

# Indonesia

## Bond Market Guide



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The ADB team has responsibility for the contents of this report.

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Jakarta, 10 May 2011

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# I. Structure, Types, and Characteristics of the Market

## A. Overview

Indonesia's bond market has grown steadily in recent years to offer a more diversified array of debt instruments and cater to a broader investor base. The market accommodates the needs of both local and foreign investors. In addition to its position as one of the most attractive market for foreign investors, the potential of growing local investors is also an area that can be cultivated further by local and foreign issuers alike.

As the largest issuer of bonds, the Government of Indonesia regularly taps the local market to finance the state budget. The Indonesia government bond forms vary from conventional and retail government bonds to government *sukuk* in several tenors.

Corporate bonds are also available in similar forms with government or conventional bonds and *sukuk*. Corporate-bond and *sukuk* activities have accelerated significantly since the beginning of 2003 and have maintained momentum since then. Although both government and corporate bonds are listed on the Indonesia Stock Exchange (IDX), they are mostly traded Over-the-Counter (OTC). Bank Indonesia (BI) also issues short-term bank certificates known as Certificate of Central Bank (or Sertifikat Bank Indonesia [SBI]). Table 1.1 summarizes the characteristics of SBI, government bonds (government debt securities), and corporate bonds.

**Table 1.1 Characteristics of Sertifikat Bank Indonesia, Government Debt Securities, and Corporate Bonds**

Items	SBI	GS			Corporate Bonds
		Regular GS	Retail GS	SPN/SPNS	
Form	Scriptless	Scriptless			All scriptless
Tenor	Used to be 1 and 3 months	2–30 years	3 years	1 to 12 months	Currently 1–15 years, mostly 5 years
Issuer	Bank Indonesia	Ministry of Finance			Corporation
Coupon/Discount	Discount	Fixed Rate: Semi-annually coupons Variable Rate: Quarterly coupons	Fixed Rate: Monthly coupons	Discount	Depends on company, mostly quarterly coupons

*continued on next page*

Table 1.1 continuation

Items	SBI	GS			Corporate Bonds
		Regular GS	Retail GS	SPN/SPNS	
Minimum denomination	IDR1 billion Increments IDR100 million and IDR1 million (in Secondary Market)	IDR1 billion Increments of IDR100 million and IDR1 million (in Secondary Market)	IDR5 million Increments of IDR5 million (in Primary Market) and IDR1 million (in Secondary Market)	IDR1 billion Increments of IDR100 million and IDR1 million (in Secondary Market)	Depends on the company
Issuance	Competitive auction	Competitive auction	IPO	Competitive auction	IPO
Trading	OTC	OTC and on-the-exchange (FITS)	OTC and on-the-exchange (FITS)	OTC	OTC and on-the-exchange (FITS)
Settlement	Primary Market: T+1 Secondary Market: T+2 - T+3 (Negotiable)	Primary Market: T+2 Secondary Market: T+2 - T+3 (Negotiable) for OTC, and T+2 for on-the-exchange (FITS)	Primary market: T+2 Secondary Market: T+2 - T+3 (Negotiable) for OTC, and T+2 for on-the-exchange (FITS)	Primary Market: T+1 Secondary Market: T+2 - T+3 (Negotiable)	T+2-T+3 (Negotiable) for OTC, and T+2 for on-the-exchange (FITS)
Interest calculation	Discount	Actual/Actual	Actual/Actual	Actual/Actual	Depends on the company, mostly 30/360
System used for settlement	BI-SSSS	BI-SSSS	BI-SSSS	BI-SSSS	C-BEST

BI-SSSS = Bank Indonesia-Scriptless Securities Settlement System; C-BEST = Central Depository and Book-Entry Settlement; FITS = Fixed-Income Trading System; GS = government securities; IPO = initial public offering; OTC = Over-the-Counter; SBI = Sertifikat Bank Indonesia; SPN = Surat Perbendaharaan Negara; SPN-S = Surat Perbendaharaan Negara-Syariah; T = trade  
 Source: HSBC Indonesia Market Guide, 2010.

Table 1.2 gives an overview of the profile, or the main characteristics, of listed government bonds and corporate bonds in Indonesia.

**Table 1.2 Profile of Indonesia's Listed Government and Corporate Bonds**

Indonesian Rupiah Government Bonds	
– Issuer : The Republic of Indonesia (MOF) – Types : <ul style="list-style-type: none"> <li>• FRB and VRB – listed and tradable</li> <li>• Stapled Bonds (exchanged bonds for FRBs) – listed and tradable</li> <li>• Hedge Bonds – non-tradable</li> <li>• IPB – guarantee program (non-tradable)</li> <li>• Credit program for SMEs (non-tradable)</li> </ul> Listed and Tradable Government Bonds : <ul style="list-style-type: none"> <li>– Time to maturity : less than 1 year up to 17 years</li> <li>– Coupon payment : semi-annually</li> <li>– Coupon structure : fixed and floating (SBI 3 months)</li> <li>– Settlement : Bank Indonesia (central bank) – book-entry settlement</li> <li>– Listing : IDX</li> <li>– Trading : OTC and Exchange (IDX)</li> </ul>	
Indonesian Rupiah Corporate Bonds	
– Issuer : state owned, private, and public companies – Types : mostly straight bonds, sukuk, and convertible bonds – Time to maturity : 1 year up to mostly 10 years – Coupon payment : mostly quarterly, semi-annually, and annually – Coupon structure : fixed and/or floating – Settlement : Indonesian Central Securities Depository: book-entry settlement for scripless bonds – Custodian banks : physical delivery for scrip base bonds – Listing : IDX – Trading : OTC and Exchange (IDX)	
FRB = Fixed-Rate Bonds; IDX = Indonesia Stock Exchange; IPB = Indexed Principle Bonds; MOF = Ministry of Finance; OTC = Over-the-Counter; SBI = Sertifikat Bank Indonesia; SMEs = small and medium enterprises; VRB = Variable Rate Bonds Source: IDX (Surabaya Stock Exchange, 2005) and amended by ADB Consultants.	

## B. Types of Bonds

### 1. Government Bonds

Government bonds consist of two types of bonds and *sukuk*.

#### a. Treasury bonds (T-bonds)

According to *Law No. 24 2002* on government debt securities, government bonds are the kind of government debt securities that mature after more than 12 months. Since 2002, the government represented by the Minister of Finance has issued different types of bonds based on this law since the government has flexibility to issue any type of bonds that meet market preferences. Based on this law, the government has issued various domestic bonds including coupon and zero-coupon bonds; fixed- and floating-rate bonds; and tradable and non-tradable conventional and retail bonds with different maturities from short, medium, and long-end maturity bonds. In addition, domestic bonds outstanding still consist of non-tradable promissory notes that are issued related to the banking liquidity support and guarantee program during the financial crisis in 1998. For foreign-denominated bonds, the government has launched the US dollar global conventional, US dollar global *sukuk*, and yen-denominated bonds, namely Samurai bonds.

#### b. Sovereign Shari'a Securities (Sukuk or Surat Berharga Syariah Negara)

Sovereign Shari'a securities called Surat Berharga Syariah Negara (SBSN), or Sukuk Negara, are bonds issued by the government based on Shari'a principles in rupiah or foreign currency.

### 2. Municipal Bonds

Municipal bonds are issued by the province or district government for financing public utilities projects.

### 3. Corporate and/or Public Bonds

- a. Corporate Bond and Medium-Term Note (MTN)
- b. Corporate Sukuk
- c. Convertible Bonds

The term MTN is rarely used in Indonesia. MTN, which is issued according to the definition of public offering in the *Indonesia Capital Market Law*, is considered a corporate bond.

## C. Money-Markets Instruments

### 1. Treasury Bills (Surat Perbendaharaan Negara)

Surat Perbendaharaan Negara (SPN) are widely known as Treasury bills, a short-term note issued by the government and sold on discount. Its maximum maturity is 12 months. Currently, the government regularly offers 3-month and 12-month SPN at every auction.

## 2. Islamic Treasury Bills (Surat Perbendaharaan Negara-Syariah)

Surat Perbendaharaan Negara-Syariah (SPN-S) is similar to SPN, which is issued by the government, sold on discount, and with a maximum maturity of 12 months. The government issued the first SPN-S in early August 2011 with a 6-month tenor.

## 3. Certificate of the Central Bank (Sertifikat Bank Indonesia)

SBI was issued in two tenors (28 days and 3 months) by BI. Prior to the advent of treasury bills, SBIs were the main tool used by BI for open-market operations and to control the liquidity of the banking system. SBIs were the most actively traded money-market instrument in Indonesia.

Beginning in June 2010, SBI certificates were auctioned on a monthly basis with maturities of 28, 91, and 182 days. In addition, BI also issued a 28-day Shari'a-compliant SBIs on a monthly basis. In November 2010, BI stopped issuing 3-month SBIs and began offering term-deposit instruments to absorb excess bank liquidity. Subsequently, in February 2011, BI announced that it would no longer issue SBIs with maturities less than 9 months.

## 4. Commercial Paper

Commercial paper is the short-term securities in the money market with no guarantee, issued with discount by companies. Usually these instruments are not used for long-term investment but rather just for funding purchased inventory or to manage working capital. Normally, all these instruments are purchased by financial institutions because the face value is too large for private investors, and these are included in a very safe investment so that the yield of commercial paper is also low. Since the maturity of commercial paper does not exceed 9 months, and it is used only for the purpose of payment transactions, the offering of commercial paper was excluded from the obligation to submit a registration statement to Bapepam-LK.

CPs grew rapidly in the early 1990s as they offered a substitute for bonds. Since CP programs can be rolled over almost automatically, they are economically the same as floating-rate bonds, but involve less cost and effort.

The market received a further boost in September 1994, when Bapepam introduced a requirement that bonds (i.e., not CP) could be listed only for rated companies, although it did not specify a minimum rating. But just over a year later, a similar requirement for CP introduced by the BI effectively stifled the market. A central bank regulation in 1996 put a stop to the growth of the CP market. According to the regulation, Indonesian banks could arrange, invest in, or act as paying agent only for CP issues that were rated investment grade. Outstanding CP shrank from a peak of about IDR10 trillion in 1995 to IDR5.9 trillion in 1996 and IDR0.8 trillion in 1997. The most affected CP issuers were finance and property companies which, in 1995, were the two major issuers of CP representing about 32% of the total market. As a result, many companies switched their funding sources to other instruments, particularly offshore MTNs and FRNs. Table 1.3.3.3 provides the structure of Indonesian bonds and commercial papers (CPs).

**Table 1.3 Structure of Indonesian Bonds and Commercial Papers**

Items	Corporate Bonds	Commercial Paper
Tenor	Mostly 5 years	Less than 270 days
Currency	Rupiah, US dollar, and other foreign currencies	Rupiah and US dollar
Structure	Fixed and floating rates; mostly guaranteed	Zero coupon with bullet payment on maturity; clean if guaranteed
Rating requirement	Yes, as of September 1996	Yes, as of February 1996
Method of calculation	Yield-to-maturity	True discount
Others	Pari passu with other unsecured indebtedness	Pari passu with other unsecured indebtedness

Source: Farid Harianto. 1999. Chapter 3, The Mortgage-Backed Securities Market in Indonesia from publication 'Mortgage-Backed Securities Markets in Asia', Asian Development Bank, Manila, 1999.

### 5. Repurchase Agreement

Indonesia's repurchase market is jointly managed by BI, the Indonesian Securities Inter-Dealer Association, and the Indonesian Fixed-Income Dealer Association. BI has established provisions for secondary market trading of SBI notes under repurchase agreements (repo). The government launched a repo market in 2004 and a Master Repurchase Agreement (MRA) in 2005. The MRA is the benchmark for repurchase transactions, which are set at the BI rate plus 3% for overnight repurchases.<sup>1</sup>

## D. Listing of Debt Securities

Listing on the stock exchange is not mandatory. Issuers are to determine by themselves whether they would list the securities on the exchange or not. There is, however, obligation to disclose the plan in the prospectus whether the securities would be listed on the exchange or not.

Trading of bonds are via both exchange and Over-the-Counter (OTC), although most of trading is executed OTC. In June 2005, the Surabaya Stock Exchange introduced the Fixed-Income Trading System (FITS) to facilitate the trading of bonds on the exchange. After the exchange merged with the Jakarta Stock Exchange and became the IDX, the system still exists.

In the wake of a new regulation promulgated in August 2006, Bapepam-LK obliged reporting on bond transactions both done on the exchange and OTC, and appointed the stock exchange as the Beneficiary of Bond Transaction Report. The regulation took effect on 1 September 2006, and all government bonds and corporate bonds transactions must be reported to Bapepam-LK through the stock exchange system, no later than 1 hour after bond transaction.

As the trading repository, IDX must help disseminate the reported bond information (prices, volumes, etc.). The information then could be used by the market as a price reference for various purposes.

<sup>1</sup> Bank Indonesia. <Insert year of publication. *Banking Regulation*. [http://www.bi.go.id/web/en/Peraturan/Moneter/se\\_100208.htm](http://www.bi.go.id/web/en/Peraturan/Moneter/se_100208.htm); Bank Indonesia. <Insert year of publication. *Tabel IV-1. Transaksi Pasar Yang*. <http://www.bi.go.id/biweb/Html/SekiTxt/T3x401.txt>; Bapepam-LK. Peluncuran Master Repurchase Agreement (MRA). [http://www.bapepam.go.id/pasar\\_modal/publikasi\\_pm/info\\_pm/warta/2005\\_juni/mra.pdf](http://www.bapepam.go.id/pasar_modal/publikasi_pm/info_pm/warta/2005_juni/mra.pdf)

On 29 May 2009, the regulation was amended and took effect on 1 October 2009 to include sukuk transaction reporting and to shorten the reporting period to 30 minutes.<sup>2</sup>

## E. Methods of Issuing Bonds

### 1. Government Bonds (SUN and Surat Berharga Syariah Negara)

Under *Law No. 24 2002* on government debt securities (SUN) and *Law No. 19 2008* on sovereign Shari'a securities (also known as SBSN), the authority to issue government securities (or SBN), consisting of SUN and SBSN, lies with the government represented by the MOF. The MOF should consult with BI prior to executing the government securities issuance program every year. The issuance program considers the maximum net SBN issuance approved by Parliament. In addition, payment of all interest and principal obligations arising from the issuance of SUN, or payment of total obligations of benefits, and par value arising from SBSN issuance and the state property, are SBSN's assets. The issuance and offering of government securities including SUN and SBSN may be conducted through auction, book building, and private placement in the local or international primary markets.

#### a. Related Finance Minister Regulations for Issuing and Offering Bonds

Related Finance Minister Regulations for issuing and offering bonds are enumerated below:

- i. *PMK No. 217/PMK.08/2008* regarding foreign-denominated government debt securities sale in the international primary market, which is amended by *No. 32/PMK.08/2009*
- ii. *PMK No. 67/PMK.08/2009* regarding yen-denominated government debt securities sale in the primary market in Japan, which is amended by *PMK No. 122/PMK.08/2009*
- iii. *PMK No. 118/PMK.08/2008* regarding domestic sukuk issuance in the primary market through book building
- iv. *PMK No. 11/PMK.08/2009* regarding the issuance and sale of sovereign Shari'a securities in the domestic primary market through auction
- v. *PMK No. 152/PMK.08/2008* regarding sovereign Shari'a securities issuance in foreign currency-denomination in the international market, with changes stipulated in *PMK No. 129/PMK.08/2009*
- vi. *PMK No. 75/PMK.08/2009* regarding issuance and sale of sovereign Shari'a securities through private placement

#### b. Related Finance Minister Regulations for Domestic Issuance and International Issuance

There are two types of government debt securities offering and issuance—domestic issuance and international issuance. Each method is governed by a corresponding Finance Minister Regulation as follows.

