopt or incorporate international legal principles, jurisprudence, international commercial law concepts, and international financial centre practices through PFII regulations. The elucidation to the PFII Law specifically contemplates the application of common law principles within this framework.

Where neither the PFII Law nor applicable PFII regulations address a particular issue, the PFII Court may have regard to these international legal principles in resolving disputes. For cross-border investments, the ability to structure transactions under a framework that incorporates common law principles, English-language documentation, and foreign-currency denomination may reduce friction in deals execution and provide greater familiarity for international counterparties.

Tax and Other Incentives

The PFII Law provides an extensive package of fiscal and non-fiscal incentives intended to attract financial institutions, investors, professional service providers, and skilled professionals to the PFII. For core financial sector activities and qualifying inbound investment, the incentives include up to 50 years of income tax facilities, comprising exemptions for certain foreign-sourced income, a 100% corporate income tax reduction (subject to relevant international tax agreements), reduced tax treatment for qualifying skilled professionals, relief from certain withholding tax obligations, and tax incentives for eligible golden visa holders associated with PFII family offices. Supporting-sector activities, other supporting business activities, and the PFII institutions themselves may also benefit from similar incentives, albeit for shorter periods.

The PFII Law further provides value-added tax, luxury goods sales tax, and import duty facilities for qualifying PFII-related activities and development, as well as inheritance tax relief in connection with qualifying PFII family office structures.

The PFII Law also contemplates a range of non-tax incentives, including immigration, employment, licensing, residency, visa, and stay permit facilities, the details of which will be further regulated by the PFII Board.

Interaction with Existing Sectoral Law

One of the most significant features of the PFII Law is its broad supremacy provision. The law provides that existing laws and regulations governing, among other things, the financial sector, judicial power, arbitration, taxation, language, currency, civil matters, foreign exchange, exchange rate arrangements, and regional government do not apply to the extent that the relevant subject matter is specifically regulated under the PFII framework.

As a result, the PFII Law and its implementing regulations may take precedence over otherwise applicable Indonesian laws, including sector-specific legislation such as the Banking Law and OJK Law, where those matters are expressly addressed under the PFII regime.

The practical scope of this carve-out remains to be seen and will depend in large part on the implementing regulations and future PFII Board regulations. In particular, market participants may wish to monitor how the PFII framework interacts with OJK's expanded powers under the Amended P2SK Law, which we discussed in our previous alert (click here to read).

Implementation Timeline

The PFII Law took effect on its promulgation. The law requires implementing regulations to be issued within six months of enactment. Many key aspects of the PFII regime, including licensing, supervision, operational requirements, and incentive eligibility, will therefore depend on the implementing regulations and PFII Board regulations to be issued in due course.

Key Considerations for Market Participants

Businesses considering establishing a presence in the PFII should assess:

- Whether the PFII framework aligns with their intended business model, particularly in light of the restrictions applicable to activities conducted outside the PFII;
- The availability and suitability of the PFII's tax, immigration, residency, and other incentives;
- The implications of operating under a dedicated regulatory and supervisory framework, including the role of LPJK PFII and other PFII institutions;
- Exposure to the PFII's dispute resolution framework, including the jurisdiction of the PFII Court and the limited avenues for appeal; and
- The operational implications of conducting business in an English-language, foreign-currency-denominated, and internationally oriented legal environment.

From Framework to Implementation

The PFII Law represents one of Indonesia's most ambitious attempts to establish an internationally competitive financial centre and attract global financial institutions, investors, family offices, and professional services providers.

However, the practical operation of the PFII regime will depend substantially on the implementing regulations and future PFII Board regulations. Important questions remain regarding licensing requirements (including the possibility of a universal banking licence), supervisory arrangements, implementation of the incentive framework, and the interaction between the PFII framework and Indonesia's broader legal and regulatory regime.

As with international financial centres elsewhere, the ultimate success of the PFII will likely depend not only on the legislative framework itself, but also on the predictability, credibility, and commercial attractiveness of its implementation.

For regional Banking, Finance & Projects, Dispute Resolution & General Corporate/M&A matters, please see Rajah & Tann Asia's Regional Banking, Finance & Projects, Regional Dispute Resolution & Regional General Corporate/M&A Practice for more information.

 © ASSEGAF HAMZAH & PARTNERS LAWYERS WHO KNOW ASIA

Contacts

BANKING, FINANCE & PROJECTS, DISPUTE RESOLUTION & GENERAL CORPORATE/M&A

Eri Hertiawan

PARTNER, DISPUTE RESOLUTION

D +62 21 2555 7883
eri.hertiawan@ahp.id

Indira Yustikania

PARTNER, BANKING, FINANCE & PROJECTS

D +62 21 2555 7829
indira.yustikania@ahp.id

Alvin Ambardy

PARTNER, DISPUTE RESOLUTION

D +62 21 2555 7895
alvin.ambardy@ahp.id

Derry Patra Dewa

PARTNER, GENERAL CORPORATE/M&A

D +62 21 2555 7892
derry.dewa@ahp.id

Please feel free to also contact Knowledge Management at RTApublications@rajahtann.com.

Regional Contacts

Cambodia
Rajah & Tann Sok & Heng Law Office

T +855 23 963 112 | +855 23 963 113
kh.rajahtannasia.com

China
Rajah & Tann Singapore LLP Representative Offices

Shanghai Representative Office
T +86 21 6120 8818
F +86 21 6120 8820

Shenzhen Representative Office
T +86 755 8898 0230
cn.rajahtannasia.com

Indonesia
Assegaf Hamzah & Partners

Jakarta Office
T +62 21 2555 7800
F +62 21 2555 7899

Surabaya Office
T +62 31 5116 4550
F +62 31 5116 4560
www.ahp.co.id

Lao PDR
Rajah & Tann (Laos) Co., Ltd.

