Reconstructing the Debt Restructuring Mechanism in the Indonesian Law on Bankruptcy and Suspension of Debt Payment Obligations

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Abstract: - The purpose of the Suspension of Debt Payment Obligations (SDPO) is to prevent a debtor who is in trouble for whatever reason, lacks money, or finds it difficult to obtain credit, from being declared bankrupt. The current Indonesian Bankruptcy Law lacks a debt restructuring mechanism. There need to be improvements to ensure quality, transparency of objectivity and implementation mechanisms, honesty and legal certainty. This study aims to reconstruct the debt restructuring mechanism through the SDPO in the Indonesian Bankruptcy Law to provide legal certainty and benefit for all parties. This research has an Indonesian national scope. This is normative legal research that applies the statute and comparative approaches. Results show that Law Number 37 of 2004 still does not provide a legal framework for an effective corporate reorganization or debt restructuring. This law should be a system created to prepare agreements between creditors and debtors to negotiate based on an analysis of future events. Debtors often fail to postpone their obligation to pay debts not because the debtor did not submit a reconciliation plan, but because an agreement was not reached in the reconciliation process. As Law Number 37 of 2004 does not regulate the form of debt restructuring and company reorganization (including the payment process, payment period, and interest rate reduction) to save the debtor's company, it is still difficult for the debtor's company to pay off its debts.

Key-Words: - Debt restructuring; debt repayment suspension; bankruptcy; mechanism; Indonesia; law.

Received: March 28, 2022. Revised: March 29, 2023. Accepted: April 26, 2023. Published: June 1, 2023.

1 Introduction

Indonesian Law Number 37 of 2004 on Bankruptcy and Suspension of Debt Payment Obligations does not clearly define the meaning of debt payment suspension. The suspension of debt payment obligations (SDPO) is regulated in the third chapter of the Law on Bankruptcy and SDPO, namely in Articles 224 to 294, which consists of two parts. The first part concerns the postponement of debt payment obligations and their consequences (Articles 222 to 264) and the second part concerns reconciliation (Articles 265 to 294). The SDPO is explained in Article 222 paragraph (2), which stipulates that debtors who cannot or expect to not be able to continue paying their due and collectable, can request a postponement of debt payment obligations, with the general intention of submitting a settlement plan which includes the offer of all or part of the debt to the creditor.

The purpose of the SDPO is to prevent a debtor in trouble who for whatever reason, lacks money, or finds it difficult to obtain credit, from being declared bankrupt. This is because the declaration of bankruptcy can result in the sales of the company's assets. Whereas if the company continues to run, the debtor does not lose his assets and the creditors obtain more satisfactory payment of their receivables, [1]. This postponement allows the debtor to restructure his debts or reorganize his business so that he can pay off its debts, [2]. With the SDPO, the debtor does not lose his right to manage the company and its assets, [3]. As for creditors, the SDPO provides certainty regarding their claims that their debts will be repaid by the debtor.

The number SDPO requests increased during the coronavirus pandemic. The situation of the Covid-19 pandemic must be understood by business owners and workers, as both parties are impacted. The pandemic limited various activities, including companies' operational activities, thus impacting their income, [4]. The increase in the number of SDPO submissions can be seen from the statistical data on cases held by the Central Jakarta, Surabaya, and Semarang District Courts. The Central Jakarta

District Court recorded 440 SDPO cases in 2020, which dramatically increased from 2019 and 2018 when there were 280 cases and 193 cases respectively. The Central Jakarta District Court has also received 331 SDPO requests from January to August 2021. Then, in the Surabaya District Court, there were 98 SDPO cases in 2020. Meanwhile, in 2019 and 2018, there were only 76 and 49 cases respectively. The Surabaya District Court has also received 72 SDPO cases in the first eight months of 2021. Meanwhile, the Semarang District Court received 51 SDPO cases in 2020. The number was not much different from 2019, where there were 55 cases. The Semarang District Court has received 30 SDPO cases from January to August 2021, [5]. The Coordinating Minister for Economic Affairs, Airlangga Hartarto views that there is a moral hazard in the SDPO application because the requirements are easy. The government is currently reviewing the moratorium or postponement of debt payments based on the law, especially for companies affected by the Covid-19 pandemic. This is to prevent the SDPO from being used by irresponsible people, [5].