<sup>2</sup> Bapepam-LK. 2009. Bapepam-LK Rule Number X.M.3 on "Bond Transaction Reporting."

### **i. Domestic Issuance**

1. Auction of T-bills and T-bonds, twice a month based on calendar of issuance: *Finance Minister Regulation No. 50/PMK.08/2008* on government debt securities auction in the primary market;
2. Bookbuilding for retail bonds: *Finance Minister Regulation No. 36/PMK.06/2006* regarding retail governments bonds sale in the primary market) further revised by *Finance Minister Regulation No. 10/PMK.08/2007* and *Finance Minister Regulation No. 172/PMK.08/2010*;
3. Private placement for specific securities: *Finance Minister Regulation No. 08/PMK.08/2009* regarding government debt securities private placement sale in the domestic primary market;
4. Bookbuilding for sovereign sukuk: *Finance Minister Regulation No. 118/PMK.08/2008* on issuance and sale of SBSN in the domestic primary market through bookbuilding;
5. Bookbuilding for sovereign retail sukuk: *Finance Minister Regulation No. 218/PMK.08/2008* on issuance and sale of retail SBSN in the domestic primary market;
6. Auction of sovereign Shari'a securities: *Finance Minister Regulation No. 11/PMK.08/2009* concerning issuance and sale of SBSN in the domestic primary market through auction; and
7. Private placement of sovereign Shari'a securities: *Finance Minister Regulation No. 75/PMK.08/2009* concerning issuance and sale of SBSN through private placement.

Since May 2009, the Republic of Indonesia has issued several SBSN through private placement with the Ministry of Religion, under *aqad of Ijarah al Khadamat*, which are considered non-tradable sukuk. The sukuk underlying are hajj services, covering accommodations, transportation, and consumption for hajj.

### **ii. International Issuance**

1. Bookbuilding or public offering and private placement for global bonds: *Finance Minister Regulation No. 217/PMK.08/2008* regarding foreign-denominated government debt securities sale in the international primary market further revised by *Finance Minister Regulation No. 32/PMK.08/2009*, *No. 170/PMK.08/2009* and *No. 34/PMK.8/2011*.
2. Public offering and private placement for samurai bonds: *Finance Minister Regulation No. 67/PMK.08/2009* regarding yen-denominated government debt securities sold in the primary market in Japan further revised by *Finance Minister Regulation No. 122/PMK.08/2009*.
3. Bookbuilding sovereign Shari'a securities: *Finance Minister Regulation No. 152/PMK.08/2008* concerning SBSN issuance in foreign-currency denomination in the international primary market with changes reflected under *Finance Minister Regulation No. 129/PMK.08/2009*; and,
4. Private placement of sovereign Shari'a securities: *Finance Minister Regulation No. 75/PMK.08/2009* concerning issuance and sale of SBSN through private placement.

## 2. Corporate Bond and Sukuk

### a. Submission of Registration Statement to Conduct Public Offering

Issuers have to submit a Registration Statement and supporting documents according to Bapepam-LK regulations on public offering registration procedures.<sup>3</sup> Issuers are fully responsible for the accuracy, adequacy, truthfulness, and fairness of all information contained in the registration statement and its supporting documents. Underwriters, capital market support professionals such as lawyers and accountants, and other parties involved who provide advice and/or information contained in the registration statement are responsible for their statements and opinions.

### b. Request for Amendment and/or Additional Information

Bapepam-LK could request for amendment and/or additional information from issuers, and issuers have to deliver the amendment and/or additional information to the Registration Statement no later than 10 working days after the issuer has received the request from Badan Pengawas Pasar Modal dan Lembaga Keuangan (Bapepam-LK).

### c. Publication of Summary Prospectus, Prospectus, and Preliminary Prospectus

After the document has been completed, with or without a request for amendment and/or additional information, Bapepam-LK gives permission for the publication of the Summary Prospectus and issuers have to publish it within 2 working days at least in one Indonesian-language newspaper. When issuers would like to do bookbuilding, bookbuilding could only be done after Bapepam-LK gives a statement that issuers are allowed to undertake the bookbuilding.

### d. Effectivity of Registration Statement

The Registration Statement becomes effective 45 days from the date the completed Registration Statement is received by Bapepam-LK, or from the date of last change requested by Bapepam-LK is received, or the issuance of effective notice from Bapepam-LK that there is no further need for amendment and/or additional information.

### e. Publication of Revision of and/or Additional Summary Prospectus

Once the Registration Statement becomes effective and before the commencement of the public offering period, issuers have to publish any revision to and/or additional Summary Prospectus concerning additional information and effective date within 1 working day in at least one Indonesian-language newspaper upon effectivity of the Registration Statement. Along with the publication of additional information, issuer could do the public offering.

### f. Period of Public Offering, Allotment, and Report on the Result of Initial Public Offering

In order to perform public offering, securities could be offered by an underwriter with assistance from a securities-selling agent. Issuers are obliged to execute public offering within 2 working days when the Registration Statement becomes effective. The period of public offering is at least 1 working day and a maximum of 5 working days. In the event of termination of trading on the stock exchange for at least 1 trading day

<sup>3</sup> The following *Bapepam-LK Rules* apply to public offering registration procedures: 1) Number IX.A.2 on Public Offering Registration Procedure, 2) Number IX.A.1 on General Procedure Regarding Submission of Registration Statement, 3) Number IX.A.13 on Issuance of Shari'a Securities, and 4) Number IX.C.1 on Guidelines Regarding Form and Content of Registration Statement for Public Offering.



during the offering period, the issuer can make an extension of the offering period to cover the period of termination.

Subscriptions to securities in a public offering should be fully paid no later than the time of securities' delivery. Listing of securities offered in a public offering should be done no later than 1 working day following the date of securities' delivery. The underwriter or issuer (if there is no underwriter) shall submit a Report on Result of Public Offering to Bapepam-LK no later than 5 working days after the date of allotment, along with an Allotment Report. The underwriter or issuer (if there is no underwriter) shall appoint an accountant registered with Bapepam-LK to conduct a special audit on whether the funds have been received by the issuer. These are governed by *Bapepam-LK Rules No. IX.A.7 on Responsibilities of Underwriters with Respect to Subscription and Allotment of Securities in a Public Offering* and *No. IX.A.2 on Public Offering Registration Procedure*.

#### g. Shelf Registration

Shelf registration, also called sustainable public offering, is a public offering for debt securities and/or sukuk, which is done continuously to enable the issuer or public company with good performance to make a public offering of debt securities and/or sukuk within a period of time. Shelf registration should be implemented no longer than 2 years upon the effectivity of the Registration Statement with certain criteria for both the issuer and securities. Shelf registration is covered under *Bapepam-LK Rules No. IX.A.15 on sustainable public offering*.

## F. Public Offering and Private Placement Markets

### 1. Public Offering Market

#### a. Auction

Auction is used for public offering of government securities. Each party could invest in the primary market through auction, which could only be done through primary dealers or auction participants for SUN or SBSN. Auction is conducted by entering competitive and/or non-competitive bids during a predetermined bidding period via a system provided by an agent who conducts the auction of SUN or SBSN.

Auction of short-term SPN or SPN-S can be monitored by auction participants, BI, and/or Lembaga Penjamin Simpanan (LPS). Meanwhile, auction of long-term government bonds (*Obligasi Negara*), or SBSN, can be monitored by auction participants and/or LPS.

For government bonds, participants in the auction are banks or securities companies appointed by the Minister of Finance as primary dealers, which are entitled to several rights and obligations. However, for the auction of government sukuk (SBSN), banks and securities companies are appointed by the Minister of Finance only as auction participants, not as primary dealers.

### b. Bookbuilding

#### i. Surat Berharga Syariah Negara

The issuance and offer for sale of SBSN could be done through bookbuilding during a specified period. Any individual, or group, and/or wealth organized either in the form of corporation or non corporation could propose an offer of SBSN via bookbuilding.

#### ii. Corporate Bond

In case an issuer intends to conduct bookbuilding, it could only be done after Bapepam and LK gives statements that state that the issuer has been allowed to conduct bookbuilding within 21 working days as provided in *Bapepam-LK Rules No. IX.A.2* on Public Offering Registration Procedure.

## 2. Private Placement Market

The issuance and offer for sale of SBN or SBSN could be done by through private placement at domestic and international markets. Finance Minister regulations are the same as those governing the methods of issuing bonds (see Part E).

## G. Professional or Wholesale Market and the Retail Market

### 1. Professional (wholesale) market

Trading in the professional market is usually done OTC, and is subject to reporting obligations to the market regulator.

### 2. Retail market

Both retail SUN and sukuk are sold to individual Indonesian citizens through a selling agent in the domestic primary market. This retail market has been established since 2006 with the launch of the first retail bonds, ORI001, to the public through bookbuilding.

## H. Definition of Professionals and Professional Investors

Indonesia does not have specific definitions on this type of investors.

## I. Credit Rating System

Debt securities to be offered through public offering should obtain a rating from a credit rating agency (CRA) licensed by Bapepam-LK. Rating is an opinion from a CRA concerning the ability of the rated party to meet its obligations in a timely manner (company rating) and/or an opinion related to the securities issued (instrument rating). Ratings could be done for:

- a. Debt securities, sukuk, asset-backed securities, or other rated securities; and
- b. Parties as entities, including mutual funds and real estate investment trust in a form of a Collective Investment Contract.

A CRA is licensed by Bapepam-LK, and, thus, comes under its supervision and monitoring. To obtain a license, a CRA should fulfill certain requirements such as capital and internal control. PT ICRA Indonesia, PT Pemeringkat Efek Indonesia, and PT Fitch Ratings Indonesia are the existing CRAs in Indonesia. The following Bapepam-LK Rules govern the credit rating system (CRS):

- i. *No. IX.C.11: Rating of Debt Securities*
- ii. *No. V.C.2: Licensing of Rating Agency*
- iii. *No. V.H.3: Behavior of Rating Agency Companies*
- iv. *No. V.H.4: Ranking Agreement Guidelines*
- v. *No. X.F.4: Company Reports Rating Agency*
- vi. *No. X.F.5: Document Maintenance Company by Rating Agency*
- vii. *No. X.F.6: Publications by Rating Agency Companies*

Further information on Indonesia's CRS and CRAs can be found in ADB's Asia Bonds Online.<sup>4</sup>

## J. Bond-Related Systems for Investor Protection

### 1. Paying Agent (Fiscal Agent)

The Indonesia Central Securities Depository (CSD, or Kustodian Sentral Efek Indonesia [KSEI]) is the paying agent for corporate bonds and sukuk, while BI serves this function for government bonds. A paying agency (or fiscal agent) agreement is executed between the issuer and the paying agent with KSEI as the principal paying agent of the issuer for corporate bonds. The issuer pays the interest or the principal to the paying agent, and the paying agent pays the amount of interest or principal to the bondholders. Investors receive the net amount of interests after having been deducted with the withholding tax. Investors are required to submit proper tax documentation to KSEI for them to ensure of the deduction of the proper tax rates.

Upon the maturity of bonds, investors are required to provide KSEI with their purchase price of the bonds for KSEI to deduct the capital gain withholding tax at the point of redemption. The responsibility to make the tax payment to the tax authority remains with the issuer, and therefore KSEI will provide the detailed information and documents to the issuer for each interest or redemption payment.

The paying agent also keeps the records of payments on the bonds as a registrar and reports on payment failure. As the agent of the issuer, it does not represent the interests of the bondholders.

### 2. Trustee

Trustees represent the interest of debt securities and sukuk holders both inside and outside the court. The authority to represent such holders is granted without a power of attorney. Trustee activities can be conducted by commercial banks and other parties defined by government regulations. To conduct activities as a trustee, a public bank or other parties must be registered first with Bapepam-LK. The requirements and procedures for registration of trustees are stipulated in *Bapepam-LK Rule No. VI.C.2: Registration of a Commercial Bank as a Trustee*. The trustee (which is a bank) is the

<sup>4</sup> AsiaBondsOnline.[http://asianbondsonline.adb.org/indonesia/structure/participants/rating\\_agencies.php](http://asianbondsonline.adb.org/indonesia/structure/participants/rating_agencies.php)

representative of the bondholders and exercises bondholders' rights and monitors the performance of the issuer of its obligations under the bonds.

#### a. Main Functions and Responsibilities of Trustees

Under *Bapepam-LK Rule No. VI.C.3: The Credit and Guarantee Relationship between the Issuer and Trustee*, the functions and responsibilities of trustees are as follows:

- i. To represent the interest of bondholders, both inside and outside the court in accordance with the Trustee Contract and regulations.
- ii. To bind itself to carry out the main duties and responsibilities mentioned above since the signing of the Trustee Contract with the issuer; however such representation shall be effective at the time the debt securities have been already allocated to the investors.
- iii. To perform duties based on the Trustee Contract (or Trust Deed) and other related documents.
- iv. To provide all information in relation with its duties as trustee to Bapepam-LK.

#### b. Prohibitions for Trustees

Trustees must not be affiliated with the issuers, unless the affiliation occurs due to ownership or capital investment by the government. In conducting capital market activities, trustees must also not:

- i. have a credit relationship with issuers amounting to more than 25% of the debt securities and/or sukuk being trusted, and/or
- ii. be a guarantor and/or collateral provider in issuing debt securities, sukuk, and/or issuer's obligation, and, at the same time, be a trust agent of the securities holder.

The prohibitions ensure that trustees carry out their functions independently to protect the interest of debt securities or sukuk holders. For the duration of the Trustee Contract, the trustee is prohibited from receiving or requesting advance payment from the issuer.

#### c. Duties of Trustees

The following are the duties of trustees as stipulated in the *Bapepam-LK Rule No. VI.C.3: The Credit and Guarantee Relationship between the Issuer and Trustee*:

- i. The issuer and trustee must make a Trustee Contract in accordance with the stipulation set out in the rule issued by Bapepam-LK.
- ii. A trustee must provide compensation to debt securities or sukuk holders for losses due to its negligence in performing its duties set forth in the *Capital Market Law* and its implementing regulations, or under the terms of the Trustee Contract.
- iii. Once registered with Bapepam-LK, trustees must meet the obligations set forth in the regulations of Bapepam-LK regarding the report of the trustees and documents to be maintained by the trustees.<sup>5</sup>

The Trustee Contract with the issuer shall be made by the trustee to protect and represent Debt Securities holdings and sukuk holders' rights. The contract also

<sup>5</sup> These rules are *Bapepam-LK Rule Number VI.C.4: General Provision and Trustee Contract of Debt Securities, Number XI.1.1: Trustee Report, and Number XI.1.2: Documents [Maintained] by Trustee*.

contains provisions in the event of a default as well as the settlement procedures and the authority of the trustee in appointing capital market support professionals to assist in the investigation in case of differences in understanding the event of a default.

### 3. Trade Protection

The Indonesian Clearing and Guarantee Institution (Kliring Penjamin Efek Indonesia [KPEI]) guarantees the settlement of trades executed through the stock exchange. OTC trades, however, are not guaranteed.

Investors are encouraged to open sub-accounts at the central depository through custodian banks or securities companies for identification and protection of their assets.

## K. Governing Laws on Bond Issuance

Bonds issued by an Indonesian company or the Government of Indonesia through public offering and listed on the IDX shall be governed by the laws of the Republic of Indonesia. Finance Minister regulations are the same as those for methods of issuing bonds (see Part E). Issuance of municipal bonds and corporate bonds, however, is governed by a specific set of rules and regulations.