T +856 21 454 239
la.rajahtannasia.com

Malaysia
Christopher & Lee Ong

T +603 2273 1919
F +603 2273 8310
www.christopherleeong.com

Myanmar
Rajah & Tann Myanmar Company Limited

T +951 9253750
mm.rajahtannasia.com

Philippines
Gatmaytan Yap Patacsil Gutierrez & Protacio (C&G Law)

T +632 8248 5250
www.cagatlaw.com

Singapore
Rajah & Tann Singapore LLP

T +65 6535 3600
sg.rajahtannasia.com

Thailand
Rajah & Tann (Thailand) Limited

T +66 2656 1991
th.rajahtannasia.com

Vietnam
Rajah & Tann LCT Lawyers

Ho Chi Minh City Office
T +84 28 3821 2673 | +84 28 3521 2832

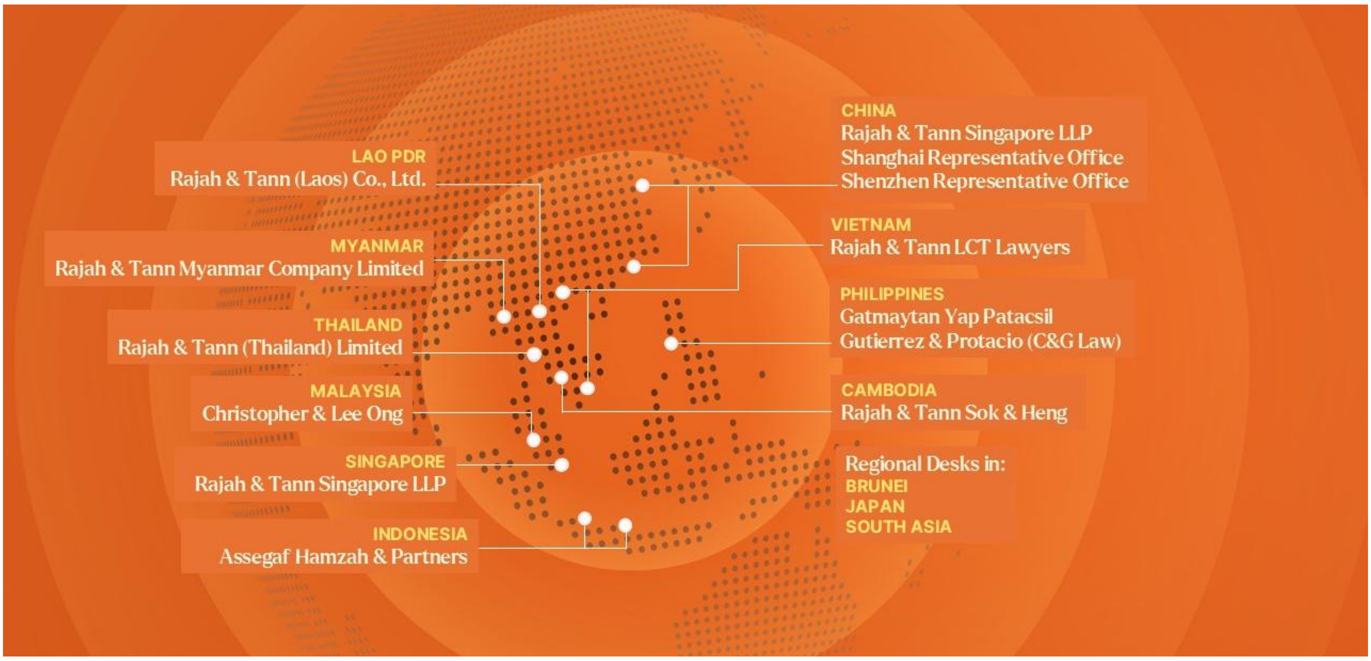
Hanoi Office
T +84 24 3267 6127 | +84 24 3267 6128
vn.rajahtannasia.com

Rajah & Tann Asia is a network of legal practices based in Asia.

Member firms are independently constituted and regulated in accordance with relevant local legal requirements. Services provided by a member firm are governed by the terms of engagement between the member firm and the client.

This update is solely intended to provide general information and does not provide any advice or create any relationship, whether legally binding or otherwise. Rajah & Tann Asia and its member firms do not accept, and fully disclaim, responsibility for any loss or damage which may result from accessing or relying on this update.

Our Regional Presence



Based in Indonesia, and consistently gaining recognition from independent observers, Assegaf Hamzah & Partners has established itself as a major force locally and regionally, and is ranked as a top-tier firm in many practice areas. Founded in 2001, it has a reputation for providing advice of the highest quality to a wide variety of blue-chip corporate clients, high net worth individuals, and government institutions.

Assegaf Hamzah & Partners is part of Rajah & Tann Asia, a network of local law firms in Cambodia, China, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Our Asian network also includes regional desks focused on Brunei, Japan and South Asia.

The contents of this Update are owned by Assegaf Hamzah & Partners and subject to copyright protection under the laws of Indonesia and, through international treaties, other countries. No part of this Update may be reproduced, licensed, sold, published, transmitted, modified, adapted, publicly displayed, broadcast (including storage in any medium by electronic means whether or not transiently for any purpose save as permitted herein) without the prior written permission of Assegaf Hamzah & Partners.

Please note also that whilst the information in this Update is correct to the best of our knowledge and belief at the time of writing, it is only intended to provide a general guide to the subject matter and should not be treated as a substitute for specific professional advice for any particular course of action as such information may not suit your specific business and operational requirements. It is to your advantage to seek legal advice for your specific situation. In this regard, you may contact the lawyer you normally deal with in Assegaf Hamzah & Partners.