The number of SDPO submissions indicates a worrying weakness in the Bankruptcy Law, as this law lacks regulation on debt restructuring. There is no clear legal protection on which companies are entitled to be restructured or what forms of restructuring can be carried out, etc. There should be more details on debt restructuring regulation, starting from who initiated the restructuring plan, the forms of debt restructuring, to studies on the feasibility of restructuring. There should be sanctions for violations in the context of corporate restructurings, such as when companies mark up their value or assets. Bankruptcy applications filed against debtors whose debts have not been restructured must be rejected by the Court of Trade.

The current Indonesian Bankruptcy Law lacks a debt restructuring mechanism. There need to be improvements to ensure quality, transparency of objectivity and implementation mechanisms, honesty and legal certainty. SDPO is a legal effort to prevent bankruptcy, thus, it must prioritize the restructuring process rather than the bankruptcy process. Because of that, it is necessary to reconstruct the debt restructuring mechanism through the postponement of debt payment obligations in the Indonesian Bankruptcy Law. This is to provide better legal certainty for business actors and provide benefits for all parties. The restructuring that occurs in the bankruptcy process and the postponement of debt repayment obligations is debt restructuring. There are also some cases of business restructuring that start with the reconciliation plan, [6].

Based on the background above, the problem that will be discussed in this paper is: How is the reconstruction of the debt restructuring mechanism through the Suspension of Debt Payment Obligations (SDPO) in the Indonesian Bankruptcy Law to provide legal certainty and benefit for all parties?

2 Materials and Methods

This is normative legal research. According to Soekanto, normative legal research consists of research on legal principles, legal systematics, legal synchronization, legal history, and comparative law, [7].

Legal research may apply several approaches, namely the statutory approach, the case approach, the historical approach, the comparative approach, and the conceptual approach, [8]. This paper employs the statute approach, which examines all laws and regulations associated with the discussed legal issues. This research analyzes the following primary legal materials, namely Law Number 37 of 2004 concerning Bankruptcy and SDPO and Law Number 40 of 2007 concerning Limited Liability Companies. Then, the secondary legal materials in this paper are books as well as national and international journal articles. This study also used the comparative law approach that compares the Indonesian bankruptcy law and the bankruptcy laws in other countries, such as the USA, England, Singapore, etc.

To collect legal materials, the researcher used the literature study technique. Then, the researcher used the deduction method to analyze these legal materials. The legal material analysis aims to convey and limit the materials to make them well-organized, [9]. The materials obtained in this study were derived from a literature study of primary, secondary and tertiary legal materials. They were then analyzed using deductive logic by taking the concept of law as positive norms in the national legal system into account.

3 Results and Discussion

In Indonesia, debt restructuring is regulated in Law Number 37 of 2004 in the SDPO section. But the Bankruptcy Law does not regulate the details of the reconciliation plan in restructuring the debt. A good Bankruptcy Law should provide debtors with debt issues the opportunity to run their companies. In practice, there are many cases where the debtor's company has a larger amount of assets than its debt. So, this company may still develop in the future. However, in some cases, the reconciliation

agreement contents are more beneficial to the creditor and are very detrimental to the debtor.

The law protects debtors with good intentions through the SDPO program, which is regulated in the Third Book starting from Article 222 of Law Number 37 of 2004. Suspension of payment or *surseance van betaling* is a period given by law through the decision of the judge of the Trade Court. It allows the debtor and the creditor to discuss ways to pay their debts by providing a payment plan for all or part of their debt, including a debt restructuration if necessary. So, SDPO is actually a kind of legal moratorium, [10].

Article 249 of the Bankruptcy Law stipulates that at the time of filing an SDPO application or thereafter, the debtor has the right to offer a settlement to those who have receivables, for which the postponement applies. In formulating the composition plan the most important things are:

1. Consideration of the business feasibility, reviewing whether or not there are future prospects.
2. Support from existing company assets, including shares that can still be traded.
3. Human resources support is still adequate.
4. Creditors are willing to provide fresh funds.
5. The existence of real economic conditions including governmental fiscal and monetary policies.