### 1. Municipal Bonds

Issuance of municipal bonds is governed by the following laws and rules:

- i. Law No. 33 (2004) on Fiscal Balance between Central and Local Government
- ii. Ministry of Finance Decree No. 147 (2006) on Procedures for Issuance, Accountability, and Information Publication of Local Government Bonds
- iii. Bapepam-LK Rule No. IX.C.12 on Guidelines of the Form and Content of Registration Statement for Municipal Bond Public Offering
- iv. Bapepam-LK Rule No. IX.C.13 on Guidelines of the Form and Content of a Prospectus for Municipal Bond Public Offering
- v. Bapepam-LK Rule No. IX.C.14 on Guidelines of the Form and Content of Summary Prospectus for Municipal Bond Public Offering

### 2. Corporate Bonds

The regulations and Bapepam-LK rules for the issuance of corporate bonds are stipulated under the following:

- i. Law No.8 (1995) on Capital Market
- ii. Rule No. IX.A.1 on General Requirements Regarding Submission of a Registration Statement
- iii. Rule No. IX.A.2 on Public Offering Registration Procedure
- iv. Rule No IX.A.7 on Responsibilities of Underwriters with Respect to Subscription and Allotment of Securities in a Public Offering
- v. Rule No IX.A.8 on Preliminary Prospectus and Information Memorandum
- vi. Rule IX.A.13 on Issuance of Shari'a Securities
- vii. Rule No. IX.A.11 on Public Offerings of Debt Securities Denominated in Foreign Currency
- viii. Rule No.IX.A.15 on Continuing Public Offering (Shelf Registration)

- ix. *Rule No. IX.C.1* on Form and Content of a Registration Statement for a Public Offering
- x. *Rule No. IX.C.2* on Guidelines [on] the Form and Content of a Prospectus for a Public Offering
- xi. *Rule No. IX.C.3* on Guidelines Concerning the Form and Content of a Summary Prospectus for a Public Offering

## L. Transfer of Interests in Bonds

In general, the transfer of entitlement and ownership of scripless securities is considered completed if the related transaction status is reflected as “Settled” in CSD’s system. In case of a receipt transaction, the holding status of the scripless securities in the securities account maintained in the CSD is reflected as “Available”. The third-party entitlement will be ensured by showing the holding position in the accounts maintained with the CSD or in the holding confirmation issued by the CSD.

### 1. Indonesian Central Securities Depository for Scripless, Debt Securities and Sukuk

For scripless shares, debt securities and sukuk, KSEI maintains the records of investors’ assets in an electronic book-entry system as the domestic CSD. Securities transferred to the depository system are automatically registered without any additional documentation. In the books of the issuers, the securities are registered in the names of the account holders maintained in the depository. The issuers receive regular update on the bondholders’ list from KSEI for their scripless securities while maintaining the administration of physical securities, which are registered under the name of the securities holders.

### 2. Bank of Indonesia for Scripless Government Bonds and Certificate of Bank Indonesia

BI, as the central registry for government bonds and SBI, maintains an electronic registration of the sub-registries positions; each sub-registry in turn maintains the account details of each beneficial owner.

SBI is normally settled on T+1. For government bonds, the settlement cycle in the secondary market is T+2 or as agreed between parties involved. Settlement of government bonds and SBI is through BI-SSSS, a system to facilitate online settlement transactions between the sub-registries.

## M. Definition of Securities and Public Offering

Pursuant to *Law No. 8 (1995) concerning capital markets (or the Capital Market Law)*, securities are promissory notes, commercial papers, shares, bonds, evidences of indebtedness, participation units of collective investment contracts, futures contracts related to securities, and all derivatives of securities. Pursuant to the “Elucidation of the *Capital Market Law*,” a derivative is derived from either debt or equity securities, such as option and warrant. An option is the right to purchase or sell within a certain time a specified number of securities at a specified price. A warrant is a security issued by a company giving the holder the right, for 6 months or more after the securities are issued, to subscribe to shares of the company at a specified price.

Securities under Bapepam-LK supervision coverage based on Art. 70 of the *Capital Market Law* are all securities that have been offered through public offering. Public offering is an offer to sell securities to the public and is made by an issuer in ways stipulated under the *Capital Market Law* and its implementing regulations (CML Art. 1, No.15). This is explained further in its Elucidation:

“Public Offering” refers to an offering of Securities that takes place within a certain time and within specified amounts, either within the territory of Indonesia, or to Indonesian citizens abroad, and offered either through the mass media, or otherwise to more than one hundred Persons, or resulting in sales to more than fifty Persons.” An “Offering” within the territory of Indonesia includes both domestic and foreign Issuers, as well as offerings to both domestic and foreign investors, in compliance with Disclosure Principles. Regulations regarding Public Offerings also apply to offerings by domestic Issuers to Indonesian citizens abroad. This provides necessary protection to Indonesian investors overseas in the case of Securities offered by domestic Issuers.

In determining whether there has been an offering of Securities to more than one hundred Persons, it is not relevant that the offering is followed by the purchase of Securities. However, the sale of Securities to more than fifty Persons is determined by the actual purchase of Securities, whether or not associated with an offer. “Mass media” refers to newspapers, magazines, film, television, radio and other electronic media, as well as letters, brochures and printed matter distributed to more than one hundred Persons. The number of one hundred offerees and fifty purchasers, used to determine a Public Offering, may be adjusted by BAPEPAM in response to Capital Market developments.

## N. Self-Governing Rules behind the Market

The following entities are Self-Regulatory Organizations (SROs):

1. The Indonesia Stock Exchange (IDX)
2. The Indonesian Clearing and Guarantee Institution (KPEI)
3. The Indonesian Central Securities Depository (KSEI)

These three SROs regulate the listing, trading, clearing and settlement of listed bonds when transacted on the exchange. Each regulates its own areas of operations, subject to Bapepam-LK approval.

The Indonesia bond market has one market association called the Inter-Dealer Market Association for Government Securities (HIMDASUN). HIMDASUN holds a license as a market operator for government bonds with self-governing rules, such as membership, trading, surveillance, and master repurchase agreement rules. However, the market operator and self-governing rules functions of HIMDASUN are currently inactive.

## O. Bankruptcy Procedures, Laws and Related Rules

*Law No. 37 (2004)* on bankruptcy and suspension of payment states that requirements and decisions to declare bankruptcy must meet the following conditions:

1. Debtor has two or more creditors and is unable to fulfill its obligations on at least one debt on maturity date and its payables,
2. Debtor has been declared bankrupt by court decisions, either upon its own application or upon the request of one or more creditors.

In case the debtors are banks, a bankruptcy petition could only be requested by BI. If the debtors are securities companies, stock exchanges, clearing and guarantee institutions, and the Central Securities Depository, only Bapepam-LK could request for bankruptcy petition. If debtors are insurance companies, reinsurance Companies, pension funds, or state-owned enterprises involved in public interest, only the Minister of Finance could request for bankruptcy petition.

The party, as set in Art. 85 of the *Capital Market Law*, who requests for bankruptcy petition to the court towards an issuer, has to report it to Bapepam-LK and the stock exchange where the issuer's securities are listed as soon as possible and no later than 2 working days from the date the request for bankruptcy is submitted. According to *Bapepam-LK Rules No. X.K.5: Regarding Disclosure of Information Regarding Issuers or Public Company with Respect to Bankruptcy*, an issuer that fails or is not been able to avoid failure to fulfill its obligations towards a non-affiliated creditor has to submit a report concerning its condition to both Bapepam-LK and the stock exchange where its securities are listed as soon as possible, no later than the second working day since the issuer has failed or not able to avoid failure to fulfill its obligations. The report has to include the details about the loan including the amount of principal and interest, loan terms, name of creditors, purpose of loan and reasons for the failure or inability to avoid failure. In the event the issuer or public company is submitted to the court for a declaration of bankruptcy, the issuer or public company must submit a report regarding the matter to Bapepam-LK and the stock exchange(s) where its securities are listed as soon as possible, but not later than 2 working days from the time the issuer or public company learns of the petition for a declaration of bankruptcy. The stock exchange shall publish the information about the issuer or public company being requested for declaration of bankruptcy from the court within the same day the information is received by the stock exchange. Any expense arising on such appointment becomes the responsibility of the issuer.

## P. Meetings of Debt Securities Holders

The Trustee Contract must set the arrangement of meetings of debt securities holders. The obligations are stated in *Bapepam-LK Rule No. VI.C.4: General Provision and Trustee Contract of Debt Securities*. Under the said rules, the Trustee Contract should include:

1. the purpose of the meetings;
2. the parties who may request the meetings;
3. the procedures to submit request of the meetings;



4. objection to hold meetings, which states that this must be notified in writing including the reasons for refusal to the applicant, with a copy furnished to Bapepam-LK;
5. the announcement, calling, and organization of the meetings;
6. the procedure for the general meeting of holders of debt securities;
7. quorum and decision making;
8. fees and costs incurred to be borne by the issuer;
9. an official report of the meetings that should be notarized;
10. Issuer, trustee, and the holders of debt securities shall comply with the decisions taken in the meetings.

## Q. Event of Default

The event of default is a condition when issuers can be defaulting. Bapepam-LK regulation requires that the procedure to declare default be clearly stated in the Trustee Contract. Pursuant to prevailing Bapepam-LK Regulation, the Trustee Contract shall contain a list of events of default that include, among others:

1. The issuer does not pay the principal and interest of the debt securities and sukuk on its maturity;
2. The actual condition about the collateral or the issuer status and its management is different from the information and explanation provided by the issuer;
3. The issuer has been declared in default in relation to a credit agreement by one or more of its creditors (a cross default wherein clauses are used in contracts and grace periods may apply);
4. Suspension of payment (moratorium) of the issuer is declared, and;
5. The issuer does not perform other obligations stated in the Trustee Contract.

*Bapepam-LK Rule No. VI.C.4* also requires the Contract of Debt Securities Trustee to contain a clear procedure on solving the event of default or on stating a default. Usually, when an event of default occurs, the trustee would require an issuer to take corrective action to solve the problem during a specific time period. If the issuer does not take the necessary corrective actions, the trustee may invite all bondholders and conduct a general meeting of bondholders to seek clarification from the issuer regarding the failure. If the meeting does not accept the explanation and clarification of the issuer, the meeting may:

1. restructure the debt;
2. declare default status to the issuer; or
3. set another bondholders meeting to decide whether the default will be noticed or not.

More details on the event of default and related laws and regulations may be found in the websites of Bapepam-LK.<sup>6</sup>

<sup>6</sup> Bapepam-LK. [http://www.insolvencyasia.com/relevant\\_local\\_legislation/indonesia\\_bankruptcy\\_law/index.html](http://www.insolvencyasia.com/relevant_local_legislation/indonesia_bankruptcy_law/index.html); Bapepam-LK. [http://www.insolvencyasia.com/insolvency\\_law\\_regimes/indonesia/section\\_i.html](http://www.insolvencyasia.com/insolvency_law_regimes/indonesia/section_i.html); Bapepam-LK. [http://www.bapepam.go.id/old/old/e\\_legal/rules/issuer/XK5.pdf](http://www.bapepam.go.id/old/old/e_legal/rules/issuer/XK5.pdf)

## R. Established Principles and Standards

### 1. Corporate Governance

The *Company Law of 1995* established the legislative framework for corporate governance in Indonesia. In August 1999, the National Committee for Corporate Governance was created to develop best-practice guidelines and a code of corporate governance.

In order to conduct an orderly, proper and efficient securities trading, the listed company must submit to the exchange a periodical report, incidental report, and conduct a Public Exposé, a general exposé to the public clarifying the performance of the listed company with the purpose of information distribution on its performance. These reports, as set forth in the *IDX Rule No. I-E: Concerning the Obligation of Information Submission*, shall be announced by the exchange at the latest on the next exchange day after the exchange receives the said report. The periodical reports and incidental reports must be submitted by the listed company to the exchange simultaneous to the submission of the said information to the public. The listed company also has to submit a list of officials who are authorized to submit the report to the exchange as stipulated in the same IDX Rule, together with the signature specimen of said officials and its amendment. Other resources on corporate governance in Indonesia are the *Code and Rules on Corporate Governance for Indonesia* and *The Corporate Governance of Listed Companies: A Manual for Investors*.<sup>7</sup>

### 2. Contracts Law

The statutory basis governing all private transactions is the civil code. An English-language translation of the Indonesian Civil Code and a summary of the relevant contract law can be found in the websites of Suyud Margono & Associates Law Firm and Karimsyah Law Firm.<sup>8</sup>

### 3. Ethics

The *Capital Market Law (Law 8/1995)* provides the basis for proper market practices in Indonesia. It also identifies violations, including fraud, in buying and selling securities (Art. 90); market manipulation (Art. 91-2); and insider trading (Art. 95-8). Under Art 3.1 of the *Capital Market Law*, Bapepam-LK is responsible for the guidance, regulation, and supervision of the Indonesian capital markets. Bapepam-LK has the authority to license and issue rules for market participants, including rules on codes of conduct. Bapepam-LK rules in relation to ethical market practices, including: (i) *Code of Conduct for Securities Companies Acting as Broker Dealers*, (ii) *Code of Conduct for Securities Companies Acting as Underwriters*, (iii) *Prohibited Investment Advisors Conduct*, and (iv) *Prohibited Investment Manager Conduct* can be found in the Bapepam-LK website.<sup>9</sup>

<sup>7</sup> Asian Corporate Governance Association. 2008. *Codes and Rules on Corporate Governance for Indonesia*. [http://www.acga-asia.org/content.cfm?SITE\\_CONTENT\\_TYPE\\_ID=12&COUNTRY\\_ID=265](http://www.acga-asia.org/content.cfm?SITE_CONTENT_TYPE_ID=12&COUNTRY_ID=265); CFA Institute Publication, 2nd Edition. September 2009. *The Corporate Governance of Listed Companies: A Manual for Investors*. Hong Kong, China. <http://www.cfapubs.org/toc/cfb/2009/2009/12>

<sup>8</sup> Suyud Margono & Associates Law Firm. <http://www.suyud.com/doc/legal-memorandum-document.htm#L002>; Karimsyah Law Firm. <http://www.karimsyah.com/imagescontent/article/20070906170901.pdf>

<sup>9</sup> Bapepam-LK. 1996. *Code of Conduct for Securities Companies Acting as Broker Dealers*. [http://www.bapepam.go.id/old/old/E\\_Legal/rules/securities/VE1.pdf](http://www.bapepam.go.id/old/old/E_Legal/rules/securities/VE1.pdf); Bapepam-LK. 1996. *Code of Conduct for Securities Companies Acting as Underwriters*. [http://www.bapepam.go.id/old/old/e\\_legal/rules/securities/VF1.pdf](http://www.bapepam.go.id/old/old/e_legal/rules/securities/VF1.pdf); Bapepam-LK. 1996. *Prohibited Investment Advisor Conduct*. [http://www.bapepam.go.id/old/old/e\\_legal/rules/securities/VH1.pdf](http://www.bapepam.go.id/old/old/e_legal/rules/securities/VH1.pdf); Bapepam-LK. 1996. *Prohibited Investment Manager Conduct*. [http://www.bapepam.go.id/old/old/E\\_Legal/rules/securities/VG1.pdf](http://www.bapepam.go.id/old/old/E_Legal/rules/securities/VG1.pdf)

## S. Parties Involved in Bond Issuance and Their Respective Roles

### 1. Issuers

#### a. Government

The government is the dominant issuer of bonds in Indonesia. The MOF has the authority to issue treasury instruments such as government bonds while BI has the authority to issue SBI. Corporate sector issuers comprise a small percentage of the bond market, representing 16% of total bonds outstanding as of September 2011.<sup>10</sup> According to BAPEPAM-LK Capital Market Statistic, corporate bonds are currently at IDR135 trillion (16%) while government bonds currently amount to IDR696 trillion (84%).

The government is also the principal issuer in the debt market through issuance of Treasury bonds and Treasury bills by the MOF. Government bonds are listed on the IDX, which can be found through IDX's market information on its website<sup>11</sup>. BI also issues SBIs, which are short-term bank certificates.

