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## **Regulation of Private Equity**

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# What is PE?

PE is investment in “non public” investments. PE Funds aggregate capital from private investors to make investments. Investment strategies may include:

- Private Placement (equity)
- Venture Capital
- Leveraged Buy Out
- Special Situation or Distressed Debt
- Real Estate
- Hedge Funds

# Private Equity: Size of Market

## Large Market:

- in 2011, PE Investments exceeded public offerings (\$246bn v. \$150bn in global IPOs)
- Indonesia absorbed \$850mm in PE investments in 2010 and \$650mm in 2011
- More than \$4 billion reportedly already raised and targeted for Indonesian PE

Sources: TheCity UK; Ernst & Young; Wall Street Journal

## Benefits of PE:

- Low Cost
- Limited regulatory compliance
- Speed
- Sponsorship and Focus
- More scope for investments

PE provides an easy way for both domestic and international capital to be quickly mobilized for use by Indonesia's productive sector.

## Risks of PE:

- Unclear ownership of economic risk
- Excessive Leverage
- Market Abuse and Conflicts of Interest
- Potential to lessen Public Market transparency and efficiency

In a crisis, lack of data about PE can make it difficult to determine impact on markets, or risks of default. Investors may lack the safeguards available in public markets.

# Comparison of EU and US Approaches

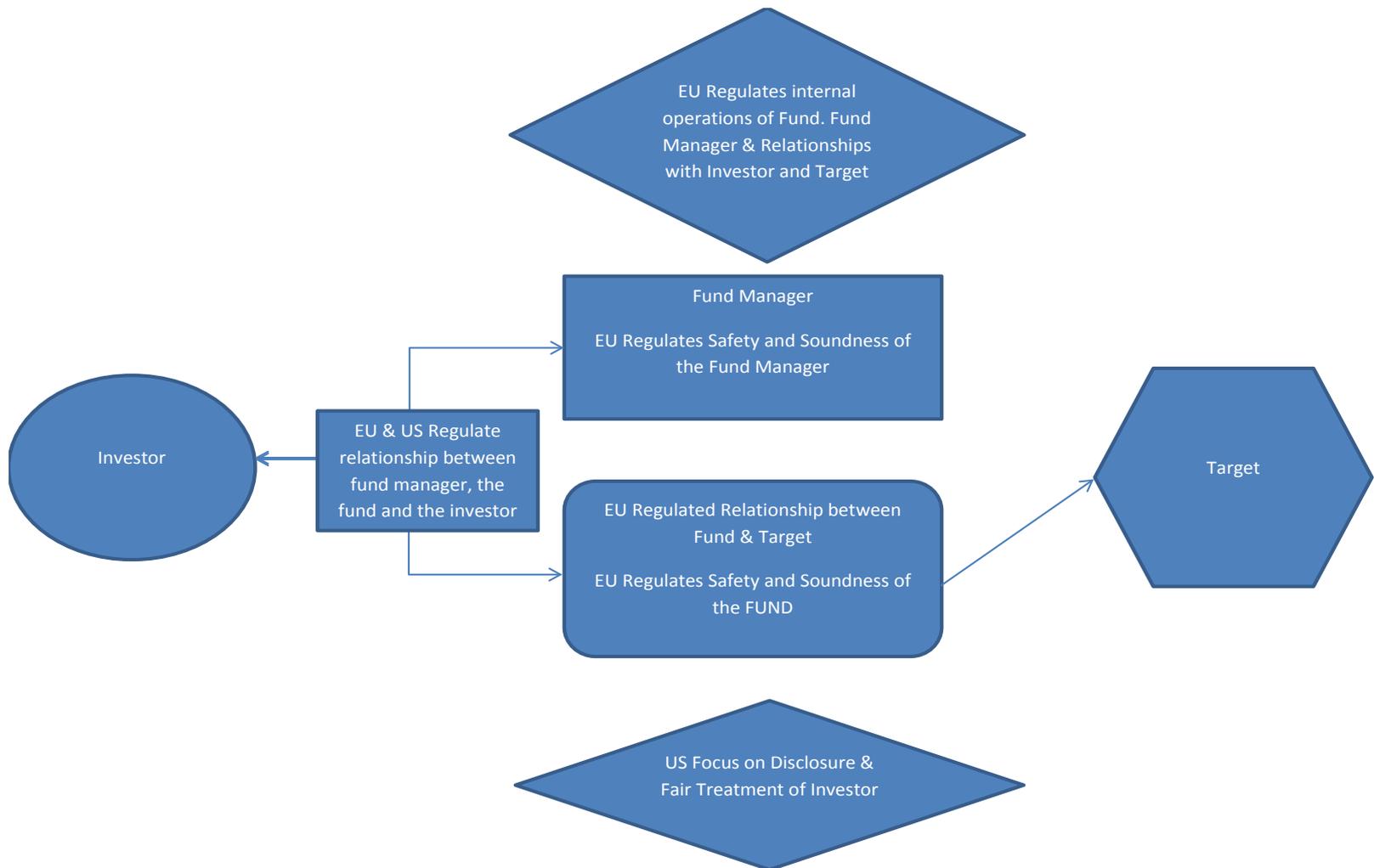
## 1. EU Approach:

- a. Regulation of all “Alternate Investment Fund Managers”
- b. Safety and Soundness
- c. Depository Requirements
- d. Liquidity Requirements

## 2. US Approach:

- a. Regulation of “Investment Advisors”
- b. Focus on relationship between investors and advisor
- c. No Safety and Soundness or Liquidity Requirements
- d. Disclosure and Private Remedies

# Regulatory Focus: EU “inside the box” of funds and advisors; US on investor relationship



US Dodd Frank increased regulation for fund managers

## Recommendation:

Gather data on the operation and investment of PE in Indonesia.

- Domestic PE: Require informational disclosures so that regulators can track how much capital is being raised and by whom.
- International PE: Require informational disclosures to measure exposure to overall economy.

Goal: Understand the market so that risks can be identified and effectively addressed.