If these factors are present, the company deserves support in making the composition plan, [11]. Next, it is important to plan the debtors' and administrators' steps in the event that the composition plan is accepted. The acceptance or rejection of the composition plan very much depends on the feasibility of the composition plan offered by the debtor, and to what extent gives confidence in the return of all the creditors' receivables.

In contrast to restructuring after a bankruptcy decision by the court of trade, in SDPO, the company's organs, including the board of directors, are still authorized to carry out their duties, but they must be assisted or approved by the so-called "management".

There are two stages delaying debt payment as follows:

1. Temporary suspension of debt payment obligations

The temporary suspension of debt payment obligations is the first stage of the SDPO process as stipulated in Article 225 clause (1) of the Bankruptcy Law. Then, if the debtor submits an SDPO, as long as the administrative requirements have been met, the Court of Trade judge must immediately grant it. It must also appoint a supervisory judge and one or more administrators, who in bankruptcy terms are called curators. This SDPO court decision is valid for a maximum of 45 (forty-five) days, as regulated in Article 225 clause (4).

2. Postponement of Fixed Debt Payment Obligations

If the reconciliation plan and SDPO are permanently approved by a concurrent curator who is only recognized or temporarily recognized who is present and represents at least 2/3 (two-thirds) of all claims that are recognized or temporarily recognized, as regulated in Article 229 paragraph (1), then the Court of Trade will permanently determine the SDPO and its extension which may not exceed 270 (two hundred and seventy) days from the decision of the commercial court regarding the provisional SDPO.

In practice, debt restructuring is not an easy matter, as it takes a long time. The restructuring process can drag on due to the issuer's weaknesses, either due to lack of transparency, unstructured financial management, or unclear business plans. This makes it difficult to convince creditors, [12].

Companies that are stuck in economic difficulties can take a restructuring route, either asset (financial) restructuring or corporate restructuring, [13]. Company restructuring or reorganizing means rearranging the company's organization. Company restructuring can be divided into three, namely, [14]:

1. Juridical restructuring. It occurs when there is a change in the form of the company, for example, an individual company is changed to a Limited Liability Company (*perseroan terbatas*/PT).
2. Structural restructuring, namely the rearrangement of the organizational structure, for example, the functional organizational structure is changed to a line organizational structure.
3. Financial restructuring is a capital restructuring that involves a complete change in the capital structure because the company is or is very likely to be insolvable.

The purpose of financial restructuring is to restore the company's capital. The capital structure can be rearranged if the company experienced capital difficulties, to create a new capital structure that is considered more feasible for the company's future operations, [15]. Restructuring is carried out if the company has good future prospects as the restructuring plan aims to make the company's financial condition healthy, [16].

Restructuring is an interest of bankrupt debtors to run their company again to fulfill their debt repayment obligations. For this reason, there needs to be a standard in restructuring corporate debt as follows, [17]:

1. Balanced treatment standards.

There must be a balance between the debtors' and creditors' interests in the corporate restructuring. Debtors can negotiate effectively through the reconciliation plan. This is to gain the creditors' support through creditor interest classes.

2. Logical Standard.

The restructuring plan must be logical, so it must systematically be prepared to accommodate the creditors' interests. The restructuring also requires a logical period of time for the debtor to implement and negotiate to obtain the creditors' support.

3. Fair and eligible standards.

The corporate reorganization must be fair and eligible. Fair means that the reorganization or restructuring can satisfy all elements' sense of justice. Eligible means that the restructuring plan is appropriate in comparison to liquidity. This means that after the analysis, the debtor company is indeed more profitable to be restructured than liquidated.

However, SDPO in the Indonesian Bankruptcy Law is deemed to be a suboptimum form of reorganization. This is because:

1. Apart from debtors, creditors can also apply for the SDPO.

The provisions of Article 222 of the SDPO Law regulate the criteria for submitting the SDPO. It states that a debtor has more than 1 (one) creditor or by a creditor. The article allows the SDPO submission by the creditor apart from the debtor, [18]. This is very unusual because SDPO is the effort to restructure debt and only the debtor knows her own capabilities in repaying the debt. Meanwhile, creditors hope that debtors can punctually pay their debts without restructuring, as restructuring through the SDPO actually brings a loss to creditors.