To improve market liquidity and provide better access for foreign and local investors, the MOF offered its first ever 3-year retail bonds on 17 July 2006. Government retail bonds are bonds with a required minimum purchase of only IDR5 million, compared with the normal government bond minimum of IDR1 billion. The Government has issued international bonds since 2004. It initially tapped the global market for USD1 billion. Since then, the government is present at least once a year in the international market by issuing global bonds.

#### b. Corporate Issuers

Corporate issuers have issued either conventional bonds or sukuk. A list of corporate bond and sukuk issuers can be found in the IDX website.<sup>12</sup>

### 2. Investors

#### a. General Investors

Domestic financial institutions dominate the debt market. Banks are the major holders of government bonds, with ownership totaling IDR239 trillion as of September 2011, which represents 34% of all government bonds.

#### b. Asset-Pooling Industries

- i. Pension Funds.** Currently, there are 272 pension fund companies in Indonesia. Two state funds companies dominate the pension fund industry in Indonesia—PT Jamsostek that manages funds for non-government workers and PT Taspen that manages fund for civil servants. As of September 2011, the pension fund industry holds about 5% of all tradable government bonds amounting to IDR35.71 trillion out of IDR696.56 trillion.<sup>13</sup>

<sup>10</sup> Bapepam-LK. 2011. Capital Market Statistics.

<sup>11</sup> Indonesia Stock Exchange. <http://www.idx.co.id/Home/MarketInformation/ListOfSecurities/GovernmentSecurities/tabid/106/language/id-ID/Default.aspx>

<sup>12</sup> Indonesia Stock Exchange. <http://www.idx.co.id/Home/MarketInformation/ListOfSecurities/Corporate/tabid/105/language/id-ID/Default.aspx>

<sup>13</sup> Debt management Office. 2011. <http://www.dmo.or.id/en/content.php?section=86>

- ii. Insurance Companies.** Indonesia's insurance industry is fairly small, but it has been growing steadily since 2000. Currently, there are 141 insurance companies in Indonesia. Insurance companies are important institutional investors in the Indonesian capital market. As of September 2011, the insurance industry holds about 13% of all tradable government bonds, or IDR92.95 trillion out of IDR696.56 trillion.<sup>14</sup>
- iii. Mutual Funds.** The managed-fund industry in Indonesia has grown considerably since 2000. Fixed-income assets comprise a considerable portion of investment-fund assets. As of September 2011, the net asset value of mutual funds was valued at IDR154.53 trillion.

### 3. Intermediaries

#### a. Banks

According to the *Banking Law* and *Capital Market Law*, banks are allowed to act as an intermediary in government securities trading.

#### b. Securities Companies

Securities companies in Indonesia may act as broker-dealers, underwriters, and investment managers. However, securities companies should obtain approval from Bapepam-LK for each function before they can offer services to their customers. Currently, there are 146 securities companies in Indonesia.

### 4. Custodians

A custodian is a person who provides safekeeping services with respect to securities and securities-related assets and other services, including collection of dividends, interest and other entitlements, settlement of securities transactions, and agency services for clients who are account holders. Only a CSD, a securities company, or a commercial bank approved by Bapepam-LK may carry on a business as a custodian. There are currently 20 custodian banks.

There are two CSDs in Indonesia: the Indonesian Central Bank as a CSD for government banks and government sukuk and KSEI as a CSD for corporate bonds and corporate sukuk. One of KSEI's functions as a CSD is distributing corporate bonds and corporate sukuk in the primary market to the investors.

## T. Major Players in the Market

Participants in the Indonesian bond market include issuers from the government and the corporate sector; supranational and offshore borrowers; investors comprising financial institutions and asset-pooling industries; intermediaries comprising securities companies, investment houses, and dealers; rating agencies; and market associations. As the largest issuer of bonds, the Government of Indonesia regularly taps the local market to finance the state budget. Corporate bond activities, including conventional and Islamic bond offerings, accelerated significantly beginning in 2003 and have maintained momentum since then. Islamic bonds, which are based on Shari'a principles, play a major role in Indonesian capital markets. In April 2008, the *Islamic Shari'a Debt Bill* was passed into law to enable the government to issue Islamic bonds.

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<sup>14</sup> See footnote 13.

## II. Primary and Secondary Market Regulatory Frameworks

### A. Indonesian Market Regulatory Structure

In general, rules and regulations for the bond market are governed by the Ministry of Finance (MOF). Several regulatory agencies are also involved. Details on the specific functions of these agencies are discussed in this section.

#### 1. Market Entry Requirements

Foreign Investors are free to invest in the Indonesian market. No approval or registration is required for the non-resident investors for investing into Indonesia. Foreign and local investors are treated equally, and the same investment regulations apply to all classes of investors.

#### 2. Market Regulators

##### a. Ministry of Finance

The MOF is the main body responsible for the administration of finances of the central government and for all economic and financial matters affecting the country.

##### b. Bank Indonesia

Bank Indonesia (BI) is the central bank of Indonesia. It became an independent central bank with the enactment of *The Central Bank Act* (UU No. 23/1999) on 17 May 1999. The Act confers on it the status and position of an independent state institution without any intervention from the government or any other external parties. BI is fully autonomous and has the authority to formulate and implement regulations as stipulated in the Act. BI is responsible for maintaining the stability of the rupiah, monetary policy, payment system, and regulating and supervising the banking system. It also acts as the central depository for the settlement and safekeeping of government bonds and the Certificate of Bank Indonesia.

##### c. Bapepam-LK

The Capital Market and Financial Institution Supervisory Agency, locally known as Badan Pengawas Pasar Modal dan Lembaga Keuangan (Bapepam-LK), is a unit of the MOF that regulates and supervises the capital market and non-bank financial services

sector. Bapepam-LK was formed as a result of a merger between the Capital Market Supervisory Agency (Bapepam) and the Directorate General of Financial Institution (DJLK). The merger took place in January 2006. This regulatory body is responsible for regulating all capital market players such as securities companies, investment managers, custodians, and regulating non-bank financial services industry, including insurance, multi-finance, and pension funds. As a regulator, it grants licences to various securities market intermediaries (e.g., brokers, mutual funds, custodian banks, underwriters, etc.) and professionals (accountants, public notaries, lawyers, and appraisers).

Art. 3 of the *MOF Decree No: 503/KMK.01/1997* details the functions of Bapepam-LK. These include:

- i. Prescribing capital market rules and regulations;
- ii. Ensuring compliance toward capital market rules among market players;
- iii. Formulating disclosure requirements for issuers and public companies;
- iv. Guiding and supervising any person granted a business license, approval, and registration from Bapepam-LK, and other persons involved in the capital market;
- v. Settling and re-dressing of disputes of person(s) on whom sanctions have been imposed by the stock exchange, Clearing and Guarantee Corporation or the Central Securities Depository; and
- vi. Establishing capital market accounting standards.

Furthermore, Bapepam-LK has the authority to grant licenses, approvals, and effective registrations to capital market participants.

#### d. Self-Regulatory Organizations

There are three self-regulatory organizations in Indonesia. These are:

- i. The Indonesia Stock Exchange (IDX)
- ii. The Indonesian Clearing and Guarantee Corporation (KPEI)
- iii. The Indonesian Central Securities Depository (KSEI)

Each regulates its own areas of operations and all regulations issued by the SRO are subject to Bapepam-LK approval.

### 3. Capital Market Regulations

The key legislation pertaining to the Indonesian capital market is *Law No.8/1995 on the Capital Market*. According to the *Law No. 8/1995* guidance, regulation, and day-to-day supervision of the capital market is to be provided by Bapepam-LK. It is Bapepam-LK's responsibility to ensure an orderly, fair and efficient capital market, as well as protect the interests of the investors and public. The *Capital Market Law* regulates the following:

- a. Bapepam-LK
- b. IDX, KPEI, and KSEI
- c. Mutual funds
- d. Brokerage firms and investment manager companies
- e. Capital market support institutions

- f. Settlement of bourse transaction
- g. Capital market support professions
- h. Issuing and public companies
- i. Reporting and disclosure of information
- j. Fraud and insider trading
- k. Audit
- l. Investigation
- m. Sanctions

A copy of the *Law No. 8/1995* is available in the Bapepam-LK website.<sup>15</sup>

#### 4. Regulation on Structured Products

BI enacted a new regulation, *No. 11/26/PBI/2009 on Prudence Banking for Banking Activities Involving Structured Products*. The salient points of the regulation are as follows:

- a. Structured products are defined as commercial bank products that combine two or more non-derivative instruments with derivative instruments, or derivative with derivative instruments with the following characteristics:
  - i. The value or cash flow of the product is tied to one or more underlying variable factors, such as interest rate, exchange rate, commodity rate, and/or equity price.
  - ii. The cash flow's movement does not directly relate to the changes in the underlying variable factors, causing asymmetric payoff. Such arrangement is usually coupled with the features of the product described below:
    - a) Option term i.e., caps, floors, collars, step up or step down, and/or call or put features;
    - b) Leverage;
    - c) Barriers, i.e., knock in or knock out; and
    - d) Binary or digital ranges.
- b. The structured product process is determined as activities and/or the whole process of planning, developing, issuance, marketing, supplying, selling, operating, and/or terminating structured products.
- c. Commercial banks can only start the process on structured products after obtaining approval and statement of effectivity from BI for each structure product.
- d. For a structured product with a combination of two or more derivative instruments, a commercial bank is required to do the following:
  - i. Request their clients to maintain a cash collateral of at least 10% of the total customer's notional value of the transaction. This arrangement has to be reflected in a written contract between the bank and the customer.
  - ii. Exceptions to point (a) above are given to the following customer type:
    - a) Banks,
    - b) The Government of Indonesia,
    - c) Bank Indonesia or other central banks, and

<sup>15</sup> Bapepam-LK. [http://www.bapepam.go.id/old/old/E\\_legal/law/index.htm](http://www.bapepam.go.id/old/old/E_legal/law/index.htm)

- d) Multilateral development organizations or banks.
- e) A commercial bank is required to implement risk management on the structured products process. The risk management policy needs to cover:
  - i. Active supervision of a bank's board of commission and management;
  - ii. Adequate internal policy and procedure;
  - iii. Adequate identification process, measurement, supervision on risk control, and management information on risk; and
  - iv. Internal control system.
- f) A commercial bank is required to classify their customers for structured product activity. Customers can be classified as professional customers, eligible customers, and/or retail customers.
- g) A commercial bank is required to exercise transparency towards customers in each process of marketing, offering, and settlement of structured products.
- h) A commercial bank is required to submit a report on their structured product transactions to BI every month, on the 10th of each month.
- i) Breaches in the terms of this regulation are subject to the sanction imposed by BI including:
  - i. Warning letter;
  - ii. Downgrading of the bank's credibility;
  - iii. Prohibition of the bank clearing activity;
  - iv. Freezing and revocation of effective statement on certain business activities;
  - v. Termination of bank's management; and
  - vi. Inclusion of the bank's management, employees, and shareholders into BI's blacklist.
- j) Transitional rules governing structured products under *No. 11/26/PBI/2009* are as follows:
  - i. Structured products that were issued prior to the issuance of this regulation are still required to obtain an effective letter from BI.
  - ii. Structured products that were issued prior to the issuance of this regulation can be administered until their maturities.

The regulation is effective since 1 July 2009.

## 5. Asset-Backed Securities

### a. Definition of Asset-Backed Securities

An asset-backed security (ABS) in Indonesia is a participating unit of a collective investment contract with a portfolio that consists of financial assets comprising of:

- i. Claims arising from commercial papers,
- ii. Credit card receivables,
- iii. Future receivables,
- iv. Loans including homes or apartment mortgages,
- v. Debt securities guaranteed by the government,
- vi. Credit or cash flow enhancement, and
- vii. Equivalent financial assets and other financial assets related to the aforementioned financial assets.



The collective investment contract of an ABS is an agreement signed by an investment management company and a custodian bank. The contract binds the holder of the participating unit(s) and authorizes the investment management company to manage the collective investment portfolio while the custodian bank provides collective custody services.

#### b. Types of Asset-Backed Securities

There are two types of ABS—fixed cash flow ABS and variable cash flow ABS. Fixed cash flow ABS are those that give investors certain income similar to those received by debt securities holders. Variable cash flow ABS are those that give the investors uncertain income similar to those received by equity securities holders. Assets for the portfolio of an ABS shall be acquired from true sale transaction that satisfies generally accepted accounting principles. The true sale is from the originator of the ABS Collective Investment Contract. The assets in the portfolio must be supported by an opinion of a legal consultant registered with Bapepam-LK, certifying that the rights of the ABS holders are the same as what has been stated in the ABS Disclosure Document. The originator can only engage in the true sale transaction of assets in the portfolio of an ABS of no more than 10% of the total amount of the assets that have originally been transferred into the ABS by the originator.

#### c. The Asset-Backed Securities Collective Investment Contract

The ABS Collective Investment Contract may:

- i. Contain different classes or no different classes whatsoever of ABS with different rights;
- ii. Provide the terms under which the ABS of a specified class may be transferred to other Persons;
- iii. Provide for liquidation of the ABS Collective Investment Contract including the disbursement of the financial assets to some or all classes of ABS holders at a specific time or under certain conditions;
- iv. Determine the presence or absence of:
  - 1) insurance for the financial assets in the portfolio for various types of risks, such as credit risks;
  - 2) credit rating of some or all classes of ABS;
  - 3) guarantees from third persons;
  - 4) credit or cash flow enhancements;
  - 5) retention and reinvestment of certain cash flows of the Collective Investment Contract portfolio; and
  - 6) issuance of additional ABS that may be owned by new investors or holders of previously issued ABS.

The contract must include:

- i. The name of the service provider for the financial assets in the Collective Investment Contract portfolio and its responsibilities;
- ii. The name of the securities rating agency if the ABS are to be offered through a public offering
- iii. The name of the registered accountant appointed to audit the financial statements at least once a year;

- iv. The name of the registered legal consultant appointed to provide legal opinion with respect to transfers of financial assets into the Collective Investment Contract portfolio;
- v. A provision regarding the time period of the ABS Collective Investment Contract;
- vi. Provisions regarding any restrictions from selling the ABS back to the investment manager and/or the custodian bank that represents the holders of the ABS;
- vii. Provisions regarding replacement of the investment manager, custodian bank, accountant, servicer provider, rating agency, legal consultant, notary, and other persons involved in the ABS Collective Investment Contract; and
- viii. Remuneration received by persons mentioned above.

It must be notarized by a notary registered with Bapepam-LK.

In the case where the ABS are not offered through public offering, the investment manager is not required to submit a Registration Statement to Bapepam-LK. The investment manager, however, must submit the following documents no later than 10 days after the date of the signing of the Collective Investment Contract:

- i. ABS Disclosure Document;
- ii. Collective Investment Contract; and
- iii. A specimen of the ABS certificate.

As of 3 November 2011, there are four ABS that have been issued with a total securitization of IDR1.95 trillion.

