



## **ARMA Update: June 16, 2021**

*(English Version)*

### **Implementation to the Regulation of Warehouse Receipt System**

#### **Overview**

The trade finance system is indispensable for the business world to ensure the smooth running of its business, especially for small and medium enterprises. The Warehouse Receipt System is one of the most important and effective solutions and instruments in the trade finance system. The Warehouse Receipt System can facilitate the provision of credit for the business world with inventory as collateral or goods stored in the warehouse. The Warehouse Receipt System is also useful in stabilizing market prices by facilitating a way of selling that can be done throughout the year. In addition, the Warehouse Receipt System can be used by the Government to control prices and national inventories.

This *ARMA Update* shall discuss regarding general description upon the Ministry of Trade Regulation Number 33 year 2020 (“**MOT 33/2020**”) as amended severally in the Ministry of Trade Regulation Number 14 year 2021 (“**MOT 14/2021**”) on Goods and Requirements of Goods that can be Stored in Warehouse Receipt System (“**Warehouse Receipt Law**”), which is expected to provide certainty regarding the financing system with the Warehouse Receipt System instrument.

#### **1. Definition of Warehouse Receipt System**

Warehouse Receipt is proof of ownership of securities representing goods stored in the Warehouse and issued by the Warehouse Manager.<sup>1</sup> Warehouse Receipt System (“WRS”) is an activity related to the issuance, transfer, guarantee, and settlement of Warehouse Receipt transactions.<sup>2</sup> Warehouse receipts can also be traded in an organized market (exchange) or outside the stock exchange by the Warehouse Receipt Holder to third parties. With the transfer of the Warehouse Receipt, the new Warehouse Receipt Holder is given the right to take the goods listed therein.

It is stated that there are 2 (two) types of Warehouse Receipts, namely: i) Warehouse Receipts with scrip are securities whose ownership is in the form of certificates either on behalf of or by order; and (ii) scripless Warehouse Receipts are securities whose ownership is recorded electronically.<sup>3</sup>

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<sup>1</sup> Article 2 Paragraph 1 of the Warehouse Receipt Law

<sup>2</sup> Article 1 number 1 of the Warehouse Receipt Law

<sup>3</sup> Article 2 Paragraph 3 of the Warehouse Receipt Law



Warehouse Receipt must contain at least:<sup>4</sup>

- a. title of Warehouse Receipt;
- b. Warehouse Receipt type
- c. name and address of the owner of the goods;
- d. warehouse location where goods are stored;
- e. publication date;
- f. issuance number;
- g. the due date for storing goods;
- h. item description;
- i. storage costs; and
- j. the signature of the owner of the goods and the Warehouse Manager.

## 2. Warehouse Receipt as Securities

Warehouse Receipts are encumbered with security rights over Warehouse Receipts, hereinafter referred to as Guarantee Rights. The form of the Warehouse Receipt Guarantee agreement based on Article 14 of the Warehouse Receipt Law is made in the Deed of Guarantee Rights Agreement.

The Guarantee Rights Agreement in question contains at least:

- a. identity of the party giving and receiving the Guarantee Rights;
- b. data on the main agreement guaranteed by the Guarantee Rights;
- c. Warehouse Receipt specifications that are pledged;
- d. the value of the debt guarantee; and
- e. value of goods based on market prices at the time the goods are entered into the warehouse.

Warehouse receipts that are used as collateral must be submitted or are in the control of the creditor as the recipient of the guarantee. Therefore, if it is already in the hands of the creditor receiving the guarantee, the Warehouse Receipt can no longer be re-guaranteed because the Warehouse Receipt that has been used as collateral must be submitted or is in the control of the creditor as the recipient of the guarantee. So that if the Warehouse Receipt is already in the hands of the creditor, the Warehouse Receipt cannot be reassigned. Furthermore, the recipient of this Guarantee Right must notify the Warehouse Receipt binding agreement as a Collateral Rights to the Registration Center and Warehouse Management.<sup>5</sup> This notification contains data on the principal agreement of the debt and receivables that underlies the emergence of the guarantee. This notification will make it easier for the Registration Center and Warehouse Management to prevent double guarantees as well as monitor the circulation of Warehouse Receipts and provide legal certainty about the party entitled to the goods in the event of a breach of contract.

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<sup>4</sup> Article 5 of the Warehouse Receipt Law

<sup>5</sup> Article 13 of the Warehouse Receipt Law



### 3. Items and Requirements for Items that Can Be Stored in the Warehouse Receipt System

The Goods Owner can store the Goods in the WRS Warehouse through the Warehouse Manager who issues Warehouse Receipts for each Goods storage after the Goods owner submits the Goods to the Warehouse manager. In the storage of goods in the WRS Warehouse, priority is given to strategic goods, superior commodities, export destinations and/or food security.<sup>6</sup>

Regarding the list of goods that can be warehoused receipts, it is determined through Minister of Trade Regulation 14/2021. As for the goods that can be stored in the WRS Warehouse, at least they meet the following requirements:<sup>7</sup>

- a. Has a shelf life of at least 3 months;
- b. Meet certain quality standards; and
- c. The minimum amount of goods stored,

the minimum number of commodities that can be stored in the WRS Warehouse depends on the policy of the Warehouse Manager, but for example for corn, when viewed from the number of drying machine capacities commonly used in the field, the minimum reasonable amount to be stored is approximately 20 tons for each issued Warehouse Receipt.

In addition to these three requirements, goods that can be stored in the WRS Warehouse must also meet the technical requirements set by the Head of the Commodity Futures Trading Supervisory Agency.

In the event of a change in the type of Goods that can be stored in the WRS Warehouse, the Minister will determine and take into account the recommendations from the regional government, relevant agencies, or commodity associations while still taking into account the requirements for storing goods.<sup>8</sup>

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<sup>6</sup> Article 2 of Regulation of MOT 33/2020

<sup>7</sup> Article 3 of Regulation of MOT 33/2020

<sup>8</sup> Article 4 paragraph (3) MOT 33/2020 Jo Article I MOT 14/2021