Creditors can misuse the authority to apply for SDPO to ruin the debtors' businesses. In practice it happens when the creditor submits an SDPO then the Debtor submits a reconciliation proposal. Then, the proposal is rejected by the creditor which causes the debtor to enter bankruptcy. Then, there is no way to make any legal remedies. Compare this with bankruptcy, where the debtor can still file for cassation and review, [19].

In practice, as stated above, the weakness of Article 222 paragraph (3) of the SDPO Law is misused (abuse petition) by creditors, competitors, certain professional parties, or other people for personal gain. In addition, SDPO submission by creditors is very unusual and it does not exist in other countries, [20].

The BSDPO Law is proposed for amendment concerning the SDPO, which is to remove the provisions of Article 222 paragraph (3) regarding creditors' rights to apply for SDPO. This is because according to the international SDPO administration, SDPO submission is purely the debtors' right.

2. The Term is Too Short

Indonesia's Law Number 37 of 2004 on Bankruptcy and SDPO has the shortest period of debt repayment suspension when compared to the Netherlands, Germany, and Belgium. This may make the reconciliation agreement between the creditors and debtors suboptimum. In formulating the period of debt payment suspension, there must be a consideration for the company's ability to meet the debtor's future obligations. Debt restructuring requires sufficient time to provide opportunities for companies that still have development prospects to carry out their business activities because the debtors' assets owned are greater than their debt.

3. The settlement must be under the creditors' approval.

Reconciliation is an effort to restructure the company's (debtors) debts so that it can be rehabilitated and have the ability to pay off its debts, [21].

Settlement determines the success of the SDPO. At this stage, the debtor's company is actually in a weak position, meaning that even though the debtor tries to make a settlement with the creditors, it all depends on the approval voting and good faith of the creditors. Prior to the restructuring of the debtor's company, there should be a feasibility study to determine the suitability of the debtor's debt for restructuring. It is useless for the debtor if after the restructuring period ends it turns out that the company will reexperience insolvency. Therefore, for the interest of the debtor, the debtor must believe that at the end of the restructuring period, the debtor's originally insolvent company can become solvent again. Thus, restructuring is not only beneficial for creditors but also for debtors.

This feasibility study is carried out by an independent consulting agency which at least consists of, [22].

a. Public accounting firm,
b. Legal consultant office,
c. Financial and business management consulting firm,
d. Appraisal consultant office, and
e. Expert in the concerning industrial sector.

In Law Number 37 of 2004, the involvement of the curator in reconciliation is only to equate the perception of the debtor and the creditor on the debtor's limited liability company situation. This is so that an agreement can occur to accept the debtor's reconciliation proposal. Then, the reconciliation can

be requested for approval from the Court of Trade panel of judges to decide upon the case.

As for the involvement of the supervisory judge who has the right to reject and ratify the reconciliation agreement between the debtor and creditor, the supervisory judge cannot provide an assessment of the contents of the debt restructuring agreement. The process of delaying the payment of debt obligations tends to protect creditors because the time is relatively short, and the reconciliation process is determined by the creditor. The creditor also has the opportunity to cancel the settlement decision which has a permanent legal force. Other measures to protect the creditors' interests are clearly regulated, for example, provisions on general confiscation, *actio pauliana*, and *gijzeling* (forced agency), [23].

4. Debtors have limited authority to continue managing their company which must be carried out together with the management.

The legal consequence of the SDPO is that the debtor will lose his independence. In contrast to the bankruptcy process where the bankrupt debtor is not at all authorized to manage his assets and the authority is taken over by the curator, in the case of SDPO, the debtor is still authorized to manage the bankruptcy estate. In fact, the initiative to manage assets, such as borrowing money, transferring assets, and so on remains in the hands of the debtor. The debtor's business continues. It's just that in acting, especially with regard to the management or transfer of asset rights, the debtor is no longer as independent as before the postponement of the debt payment obligations. Because in doing so, the debtor must always be accompanied by the management. The debtor's obligations without obtaining authority from the management will not bind the debtor's assets, except as long as it benefits the debtor's assets, [23].

5. The Financial Services Authority as an SDPO applicant

After the establishment of the Financial Services Authority (*Otoritas Jasa Keuangan/*OJK) following Law Number 21 of 2011 concerning the Financial Services Authority (FSA) some financial institutions' authorities were taken over or merged into the authority of the FSA. With the presence of the FSA, the institutions and their authorities associated with banking, capital markets, insurance, pension funds, and other financial service institutions are under the authority of the FSA.