#### d. Regulations on Asset-Backed Securities

The following are the regulations governing ABS:

- i. *Bapepam-LK Rule No. IX.K.1 on Guidelines for Asset Backed Securities Collective Investment Contracts.*<sup>16</sup>
- ii. *Bapepam-LK Rule No. V.G.5 on Investment Manager Functions Relating to Assets Backed Securities.*<sup>17</sup>
- iii. *Bapepam-LK Rule No. VI.A.2 concerning Functions of Bank Custodians Related to Asset-Backed Securities.*<sup>18</sup>
- iv. *Bapepam-LK rule No. IX.C.10 concerning Guidelines of Form and Content of Prospectus for a Public Offering of Asset-Backed Securities.*<sup>19</sup>
- v. *Bapepam-LK Rule No. IX.C.9 concerning Registration Statement for Asset-Backed Securities Public Offering.*<sup>20</sup>

<sup>16</sup> Bapepam-LK. 1997. *Guidelines for Asset Backed Securities Collective Investment Contracts*. [http://www.bapepam.go.id/pasar\\_modal/regulasi\\_pm/peraturan\\_pm/ENG/IX/IXK1.pdf](http://www.bapepam.go.id/pasar_modal/regulasi_pm/peraturan_pm/ENG/IX/IXK1.pdf)

<sup>17</sup> Bapepam-LK. 1997. *Investment Manager Functions Relating to Assets Backed Securities*. [http://www.bapepam.go.id/pasar\\_modal/regulasi\\_pm/peraturan\\_pm/ENG/V/VG5.pdf](http://www.bapepam.go.id/pasar_modal/regulasi_pm/peraturan_pm/ENG/V/VG5.pdf)

<sup>18</sup> Bapepam-LK. 1997. *Functions of Bank Custodians Related to Asset-Backed Securities*. [http://www.bapepam.go.id/pasar\\_modal/regulasi\\_pm/peraturan\\_pm/ENG/VI/VIA2.pdf](http://www.bapepam.go.id/pasar_modal/regulasi_pm/peraturan_pm/ENG/VI/VIA2.pdf)

<sup>19</sup> Bapepam-LK. 1997. *Guidelines of Form and Content of Prospectus for a Public Offering of Asset-Backed Securities*. [http://www.bapepam.go.id/pasar\\_modal/regulasi\\_pm/peraturan\\_pm/ENG/IX/IXC10.pdf](http://www.bapepam.go.id/pasar_modal/regulasi_pm/peraturan_pm/ENG/IX/IXC10.pdf)

<sup>20</sup> Bapepam-LK. 1997. *Registration Statement for Asset-Backed Securities Public Offering*. [http://www.bapepam.go.id/pasar\\_modal/regulasi\\_pm/peraturan\\_pm/ENG/IX/IXC9.pdf](http://www.bapepam.go.id/pasar_modal/regulasi_pm/peraturan_pm/ENG/IX/IXC9.pdf)

## B. Disclosure Requirements

A prospectus has to cover all details and material facts concerning a public offering done by an issuer that could affect investors' decisions, which are already known or has to be known by the issuer and the underwriter (if any). A prospectus has to be clear and communicative. Facts and considerations that are most important has to be summarized and disclosed at the beginning of the prospectus. The sequence of the facts in the prospectus is determined by their relevance to the facts of a particular problem. The issuer has to be careful when using images, diagrams, or tables in the prospectus, as these materials could give a misleading impression to the public. An issuer must ensure that the disclosure of important information is not obscured by less important information leading to the important information regardless of the reader's attention. Issuers have to make adjustments to the disclosure of material facts with emphasis to their business or industry sector, and the result that a prospectus does not mislead. Issuers, underwriters and capital market support professionals are responsible for determining and disclosing the referred facts in a clear and readable manner.

In a public offering of debt securities, a prospectus contains information regarding:

1. Date of maturity;
2. Interest rates;
3. Interest payment dates;
4. Execution for early redemption;
5. Conversion rights;
6. Warrant;
7. Trustee's full name;
8. Underwriter's full name (if any); and
9. Rating result from a credit rating agency.

In addition, a prospectus must at least disclose the following relevant information:

1. Public offering description;
2. The use of funds obtained from public offering;
3. Statement of indebtedness;
4. Management's discussion and analysis;
5. Risk factors;
6. Important events following the auditor's report date;
7. Information concerning the issuer;
8. Activities and prospects of the issuer;
9. Financial highlights;
10. Equity;
11. Dividend policy;
12. Taxation;
13. Underwriter;
14. Capital-market support professionals;
15. Legal opinion;
16. Financial reports;
17. Appraisal report, if any;
18. Articles of association;
19. Requirements of securities' subscription;

20. Distribution of prospectus and securities' subscription form;
21. Trustees; and
22. Guarantors, if any.

Medium or small companies have to submit a Registration Statement and build a prospectus for public offering based on *Bapepam-LK Rules No. IX.C.7 (Guidelines of Form and Content of Small and Medium Company Public Offer Registration Statement)* and *Bapepam-LK Rule No. IX.C.8 (Guideline of Form and Content of Small and Medium Company Public Offer Prospectus)*.

### C. Credit Rating Requirements

Rating requirements for publicly issued debt securities are governed by *Bapepam-LK Rule No. IX.C.11: Rating of Debt Securities* (hereafter referred to as Rule IX.C.11). Issuer who will issue debt securities with maturity period of 1 year or more through a public offering is required to obtain a rating from a credit rating agency (CRA). In order to provide rating services for publicly issued debt securities, a CRA should have a business license from Bapepam-LK. The rating result from the CRA should at least contain information on the strength or weaknesses of the issuer (company rating) and securities issued (securities rating), the strengths or weaknesses related to the ability of the issuer to fulfill the payment obligation or the risk assumed by the securities holders.

Under *Rule IX.C.11*, publicly issued debt securities subject to rating requirements include convertible debt securities or debt securities containing rights to obtain shares.

### D. Exemptions for Private Issuance (Private Placement)

A securities offering that does not meet the criteria for public offering (so-called private placement) is exempted from the obligation to submit Registration Statements to Bapepam-LK, and thus exempted from all offering requirements under Bapepam-LK rules.

The criteria for public offering, which is effective within the jurisdiction of Indonesia, or offered to Indonesian citizens through mass media, or offered to more than 100 parties or sold to more than 50 parties in a certain limited amount at a certain time, is covered under Art. 1, No. 1a.15 of the *Elucidation of the Capital Market Law*.

### E. Minimum Lead Time for Registration Approval

The Registration Statement becomes effective, either on the basis of elapsed time, which is 45 days since the Registration Statement has been received by Bapepam-LK in complete form, or 45 days since the latest amendments proposed by the issuer or requested by Bapepam-LK have been fulfilled, or on the basis of declaration of effectiveness by Bapepam-LK that no further changes and/or additional information are required.

## F. Availability of Shelf Registration and Associated Documentation Requirements

To facilitate debt securities and/or sukuk public offering, Bapepam-LK has issued *Rule No. IX.A.15 : Continuing Public Offering* (commonly known as Shelf Registration). To do debt securities and/or sukuk public offering under the shelf-registration scheme, both the issuer and the securities offered have to meet certain criteria, as stipulated by *Rule IX.A.15*.

In order to do debt securities and/or sukuk public offering under the shelf-registration scheme, the issuer is required to submit a Registration Statement in accordance with *Rule IX.A.1*, *Rule IX.A.2*, *Rule IX.C.1*, and *Rule IX.C.2* (unless otherwise stated in *Rule IX.A.15*), along with a Statement Letter from the issuer and accountant that the issuer has never been in the event of default during period of time as regulated in *Rule IX.A.15*. Under shelf-registration scheme, the issuer is required to:

1. For any subsequent stages of offering, submit additional information and supporting documents to Bapepam-LK, and publish it in one Indonesian daily and nationally circulated newspaper, at least 7 working days before the offering period starts.
2. For every stage of offering, submit a report on the result of public offering at least 5 working days following the allotment date;
3. In case the amount of funds raised during the 2-year period of shelf registration is below target, submit to Bapepam-LK and publish in one Indonesian daily and nationally circulated newspaper the total amount of raised funds and the reasons for not achieving the target, at least 5 working day following the allotment date of the last stage.

## G. Regulated Suspension Period

Under *Rule IX.A.2*, within the period from the effective date of the Registration Statement to the end of a public offering period, the issuer may postpone the offering period for a maximum of 3 months since the effectivity date, or cancel the public offering, if the following uncontrollable events take place:

1. The composite index of the stock exchange drops by more than 10% within 3 consecutive exchange days.
2. Natural disaster, war, riot, fire, and strike that significantly impact the issuer's concern.
3. Other events stipulated by Bapepam-LK as having significant impact on the issuer's concern.

For postponement or cancellation of public offering, the issuer must fulfill the following requirements:

1. Publish the information of postponement or cancellation in at least one Indonesian daily and nationally circulated newspaper, no later than 1 working day after the postponement or cancellation. In addition to the obligation to publish the postponement or cancellation information in a newspaper, the issuer

- may also publish the information through other mass media.
2. Submit the information of postponement or cancellation to Bapepam-LK on the same day of the publication.
  3. Submit the proof of publication to Bapepam-LK no later than 1 working day following the publication.
  4. If the subscription money has been received, the issuer must return the money to the subscribers no later than 2 working days since the decision of postponement or cancellation is made.

To resume the postponed offering period, the issuer must fulfill the following requirements:

1. In case the postponement is caused by a decrease in the stock exchange composite index, the issuer must resume the offering period no later than 8 working days after the composite index increases by at least 50% of the total decrease on which the postponement is based.
2. If the composite index of the stock exchange drops, the issuer may arrange for another postponement.
3. Submit to Bapepam-LK information regarding the offering schedule and other additional information, including material events occurring after the postponement (if any) and publish it in at least one Indonesian daily and nationally circulated newspaper, no later than 1 working day before the offering period resumes.
4. Submit a proof of publication to Bapepam-LK no later than 1 working day following the publication.

## H. Other Requirements

Public offering of debt securities denominated in currency other than rupiah must comply with all regulations related to public offering. In addition, under Rule IX.A.11 on public offering of debt securities denominated in currency other than rupiah, the following information must be disclosed in the prospectus:

1. The amount and maturity period of non-rupiah-denominated debt securities, and its rupiah equivalent at the time when the securities are offered.
2. The currency risk and its impact on the issuer's financial condition.
3. The potential cost and benefit associated with that facility, if hedging facility is applied.
4. If the sinking fund for repayment is applied, the requirements for the sinking fund.
5. Whether the issuer's asset is pledged as collateral of the debt securities.
6. The issuer's revenue earned in rupiah and in other currencies.

As stated in Rule IX.A.11, the underwriter or issuer (in case there is no underwriter) is required to submit a report on the amount and maturity date of the interest and principal payment within 5 working days following the allotment date of non-rupiah-denominated debt securities.

## I. Rules and Requirements on Continuous Disclosure

According to Bapepam-LK rules, the issuer is required to submit periodic or non-periodic reports such as quarterly report on use of proceeds, annual report, annual financial statement and semiannual financial statement, and report on material facts. Submission follows the public offering of debt securities. This obligation prevails as long as the securities are still outstanding. If the Issuer of debt securities also conducts public offering of shares securities, the issuer is also subject to other disclosure requirements under the following Bapepam-LK rules:

1. *No. X.K.1* regarding disclosure of information that must be made public immediately;
2. *No. X.K.2* regarding obligation to submit periodic financial statements;
3. *No. X.K.4* regarding reports on the use of funds received from a public offering; and
4. *No. X.K.6* regarding the obligation of the issuer and the public company to submit an annual report.

## J. Restrictions for Investors

Investment policy guidelines for investors of insurance and pension funds are being developed by the authorities to manage risk.

## K. Definition of Qualified Institutional Investors and Professional Investors

There are no definitions pertaining to qualified institutional investors and professional investors in Indonesia.

## L. Requirements and/or Restrictions for Non-Residents

There are no requirements and/or restriction for non-resident investors in Indonesia.

## M. Finding a Fair Price

The difficulty in calculating prices that reflect fair values is more likely aggravated by the condition of the relatively illiquid and over-the-counter (OTC) nature of the debt-securities and sukuk market. Unlike the equity market, which is fairly liquid in terms of frequency, only a small portion of debt securities and sukuk tradable in the secondary markets are traded daily and has daily price information. This condition renders the need for daily fair market price valuations as extremely vital for market players and investors in managing their investments and portfolio risks. To ensure market functions for finding fair market price for debt securities and sukuk, Bapepam-LK has established a regulation concerning securities-trade reporting and securities pricing agencies. *Bapepam-LK Rule No. X.M.3* concerning bond transaction reporting aims to enhance the development and integrity of the debt-securities and sukuk

market via the reporting of securities trading. All transactions on debt securities and sukuk that have been sold through public offering, government securities and other securities (as determined by the chairman of Bapepam-LK), which are traded in the secondary market, have to be reported to Bapepam-LK within 30 minutes. Reporting is done via trade repository or reporting system operated by the IDX on Bapepam-LK's behalf. In the reporting procedures under exchange rules concerning reporting of securities trading through the Centralized Trading Platform Beneficiary of Securities Transaction Report (CTP-PLTE), participants who report via CTP-PLTE should enter data including the price of securities trading. Furthermore, with the release of *Bapepam-LK Rule No. V.C.3* concerning securities pricing agency, which was passed in 2007, a new market infrastructure (securities pricing agency) was introduced to the market. In response to the rules No. V.C.3, PT Penilai Harga Efek Indonesia, or the Indonesian Bond Pricing Agency (IBPA), was established in 2007 and earned the license as a securities pricing agency from Bapepam-LK on 10 August 2009. As a securities pricing agency, IBPA is responsible for establishing daily fair market prices of government and corporate debt securities and sukuk, which all market participants can obtain.

## N. Taxation Framework and Tax Requirements

### 1. General Framework

Taxation arrangements are divided for Surat Perbendaharaan Negara (SPN) and bonds (both government and corporate). *Government Regulation (PP) No. 27/2008 on Income Tax on Discounted Government Treasury Bills* and *PMK No. 63/PMK.03/2008* on the procedure for withholding income tax on discounted SPN regulate the collection of income tax which is final. The amount of income tax is determined as:

- a. 20% for the local taxpayers and fixed business form, and
- b. 20% or based on tariff provisions under the *Double Taxation Treaty* (or P3B in Indonesian) for taxpayers resident or those domiciled abroad.

*PP No. 16/2009* regulates taxation provisions of capital gains and interest of debt securities. The income received and/or obtained by the taxpayer in the form of interest of debt securities is subject to withholding of income tax which is final and the amount is determined as follows:

- a. Interest of debt securities with coupon:
  - 1) 15% for local taxpayers and fixed business form; and
  - 2) 20%, or in accordance with the tariff on avoidance of double taxation agreement for foreign taxpayers apart from the fixed business form and from the gross amount of interest in accordance with the period of bond ownership.
- b. Discount of debt securities with coupon:
  - 1) 15% for local taxpayers and fixed business form; and
  - 2) 20%, or in accordance with the tariff on avoidance of double taxation agreement for foreign taxpayers apart from fixed business form



and from the excess of selling price or nominal value over the price of the bond's acquisition, not including current interest.

- c. Discount of no interest debt securities:
  - 1) 15% for local taxpayers and fixed business form; and
  - 2) 20%, or in accordance with the tariff on avoidance of double taxation agreement for foreign taxpayers apart from fixed business form and from the excess of selling price or nominal value over the price of the bond's acquisition, not including current interest; and
- d. Interest and/or discount of debt securities received and/or obtained by the taxpayer of mutual funds listed on Bapepam and LK:
  - 1) 0% for 2009 until 2010;
  - 2) 5% for 2011 until 2013; and
  - 3) 15% for 2014 onwards.

Corporate and government bonds, or other government bonds under one year which are reported to be traded on the stock exchange, are stipulated under *Government Regulation No. 6 of 2002* regarding income tax on interest and discount on bonds traded and/or reported as traded on the stock exchange. The amount of income tax is prescribed as follows:

- a. For interest-bearing bonds:
  - 1) 20% for local taxpayers and fixed business form;
  - 2) 20%, or in accordance with the tariff on the avoidance of double taxation agreement, for bagi for taxpayer resident and/or those domiciled abroad from the gross amount of interest based on the holding period of the bond.
- b. For bond discount with coupon:
  - 1) 20% for local taxpayer and fixed business form;
  - 2) 20%, or in accordance with the tariff on P3B, for taxpayer resident and/or those domiciled abroad, from excess from the nominal value of the selling price over the price of the bond's acquisition, not including the current interest (or accrued interest).
- c. For zero-coupon bond:
  - 1) 20%, for local taxpayers and fixed business form;
  - 2) 20%, or in accordance with the tariff on P3B, for bagi for taxpayer resident and/or those domiciled abroad, from excess from the nominal value of the selling price over the price of the bond's acquisition.

Under the *Decision of the Director General of Taxation (KDJP) No. PEM-241/PJ./2002* dated 16 May 2002, in conjunction with *KDJP No. KEP-241/PJ./2002* dated 30 April 2002, on procedures for the implementation of income tax withheld on interest and discount bonds traded and/or reported as traded on the stock exchange, the cuts on income tax are also carried out by an issuer or a custodian designated as the payment agent for:

- 1) Interest received or obtained by bondholder with coupon at the time of the interest's maturity date; and
- 2) Discount received or obtained by bondholder with coupon and no interest bond at the time of the bond's maturity date;

Recipients of the income tax cut have to report the cut and the deposit of income tax to the Tax Office no later than the 20th day of the next month following the Notice of Income Tax Period.

The first-in-first-out (FIFO) principle in taxation of capital gains tax (CGT) is applied on trade-by-trade basis. For trades, however, the client can trade-allocate, if so desired.

## 2. Procedures for Tax Collection

The Tax Office has the mission to collect taxes for the government. KSEI already has the feature to calculate the CGT for transactions, and, thus, BI may not need to provide such functionality.

Traders tend to use favorably the avoidance of double taxation agreements (DTA) domiciles. The custodian withholds tax but the client calculates and instructs the corresponding tax amount. Selling bonds attracts CGT, thus, the seller's agent calculates the corresponding tax while the buyer's agent withholds the tax and makes the payment to the tax authorities. As a result, buyer and the seller will need to amend the original instructions after calculation of the tax impact.

The documentation required to prove the applicable tax rate is complex using two main documents: Certificate of Residence (COR) or Certificate of Domicile (COD) and a certificate from the issuer. The CIR or the COD is to be renewed annually, while the issuer's certificate is valid only for 1 month. Computation of the withholding of tax is strictly on basis of the supporting documents received.

The following box illustrates the practical considerations for the withholding tax procedure using the example of a Singapore domiciled entity.

### Box 2.1 Application of Indonesia's Avoidance of Double Taxation Agreements

#### Application of Indonesia's DTAs

Indonesia has recently enacted regulations concerning the application of its DTAs to a non-Indonesian resident recipient ("Recipient") of income paid by an Indonesian payer. These regulations are effective beginning 1 January 2010 and provide that if a Recipient intends to claim withholding tax benefits under a relevant DTA, it must submit a timely application for a certificate of domicile ("CoD"). This CoD uses a standard form issued by the Indonesian tax authority which can either be found in Forms DGT 1 or DGT 2, depending on the circumstances of the Recipient. The CoD form must be filled out and signed by the Recipient, and is to be certified by the foreign competent authority where the Recipient is a tax resident. The Indonesian payer will then submit the CoD form together with its monthly tax return to the Tax Office before the end of the monthly tax reporting period (i.e., 20th of the following month).

Form DGT 1 that applies to non-banks is valid for up to 12 months if (i) the Recipient receives the income from the same Indonesian payer; and (ii) the name and address of the Recipient remain the same during the 12-month period. Form DGT 2, which applies for banks, is also valid for a 12-month period and can be copied or reused by different Indonesian payers but the copy must be validated by the head of the local tax office where the first Indonesian payer is registered.

The Recipient should note that the CoD form is to be submitted before each payment is made by an Indonesian payer, failing to do so will result to not being able to avail of the treaty benefits. If the Recipient is only able to provide the CoD form after the monthly tax reporting period is over and the withholding tax has been applied at the general rate in accordance with the applicable Indonesian *Income Tax Law* (i.e., 20%), the Recipient is still able to apply for a tax refund. The refund mechanism likely follows the existing tax refund mechanism, in which the application will be submitted to the local tax office where the Indonesian payer is registered.

*continued on next page*

## Box 2.1 continuation

Since Singapore is one of Indonesia's DTA partners, the new regulations would affect a Singapore tax-resident Recipient in the following ways, as provided by the Inland Revenue Authority of Singapore (IRAS):

When an Indonesian payer makes a payment to a Singapore tax-resident Recipient and Indonesian withholding tax is due on the payment, the Singapore tax-resident Recipient cannot claim the Singapore-Indonesia treaty benefits on the payment unless IRAS certifies the CoD form that has been filled out and the signed 2 Tax Client Alert February 2010 by the Singapore tax-resident Recipient, and the CoD form is submitted to the Indonesian tax authority before the payment is made. IRAS has since issued an informal clarification on this CoD certification procedure. When the Singapore tax-resident Recipient applies with IRAS for certification of the CoD, IRAS is only expected to provide certification on the residence status of the Singapore tax-resident Recipient. In other words, IRAS will provide certification of the CoD if the Singapore tax-resident Recipient satisfies the requirements of Art. 4(1) of the Singapore-Indonesia DTA (i.e., for non-individual persons, management and control have to be in Singapore). The certification process by IRAS is expected to take about 2 weeks to a month from the date of receipt of the duly completed CoD.<sup>a, b</sup>

## Notes:

<sup>a</sup> Inland Revenue Authority of Singapore. <http://www.iras.gov.sg/irasHome/page.aspx?id=812>

<sup>b</sup> Baker and Mckenzie. <http://www.bakermckenzie.com/RRIndonesiaRegulationsAvoidanceDoubleTaxationMay10/>

DTA = Double Taxation Agreement; CoD = Certificate of Domicile; DGT = Directorate General of Taxes; IRAS = Inland Revenue Authority of Singapore

Source: Baker and Mckenzie. 2010. Recent Changes in Tax Law—Indonesian Regulations on Avoidance of Double Taxation.

## O. Other Regulatory Reporting Requirements

### 1. Reporting Requirements

Direct deals between issuers and investors should be included in the reporting obligation Regulation No. X.M.3, although it is not specifically stated. The reporting obligation is applicable to any kind of bond transaction.

### 2. Outbound Investment

Mutual funds may only invest up to 15% (conventional mutual fund [MF]) or 30% (capital-protected MF) of NAV in overseas investments, particularly in assets 'on an exchange or market with information accessible through the mass media in Indonesia or the Internet'. Restrictions are found in both Bapepam-LK regulations and guidelines, and the mutual fund's specific constituting documents.

Regulation prohibits pension funds to invest in overseas instruments while insurance companies have to follow prudential regulations. Other investors include mutual funds, pension funds, foreign financial institutions, insurance companies, and individuals. A breakdown of government bond ownership is detailed in the "Capital Market and Non Bank Financial Industry Master Plan 2010-2014."<sup>21</sup>

### 3. Non-Rupiah Bonds Issuances

Non-rupiah bonds issuances are permitted in Indonesia. Non-government issuance requirements and processes are governed by *Bapepam-LK Rule No. IX.A.11: Public Offering of Debt Securities Denominated in Currency Other than Rupiah*.

<sup>21</sup> Bapepam\_LK. 2010. *The Capital Market and Non Bank Financial Industry Master Plan 2010–2014*. <City of Publication (if available): Country of Publication>. [http://www.bapepam.go.id/pasar\\_modal/publikasi\\_pm/info\\_pm/MASTERPLAN\\_BAPEPAMLK\\_2010-2014\\_ENG.pdf?bcsi\\_scan\\_7823DFCE46415F3E=0&bcsi\\_scan\\_filename=MASTERPLAN\\_BAPEPAMLK\\_2010-2014\\_ENG.pdf](http://www.bapepam.go.id/pasar_modal/publikasi_pm/info_pm/MASTERPLAN_BAPEPAMLK_2010-2014_ENG.pdf?bcsi_scan_7823DFCE46415F3E=0&bcsi_scan_filename=MASTERPLAN_BAPEPAMLK_2010-2014_ENG.pdf)

## P. Challenges and Expected Changes—Policy Initiatives and Reforms

### 1. Indonesia Capital Market Plan

The Capital Market and Financial Institution Supervisory Board (Bapepam-LK) operates on a 5-year capital market plan. The most recent plan (2010–2014) outlines specific development strategies for various market participants and a general strategy for the capital market and non-bank financial industry. Proposed reforms are also included in the “Capital Market Plan.” The “Bapepam-LK Master Plan 2010–2014” has five objectives:

- a. To generate an easily accessible, efficient and competitive source of funds.
- b. To create a conducive and attractive investment climate, as well as reliable risk management.
- c. To develop a stable, resilient and liquid industry.
- d. To implement a fair and transparent regulatory framework which guarantees legal certainty.
- e. To develop a credible and reliable international standard infrastructure.

### 2. Indonesian Banking Architecture

The Indonesian Banking Architecture establishes the banking system’s direction, outline, and working structures for a 5- to 10-year period in support of a strong, stable, and efficient banking system that promotes national economic growth.<sup>22</sup> It comprises the following sections:

- a. Six Pillars of Indonesian Banking Architecture;
- b. Challenges Ahead;
- c. Action Plan; and
- d. Phases of Implementation.

### 3. Blueprint for the Development of Islamic Banking and the Development of the Shari’a Capital Market

BI maintains a 10-year blueprint for the development of Islamic banking. The blueprint formalizes Indonesia’s strategic bid to strengthen Islamic banking institutions with respect to Shari’a compliance, regulatory structures, operational efficiency, and systemic stability. This effort is regarded as an important step towards building Indonesia’s Islamic capital markets.<sup>23</sup>

Bapepam-LK develops the Shari’a capital market based on the “Capital Market and Non-Bank Financial Industry Master Plan 2010–2014.” As discussed in the Master Plan, the Shari’a capital market will be developed through four main programs, namely developing a regulatory framework that supports the development of the Shari’a capital market; developing Shari’a capital market products; promoting equality between Shari’a-based financial products and conventional financial products; and enhancing the development of human resources in the Shari’a capital market.

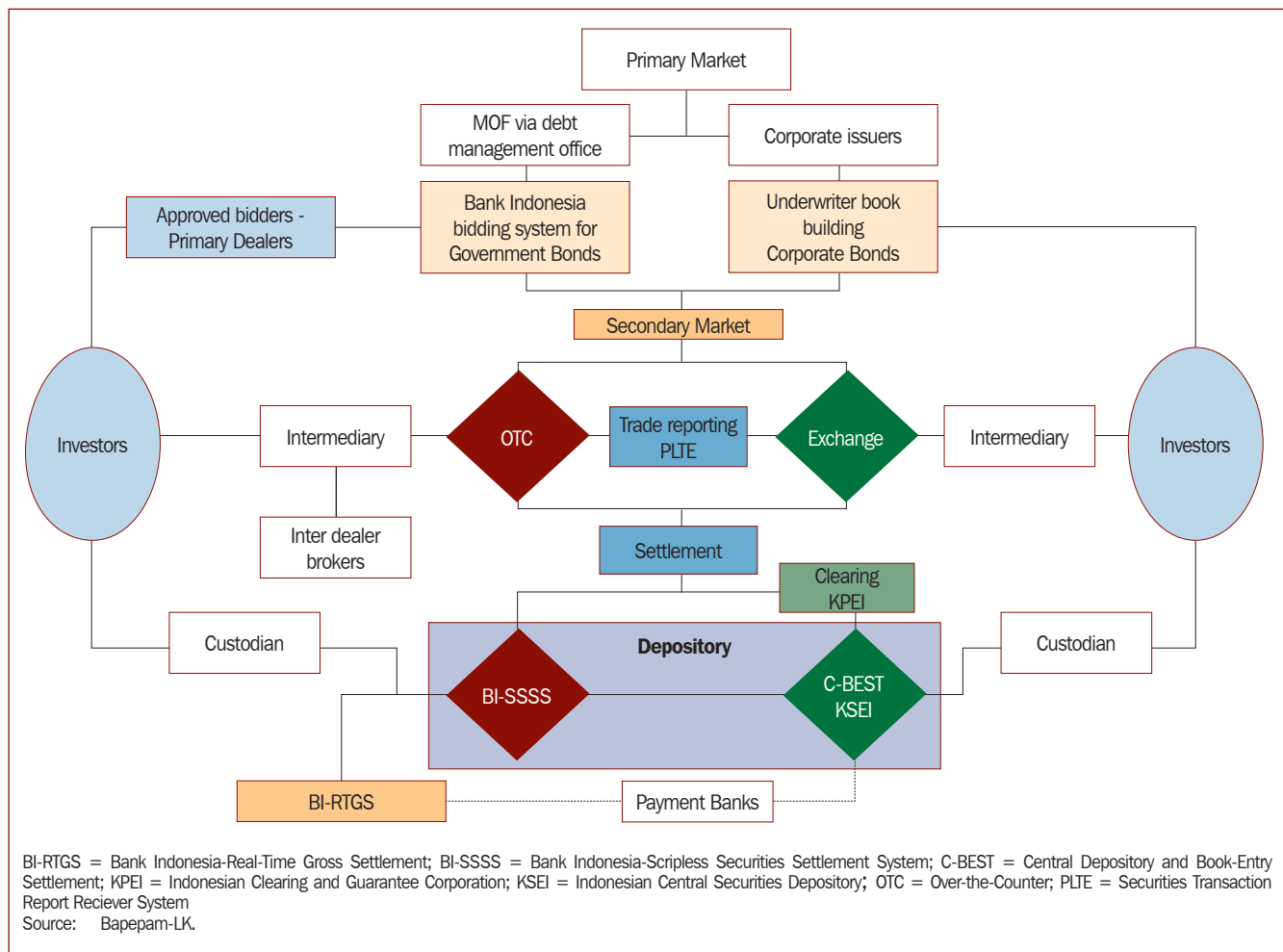
<sup>22</sup> Bank Indonesia. 2004. *Indonesian Banking Architecture*. Indonesia. <http://www.bi.go.id/web/en/Perbankan/Arsitektur+Perbankan+Indonesia/>

<sup>23</sup> Bank Indonesia. 2002. *Blueprint of Islamic Banking Development in Indonesia*. Indonesia. <http://www.bi.go.id/web/en/Publikasi/Perbankan+dan+Stabilitas+Keuangan/Laporan+Perbankan+Syariah/blueprint.htm>

# III. Trading and Trading Market Infrastructure of Debt Securities

Figure 3.1 below illustrates the market infrastructure of debt securities in Indonesia.

**Figure 3.1 Market Infrastructure of Debt Securities in Indonesia**



## A. Trading and Reporting Platforms

Debt securities trading and reporting platforms in Indonesia are:

### 1. Exchange Platform

Debt securities and sukuk that can be transacted through the exchange platform are those listed on the IDX using trading facilities provided by IDX called Fixed-Income Trading System (FITS). The bonds and sukuk trading mechanism through the FITS is integrated with the systems for clearing and settlement. There are three different mechanisms, as illustrated in Figure 2.1, such as trading, clearing, and settlement.

### 2. Over-the-Counter Platform

In OTC transactions, there are a large number of market participants broader traders and transactions are entered into through a negotiation mechanism. OTC transactions are done in various platforms such as voice box, chatting, or instant messenger. Settlement of government securities is done through a sub-registry designated by BI on Bank Indonesia-Scripless Securities Settlement System (BI-SSSS), whereas settlement for OTC transactions on corporate bonds is done by Indonesian Central Securities Depository (KSEI) using its system, Central Depository and Book-Entry Settlement (C-BEST).

### 3. The Ministry of Finance Dealing System

The MOF, through its Debt Management Office (DJPU), may buyback government bonds in the secondary market. It can be done through buyback auction using the Ministry of Finance Dealing System (MOFIDS) or through direct transaction via the MOF dealing room. Each buyback scheme has a different finance minister regulation as legal basis. Direct transaction is based on *Finance Minister Regulation No. 170/PMK.08/2008* regarding government debt securities direct transaction, while buyback including debt switch auction is based on *Finance Minister Regulation No. 209/PMK.08/2009*.