To provide legal certainty, the Bankruptcy and SDPO Law should be amended to include the FSA's authority in banking bankruptcy, including confirming that the applicant has authority over financial institutions that have become the authority of the FSA as the applicant for bankruptcy.

6. Manager Profession

Management is carried out by the *Balai Harta Peninggalan* or an individual who is appointed by the Court of Trade Panel of Judges in the SDPO case to manage the debtor's assets together with the debtor under the supervision of the supervisory judge, [22]. The professional manager of the SDPO cases is different from the curator in bankruptcy cases. Although these two professions are inherent in one person, the carried-out duties and responsibilities are different. The manager is the person who manages the debtors' assets together with the debtor, while the curator is the person who is given the authority to manage and settle the assets of the bankrupt debtor. In carrying out the management or settlement, the curator has the authority to sell the assets of the bankrupt debtor while the management is not authorized to sell the debtor's assets in the SDPO.

The management is appointed by a panel of judges who examine and decide on SDPO cases. In the decision, a Supervisory Judge who oversees the implementation of the management's duties is also appointed. Considering that there are currently several professional organizations that carry out their profession as curators/management, it is necessary to regulate the establishment of a professional board of directors in a uniform system that applies to the management profession, namely a Supervisory Board of Management who is authorized to stipulate and carry out the function of professional standardization, fostering professional ethics for the management and providing recommendations to the Minister to appoint, dismissing the management and/or revoking the professional license of the management if she violates the professional code of ethics.

The committee is formed under the Decree of the Minister of Law and Human Rights. It has the authority to conduct professional examination assessments and provide further education for the management. This mechanism causes weaknesses in the management's professional development, as the minister is only authorized to register, the joint committee has the limited authority to provide assessments and carry out professional training for the management, while the supervisory judge only has the authority to supervise the management when administering/clearing the bankruptcy estate based on what has been determined.

7. The Opening of Cassation Legal Efforts Against SDPO Decisions

Constitutional Court Decision No. 23/PUU-XIX/2021 (CC Decision No. 23/2021) states that in an SDPO process, an appeal may be filed as long as:

a. The SDPO application is submitted by the creditor; and

b. The offer or settlement plan submitted by the debtor is rejected.

This appeal is limited as according to the Constitutional Court Decision No. 23/2021, the appeal is intended only for SDPO applications that are submitted and the offer of reconciliation is rejected by creditors. In addition, in order to guarantee the spirit of the Bankruptcy and SDPO Law, especially in terms of speedy trials, this open legal remedy is only limited to ordinary legal remedies, namely cassation.

In general, Constitutional Court Decision No. 23/2021 has a positive consequence to ensure the balance of interests between creditors and debtors. The opening of legal remedies for cassation against the SDPO Decision, also legally and formally guarantees supervision of the Commercial Court Decision, thus guaranteeing an objective, clear, understandable, accountable, and consistent decision with systematic legal reasoning. However, the application of legal remedies against the SDPO Decision after the Constitutional Court's Decision No. 23/2021 will injure the soul of the Bankruptcy and SDPO Law. Several consequences may arise, including the lack of interest balance between debtors and creditors; the protracted SDPO process does not reflect a speedy trial; and the agreed offer of reconciliation does not bind all parties, resulting in uncertainty. Therefore, the Constitutional Court as the highest judicial body in Indonesia which oversees the Commercial Court needs to immediately make arrangements regarding the procedures for filing an appeal against a submitted SDPO decision and the offer of reconciliation is rejected by the creditor.