### 4. Centralized Trading Platform

The Centralized Trading Platform (CTP)-Reporting System is a system developed by IDX as a Beneficiary of Bond Transaction Report (PLTE) to facilitate the reporting obligations of participants of their bond transactions, as prescribed by *Bapepam-LK Rule No. X.M.3* regarding bond transaction reporting. IDX was appointed by Bapepam-LK as a PLTE by virtue of *Chairman of Bapepam-LK Decision No. KEP-338/BL/2009* dated 30 September 2009. Reporting through the PLTE is done electronically using CTP.

### 5. Bank Indonesia-Scripless Securities Settlement System

In the domestic primary market, BI is appointed as the auction agent for government securities. Government securities auctions are conducted based on calendar issuance and facilitated by the Bank Indonesia-Scripless Securities Settlement System (BI-SSSS). BI-SSSS is designed to provide a system for government securities settlement. It facilitates online settlement transactions between the sub-registries. Meanwhile, cash settlement of government securities still relies on Bank Indonesia-Real Time Gross Settlement (BI-RTGS).

## B. Debt Securities Trading on Exchange

Scripless debt securities and sukuk listed on the stock exchange may be traded on regular and negotiations market. On a regular market, trading of debt securities and sukuk is conducted among exchange members through continuous offers based on price and time priority on FITS. Before matching, an exchange member may amend or withdraw the offer which has already been sent through FITS. Trading of debt securities and sukuk on the negotiations market occur based on deals between two exchange members or one exchange member to fulfill the needs of different clients and/or to fulfill its own needs. Below are the IDX rules on debt securities trading:

1. *No. II.F* regarding General Provisions of Debt Securities Trading in the Stock Exchange.
2. *No. II.F.1* regarding Procedures for Trading of Debt Securities.
3. *No. II.F.3* regarding Clearing, Settlement and Guarantee of Debt Securities.
4. *No. III.C* regarding Exchange Membership to Trade Debt Securities, Sukuk, and Asset Backed Securities with Fixed Cash Flow.

## C. Over-the-Counter Trading of Debt Securities

In OTC transactions, there are a large number of market participants and transactions are entered into through a negotiation mechanism. Trading platform or searching functions vary from manual by phone, voice box or through a chatting platform. Settlement of government securities is done via sub registry designated sub-registry, while the settlement of transactions on corporate bonds, or any exchange transaction (either corporate or government bond), is done through KSEI's C-BEST.

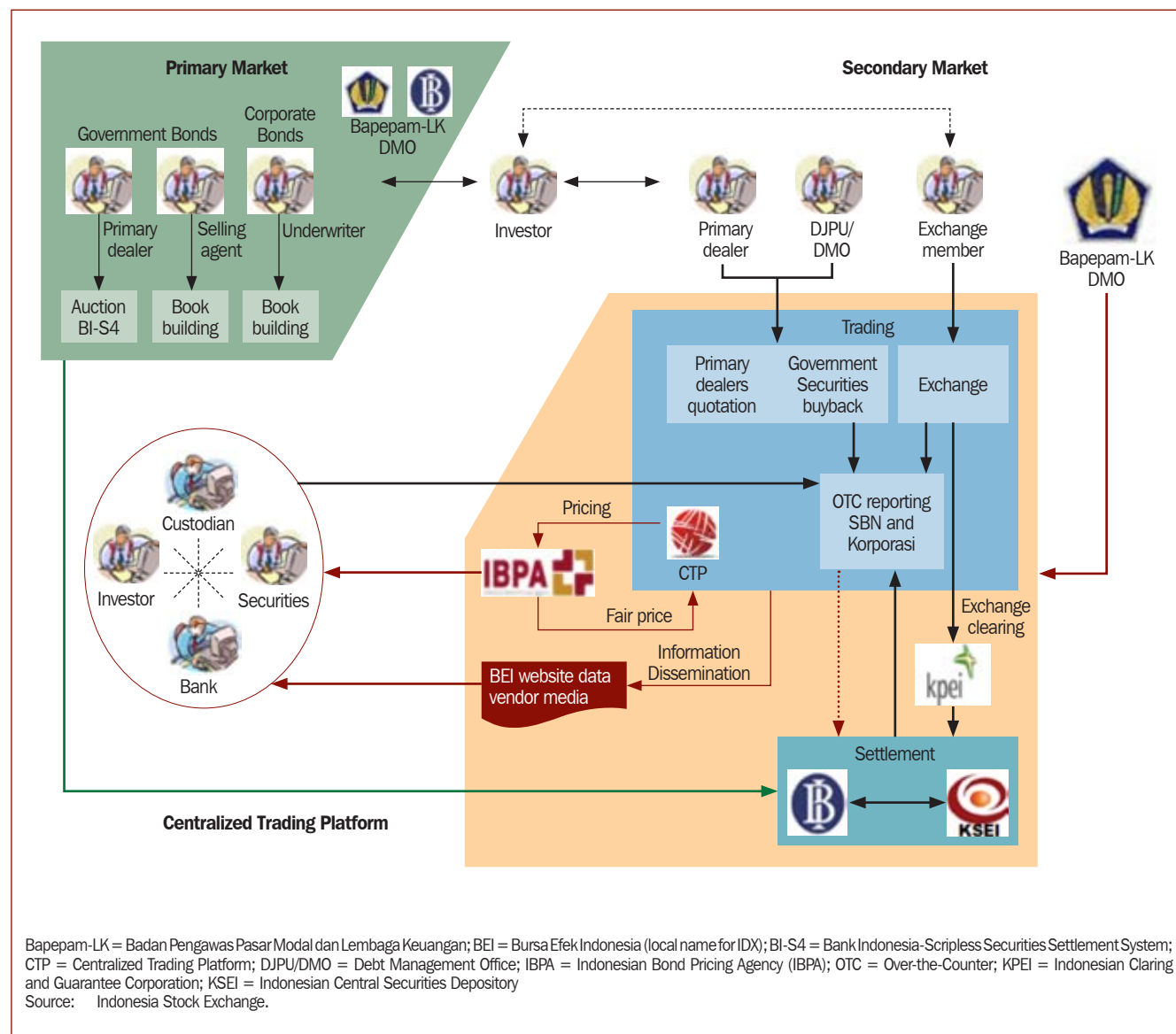
## D. Bond Repurchase Market

Indonesia launched a repo market in 2004 and the Master Repurchase Agreement (MRA) in 2005. The MRA is the benchmark for repurchase transactions, which are set in HIMDASUN rule as a market operator for government bond trading. Bapepam-LK has not specifically regulated the bond repurchase market yet; however, it already accommodated accounting treatment for issuers and/or securities companies who trade government bond repo and reverse repo using MRA.

In 2010, Bapepam-LK, BI, and DJPU took the lead on introducing policy initiatives of creating a Global Market Repurchase Agreement (GMRA) Indonesian Annexes and act as facilitators for market players in developing the GMRA Indonesian Annexes. A standardized agreement in the form of GMRA Indonesian Annexes is expected to encourage the development of repo transaction among all market participants. Market participants involved in this project are HIMDASUN, IDX, KPEI, KSEI, Indonesia Securities Company Association, Custodian Bank Association, and other related associations in the market. *Bapepam-LK Rule No. VIII.G.13: Accounting Treatment for Repurchase Agreement (REPO) Using Master Repurchase Agreement (MRA)* governs the bond repo market.

### E. Debt Securities and Sukuk Trading Mechanism

Figure 3.2 The Indonesian Fixed-Income Market



The main activity in the primary market for government securities are auctions using the BI-S4SSS conducted by primary dealers appointed by the Indonesia MOF Debt Management Office (DMO). Bookbuilding of ORI and retail sukuk is done in the primary market by a selling agent also appointed by the DMO. IDX will list government securities after receiving an Auction Result Announcement from DMO. Once listed on the exchange, all systems supplied by IDX such as the Trading System, the Transaction Reporting System and the Government Securities Repurchase Auction System will make adjustments to the data, before it is ready to be used for trading and reporting.



The secondary market for debt securities and sukuk can be done through IDX and OTC. For exchange transactions, trading is done by members of the stock exchange using FITS. Clearing and guarantee are executed by KPEI while settlement of transactions is carried out by KSEI. For OTC transactions, trading is done by a much wider range of players, typically using negotiating mechanism. Settlement of government securities transactions is conducted through the sub-registry appointed by the Bank Indonesia, while corporate bond transactions are done through KSEI. Each party (securities companies, banks and custodian banks) has an obligation to report all debt securities transactions through the Centralized Trading Platform (CTP) reporting system.

### 1. Exchange Platform

FITS is the bonds and sukuk trading facility for debt securities and sukuk that can be transacted through exchange platform and are listed on the IDX. Users of this system are securities companies that are exchange members and KPEI clearing members. Debt securities and sukuk trading through FITS is an integrated trading system with clearing and settlement, and like equity transactions, settlements are done on T+2. Debt securities and sukuk trading activities through FITS is supported by IDX trading regulations with the approval of Bapepam-LK. One of the clauses regulate the unit of trading (lot size), where one lot is equal to IDR5 million, which is based on a framework of equity investors so investors can own bonds or sukuk issued either by a national private company or the government.

FITS uses remote access from exchange members' offices, so exchange members can give a service order (buy or sell) to its clients effectively and efficiently. The system also allows members to do debt securities and sukuk transactions in the two trading boards of IDX—the regular outright market and the negotiated market. The regular outright market is the trading mechanism wherein anonymous continuous bids and offers forms the market price, and the trading method is based on price and time priority. The negotiated market, on the other hand, is the facility that allows an exchange member to report the results of its negotiation with other exchange members or other parties.

### 2. Government Securities Buyback Mechanism

The MOF through the DJPU/DMO may buyback government bonds in the secondary market through buyback auction using MOFIDS or direct transaction via the MOF dealing room. Each buyback scheme has different finance minister regulation as its legal basis. So far the government conducts buyback operation of government bonds in the secondary market limited to primary dealers either facilitated by MOFIDS or through a chatting machine from the MOF dealing room. Primary dealers' obligation to provide continuous two-way price quotations (bid and offer prices) for benchmark series is facilitated through the primary dealers' quotation system infrastructure that is already integrated with the CTP. This quotation obligation results in promoting government bonds trading in the secondary market. In fact, government bonds are mostly traded over the counter even though they can be traded through the exchange mechanism.

### 3. Centralized Trading Platform

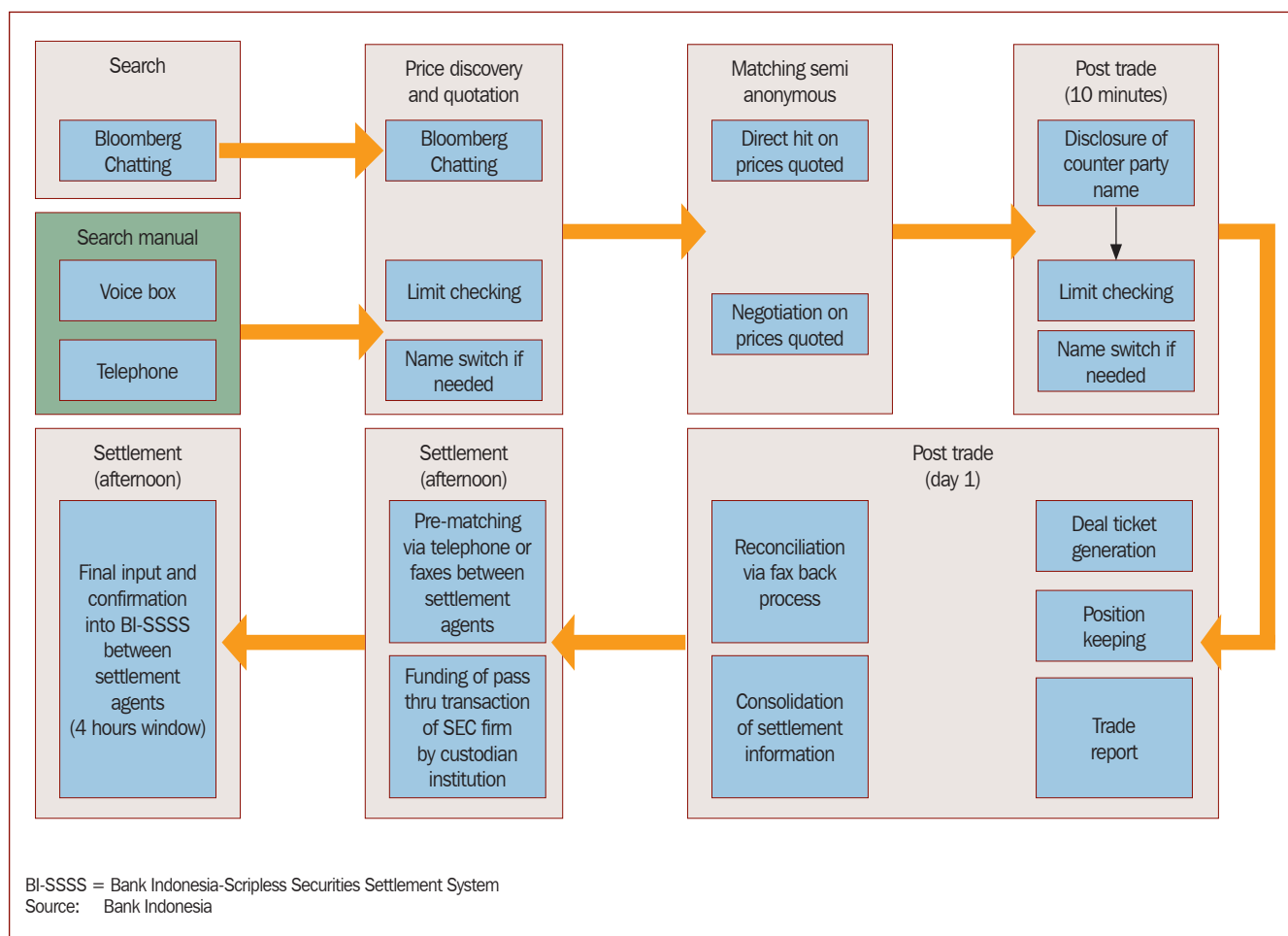
For the purpose of reporting securities transactions through the trade repository using the IDX system (or PLTE), IDX has developed a system that can facilitate users' trading and reporting transactions called CTP. The CTP feature facilitates debt securities reporting, information, and government bond's quotation for benchmark series. To use the CTP, the participant shall appoint authorized personnel to operate it. IDX will provide a user identification and password to the authorized personnel after undergoing CTP training by the stock exchange.

Reporting of securities transactions is conducted by the participant with the seller as an initiator and then confirmed by the buyer no later than 30 minutes after the transaction. Participants, in this respect, refer to securities companies, commercial banks, and custodian banks, among others. Reporting data from these participants will then be consolidated with the transaction settlement data from BI and KSEI. The purpose of such consolidation is to determine which transactions have been settled through BI and KSEI but are not reported to the PLTE.

### 4. General Over-the-Counter Process Flow

Although it is typically regulated, OTC trading usually done in the manner shown in Figure 3.3.

**Figure 3.3 Over-the-Counter Process Flow**



## 5. Transparency in Bond Pricing

All transactions of debt securities and sukuk that have been sold through public offering, government securities and other securities (determined by the chairman of Bapepam-LK), which are traded in the secondary market have to be reported to Bapepam-LK within 30 minutes. Reporting is done via trade repository or through the reporting system, PLTE, operated by IDX on behalf of Bapepam-LK. Securities transactions that must be reported are:

- a. Buying and selling (outright);
- b. Grants;
- c. Heritage;
- d. Exchange;
- e. Transfer due to court order;
- f. Ownership transfer because of merger, consolidation, or acquisition;
- g. Lending and borrowing;
- h. Repurchase agreement or repo;
- i. Book-entry securities made by the parties with the same identity; and
- j. Buy back.