Overall, the problem is that Law Number 37 of 2004 still does not provide a legal framework for an effective corporate reorganization or debt restructuring, [24]. The restructuring mechanism for the suspension of debt repayment obligations under the bankruptcy law in Indonesia needs to be reconstructed, especially when compared with the corporate restructuring mechanism in the US and the Singaporean Bankruptcy Laws. The following are the differences between the SDPO concept in Indonesian and the US Bankruptcy Laws:

1. In the Indonesian Bankruptcy Law, the debt payment obligation suspension period is part of the SDPO process. Meanwhile, United States Bankruptcy and Debt Restructuring Law, the suspension of debt payment obligations period is a continuation of the application for reorganization. It is a form of protection for debtors against disturbances related to collection from creditors, as long as the debtor seeks to rehabilitate her business.
2. In the Indonesian Bankruptcy Law, there is a time limit provision in the case of SDPO period of suspension. This guarantees more legal certainty for payments to be received by creditors. Meanwhile, in the Debt Restructuring of the United States Bankruptcy Law, companies have the flexibility to make the best efforts to rehabilitate their business.
3. The final outcome of the SDPO process under the Indonesian Bankruptcy Law is Debt Restructuring. Meanwhile, according to the American Bankruptcy Law, debt restructuring is part of the reorganization plan which ultimately includes matters other than debt restructurings, such as asset and portfolio restructuring.
4. In the Indonesian Bankruptcy Law, the reconciliation or reorganization plan in the SDPO process applies to debtors, administrators, and all creditors, except for separatist creditors who do not approve of the Reconciliation Plan (Article 281 paragraph (2) of the Bankruptcy and SDPO Law). Meanwhile, in the United States Bankruptcy Law, Debt Restructuring applies to debtors, creditors, and parties who take legal actions based on the provisions contained in the reorganization plan, even though there are parties who reject the plan (Section 1141 (a) of the US Bankruptcy Code), [25].

The main purpose of chapter 11 of the Bankruptcy Act is to provide an opportunity for debtors to breathe. So, in this case, the Bankruptcy Law emphasizes the concept of a fresh start, [26]. This is also seen in chapter 11 of the Bankruptcy Act which provides an opportunity for debtors to reorganize. It includes corporate restructuring, debt restructuring etc, which are compiled in a Reorganization Plan that will prevent the liquidation of the debtor's company, [27].

In the Singaporean Bankruptcy Act (Revised Edition) of 2009, the suspension of debt repayment obligations is referred to as the Debt Repayment Scheme (DRP). DRP is a repayment scheme to help debtors (individuals) who have a fixed income with a debt value of less than $100,000 to avoid bankruptcy. The maximum period that can be submitted is five years. The Bankruptcy, Restructuring, and Dissolution Act of 2018 (IRDA) of Singapore has finally come into effect. The Government is aware of the growing demand for restructuring services in Singapore and to address this demand, the Ministry of Law established the Committee to Strengthen Singapore as an International Center for Debt Restructuring ("CSSICDR") in May 2015. The task

of CSSICDR is to recommend legal initiatives/reforms to increase Singapore's effectiveness as an international debt restructuring center, [28].

CSSICDR released its Report on 20 April 2016 and made a total of 17 recommendations targeted to provide a better legal framework for debt restructuring in Singapore create a friendly ecosystem for restructuring, and address perception gaps to raise awareness of restructuring benefits in Singapore.

4 Conclusion

Law Number 37 of 2004 still does not provide a legal framework for an effective corporate reorganization or debt restructuring. This law should be a system created to prepare agreements between creditors and debtors to negotiate based on an analysis of future events. Debtors often fail to postpone their obligation to pay debts not because the debtor did not submit a reconciliation plan, but because an agreement was not reached in the reconciliation process. As Law Number 37 of 2004 does not regulate the form of debt restructuring and company reorganization (including the payment process, payment period, and interest rate reduction) to save the debtor's company, it is still difficult for the debtor's company to pay off its debts. Therefore, it is necessary to immediately reconstruct the restructuring mechanism for the suspension of debt repayment obligations in the Indonesian bankruptcy law.

Acknowledgement:
The authors would like to thank Universitas Sebelas Maret.

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Contribution of Individual Authors to the Creation of a Scientific Article (Ghostwriting Policy)

KRISTA YITAWATI: Conceived the research, provided original idea of the study, provided materials and data for the research.

ADI SULISTIYONO: Designed the methods, selected research data, analyzed and interpreted the data, wrote the paper.

PUJIYONO PUJIYONO: Analyzed the data, provided description, wrote the paper, reviewed the paper.

Sources of Funding for Research Presented in a Scientific Article or Scientific Article Itself

No funding was received for conducting this study.

Conflicts of Interest

The author has no conflict of interest to declare that is relevant to the content of this article.