The information that must be reported includes:

- a. Name and series of securities;
- b. Name of seller or original owner;
- c. Name of buyer;
- d. Type of account (own account or client accounts);
- e. Price of the transaction;
- f. Yield;
- g. Volume of transaction;
- h. Value of the transaction;
- i. Time of the transaction;
- j. Reporting time or instruction time to the participant;
- k. Type of transaction; and
- l. Settlement date, among others.

The information on name and series of securities, price, volume, yield, value, settlement date, type of transaction, and repo rate or period must be disseminated by the trade repository real time to the public. This information is used as data source by the securities pricing agency in determining reference prices of debt securities and sukuk. Securities transaction reporting is governed by *Bapepam-LK Rule No. X.M.3*.

## F. Pricing Platforms

The IBPA was established on 28 December 2007 in response to the issuance of *Bapepam-LK Rules No. V.C.3* concerning securities pricing agency. IBPA earned its formal license as a securities pricing agency from Bapepam-LK on 10 August 2009. As a securities pricing agency, it is responsible for establishing the daily fair market prices of government and corporate debt securities and sukuk. The establishment of the securities pricing agency improves market transparency and ensures a fair trading

environment in the debt securities and sukuk market. With the creation of a securities pricing agency, all market participants are given equal access to fair market prices information to aid investment decisions. In the process of valuing and determining debt securities and sukuk fair market prices, IBPA uses a consistent and transparent valuation and pricing methodology, and utilizes objective and reliable market data information, as well as the latest market condition. More information can be found on the IBPA website.<sup>24</sup>

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<sup>24</sup> Indonesian Bond Pricing Agency. [www.ibpa.co.id](http://www.ibpa.co.id)

# IV. Possible Impediments and Restrictions

## A. Taxation

*Presidential Decree No. 16/2009 on Income Tax on Interest Bonds Income* regulates the taxation provisions on capital gains and bond interest. The amount of income tax is different between resident and non-resident in the following ways:

1. Bond interest with coupon rate is 15% for local taxpayers and permanent establishment and 20%, or based on the rate on tax treaty, for foreign taxpayers apart from the Fixed Business Form and the gross amount of interest based on the period of bond ownership.
2. The discount from bond with coupon rate is 15% for local taxpayers and Fixed Business Form and 20%, or based on the rate on tax treaty, for foreign taxpayers apart from the Fixed Business Form and the difference of selling price or nominal value over the acquisition price of the bond, excluding accrued interest.
3. The discount from no coupon bond is 15% for local taxpayers and Fixed Business Form and 20%, or based on the rate on tax treaty, for foreign taxpayers apart from Fixed Business Form and the difference of selling price or nominal value over the acquisition price of the bond.

Recently, the MOF issued *Regulation No. 85/PMK.03/2011* concerning the procedure of withholding income tax, and payment and reporting on bonds interest. This regulation replaces *Regulation No. 121/KMK.03/2002* concerning the procedure of withholding income tax on interest-bearing bonds and discounted bonds, the trading of which is reported to the stock exchange. The salient items in the regulation are:

- a. Local pension funds and local resident banks are exempted from this tax regulation.
- b. The income tax on the interest of an interest-bearing debt securities is 15% for resident taxpayers and 20% for non-resident taxpayers (or in accordance with the relevant tax treaty agreement) from the gross interests based on holding period.
- c. The income tax on the discount of an interest-bearing debt securities is 15% for resident taxpayers and 20% for non-resident tax payers (or in accordance with the relevant tax treaty agreement) from the excess spread at selling price or from the nominal amount at bonds maturity against the acquisition price, excluding its accrued interest.

- d. The income tax on the discount of a non-interest-bearing debt securities is 15% for resident taxpayers and 20% for non-resident taxpayers (or in accordance with the relevant tax treaty agreement) from the excess spread between the selling price, or between the nominal amount at bonds maturity and the acquisition price.
- e. The income tax on interest and/or discounted bonds received by taxpayers of mutual funds registered at the Bapepam-LK is 0% from 2009 to 2010, 5% from 2011 to 2013, and 15% from 2014 onwards.
- f. Negative discount or capital loss cannot be included in the accrued interest calculation.

In addition, non-resident taxpayers must refer to the tax treaty agreements Indonesia signed with more than 50 countries.

## B. Disclosure and Investor Protection Rules for Issuers

There are three rules on disclosure and investor protection for issuers. These are:

1. Documents concerning disclosure should be followed by support professionals registered with Bapepam-LK.
2. The legal jurisdiction for bonds issued by non-residents should be Indonesian law.
3. There are obligations to acquire investment ratings at the issuance of the bond, as prescribed by *Bapepam Rule No. IX.C.11*.

To conduct public offering of debt securities and/or sukuk, issuers should submit a Registration Statement and fulfill all disclosure requirements as set out in the Bapepam-LK rules. All support institutions and professionals involved in the public offering process should be registered with or licensed by Bapepam-LK. Following the public offering of debt securities and/or sukuk, the issuer is required to submit periodic or non-periodic reports such as quarterly reports on use of proceeds, annual reports, annual and semi-annual financial statements, periodic ratings, and reports on material facts. This obligation prevails as long as the debt securities and/or sukuk are still outstanding. Documents, such as financial statements and periodic ratings, are required to be issued or audited by independent professionals or institutions licensed by Bapepam-LK as prescribed by Bapepam-LK rules.

As for investor protection, Bapepam-LK requires each classification of debt securities to obtain annual ratings from a rating agency licensed by Bapepam-LK. This annual rating requirement is aimed to provide update on the quality of the securities, particularly those related with the ability of the issuer to fulfill its obligations to debt securities and/or sukuk holders. In addition to the rating requirement, Bapepam-LK rules also enable public issuance of debt securities and/or sukuk to be supported by a guarantor, who will cover the loss of the securities holders should the issuer fail to meet its obligation. The requirement to involve only support professionals and/or institutions registered with or licensed by Bapepam-LK in the public offering process is a way to ensure, among others, the independence, capacity, qualification, and responsibility of these professionals and/or institutions. However, from the point of view of global issuances, this requirement could represent a possible impediment and/or restrictions.

### C. Underwriting Rules for Financial Institutions

Underwriters that are allowed to operate in Indonesia are those who hold a license from Bapepam-LK. According to *Bapepam Rule No. V.D.5 on Maintenance and Reporting of Adjusted Net Working Capital*, an underwriter should be more careful in conducting underwriting activities. Rule No. V.D.5 stipulates the obligation for underwriters to add ranking liabilities deducted on their adjusted net working capital if the underwriter makes a full commitment contract without proof of fund capabilities. In carrying out its activities, an underwriter shall also comply with *Bapepam Rule No. V.F.1* or the *Code of Conduct for Securities Companies Acting as Underwriters*.

According to *Bapepam Rule No. IX.C.1* regarding the form and content of a Registration Statement for a public offering and *Bapepam Rule No. IX.A.7 on Responsibilities of Underwriters With Respect to Subscriptions and Allotments of Securities in a Public Offering*, an issuer has an option whether to use an underwriter or not. The following are the rules that govern underwriting activities of financial institutions:

1. *Bapepam Rule No. V.A.1 on Licensing of a Securities Company*
2. *Bapepam Rule No. V.D.5 on Maintenance and Reporting of Adjusted Net Working Capital*
3. *Bapepam Rule No. V.F.1 on Code of Conduct for Securities Companies Acting as Underwriters*
4. *Bapepam Rule No. IX.C.1 on Form and Content of a Registration Statement for a Public Offering*
5. *Bapepam Rule No. IX.A.7 on Responsibilities of Underwriters with Respect to Subscriptions and Allotments of Securities in a Public Offering*

### D. Credit Rating System and Its Relation to Regulations

There are obligations to acquire investment ratings at the issuance of the bond as prescribed by *Bapepam Regulation No. IX.C.1* and *Regulation No. IX.C.11*. The obligations are intended to provide investors and potential investors an independent opinion and information about the product offered or sold. Below are the rules concerning CRAs in Indonesia.

1. *V.C.2 Licensing of Rating Agency Company*
2. *V.H.3 Code of Conduct of Rating Agency Companies*
3. *V.H.4 Rating Agency Agreement Guidelines*
4. *X.F.4 Reporting by Rating Agency Company*
5. *X.F.5 Documents Maintenance by Rating Agency Company*
6. *X.F.6 Publications by Rating Agency Company*

### E. Utilization of Shelf-Registration System

In order to facilitate the issuance of debt securities which allows a firm to issue a series of debt securities and/or sukuk within a particular period with only one submission of Registration Statement, Bapepam-LK released a new regulation on shelf registration (*Rule Number IX.A.15 on Continuing Public Offering [Shelf Registration]*).

## F. Availability of Information in English

Most of the laws, presidential decrees, ministerial decrees, Bapepam-LK regulations, and other market-related information are available in English.

## G. Restrictions in Accounting Standard

A financial report must be prepared based on the financial accounting standard set by the Financial Accounting Standard Board under the Indonesian Institute of Accountants, as well as on accounting provisions on the capital market as stated in *Bapepam-LK Rules No. VIII.G.7*.

## H. Limited Opportunities to Utilize Bond Holdings and the Repo Market

Insurance companies and pension funds are prohibited from engaging in repo transactions based on *KMK No. 424/KMK.06/2003*.

## J. Currency Controls

Central bank regulations prohibit the movements of the rupiah (1) between two non-resident accounts and (2) from residents to non-residents, unless the movements are related to economic activities in Indonesia, such as direct investments or transfers of ownership of direct investments and payments related to transactions involving rupiah-denominated securities. Offshore transfers of the rupiah are also prohibited. If the total accumulated funds credited to a non-resident account on a single given day exceeds IDR500 million, the investor must provide authenticated supporting documentation, such as a copy of the purchase or sale agreement for direct investments, a copy of the securities purchase or sale confirmation from a broker or other authorized party for securities portfolio transactions, or a copy of the dividend payment confirmation from the issuing company. For accumulated amounts under IDR500 million, supporting documentation is not required, but a declaration on the underlying economic transactions should be provided.

BI requires that all investors, who purchase foreign currencies against the rupiah in an amount greater than the equivalent of USD100,000 per calendar month, provide documents stating that all foreign exchanges are supported by underlying activities and a letter declaring the validity of all supporting documents provided. The declaration letter, which must include the customer's name, bank name, the nominal purchase of foreign currency against the rupiah, and a statement confirming the validity of the transaction, must be submitted to BI according to the following schedule:



**Table 4.1 Schedule of Submission of Declaration Letter**

Foreign Currency Purchase Amount	Frequency of Statement Letter			
	Non-Custody Clients		Custody Clients	
	Local	Foreign	Local	Foreign
Less than or equal to \$100,000 per month	Monthly	Monthly	Monthly	Once per calendar year
Greater than \$100,000 per month <sup>a</sup>	Per foreign exchange transaction on booking Date + supporting document	Per foreign exchange transaction on booking date + supporting document	Per FX transaction on booking date + supporting document	Once per calendar year + supporting document per foreign exchange transaction

<sup>a</sup> Please note that the \$1 million limits are applicable to total outstanding transactions with all offshore customers of the bank. These include foreign exchange derivative transactions against the rupiah like outright forward sale/purchase, swaps and options, and other similar derivative transactions.  
Notes: The exception to this rule is derivative transactions for hedging purposes. The term of the hedging contract must not be less than 3 months and not more than the term of the investment. It must be accompanied by documents supporting the underlying investment being hedged.  
Source: Bank Indonesia.

For all the clients' purchases booked through the custodian's on-book account with the cash correspondent, the custodian will submit one blanket statement based on the above schedule to cover these purchases. Investors who do not abide by the above regulations are subject to a penalty of IDR10 million accompanied by a written warning letter for each offense. All non-resident foreign exchange transactions must be done onshore; offshore foreign exchange transactions are prohibited.

Onshore foreign exchange activities with non-residents are limited to \$1 million per bank on outstanding positions, unless there is an underlying economic activity as outlined above. A non-resident's rupiah current account cannot, under any circumstances, be overdrawn overnight.

BI also maintains a restriction on forward exchange trading. Forward transactions are allowed, provided that the value date of the forward transaction is the same as the settlement date of the underlying economic transaction, and the transactions are supported by authenticated documents. Hedging transactions are allowed only for the purpose of investment in Indonesia for a minimum tenor of 3 months and must be accompanied by documents supporting the hedging and investment.

Third-party foreign exchanges is allowed; however, supporting documentation for the underlying transactions must be provided to the third-party foreign exchange bank.

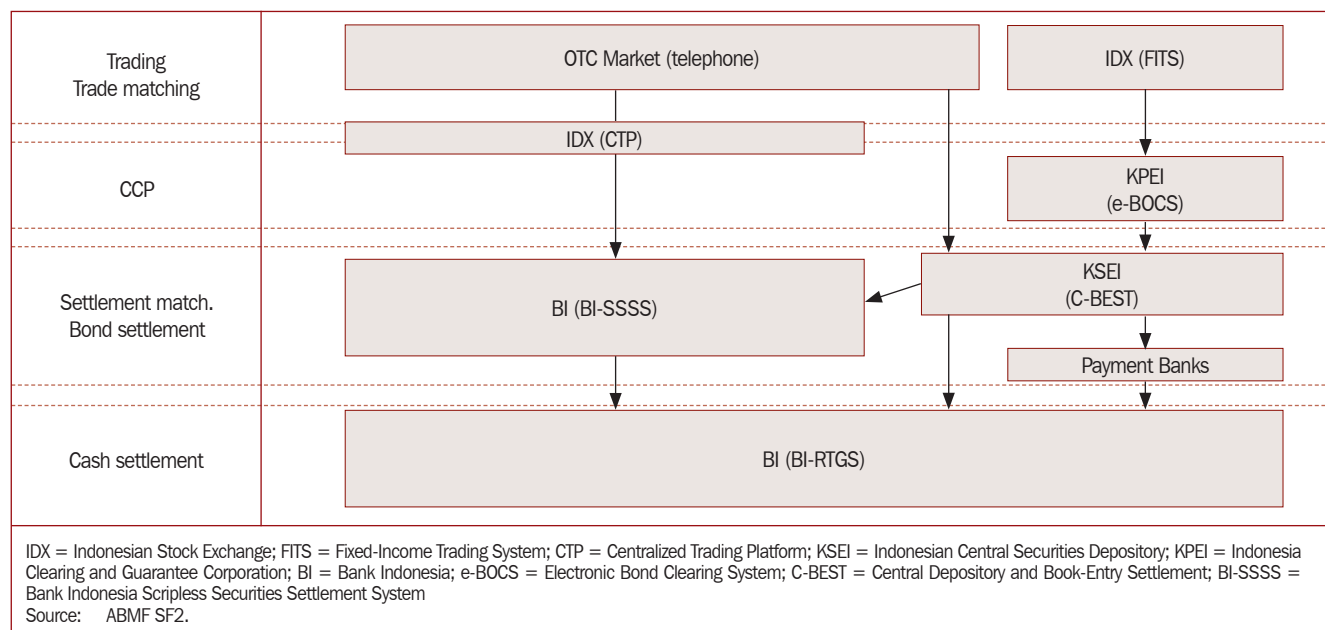
## K. Funding Procedures

All cash trades are settled only if clear funds are available in the respective accounts. Local regulations do not permit an overdraft in non-resident investor accounts.

# V. Description of the Securities Settlement System

## A. Securities Settlement Infrastructure

**Figure 5.1 Bond Settlement Infrastructure Diagram of Indonesia**



The securities settlement infrastructure in Indonesia is organized by the following two institutions:

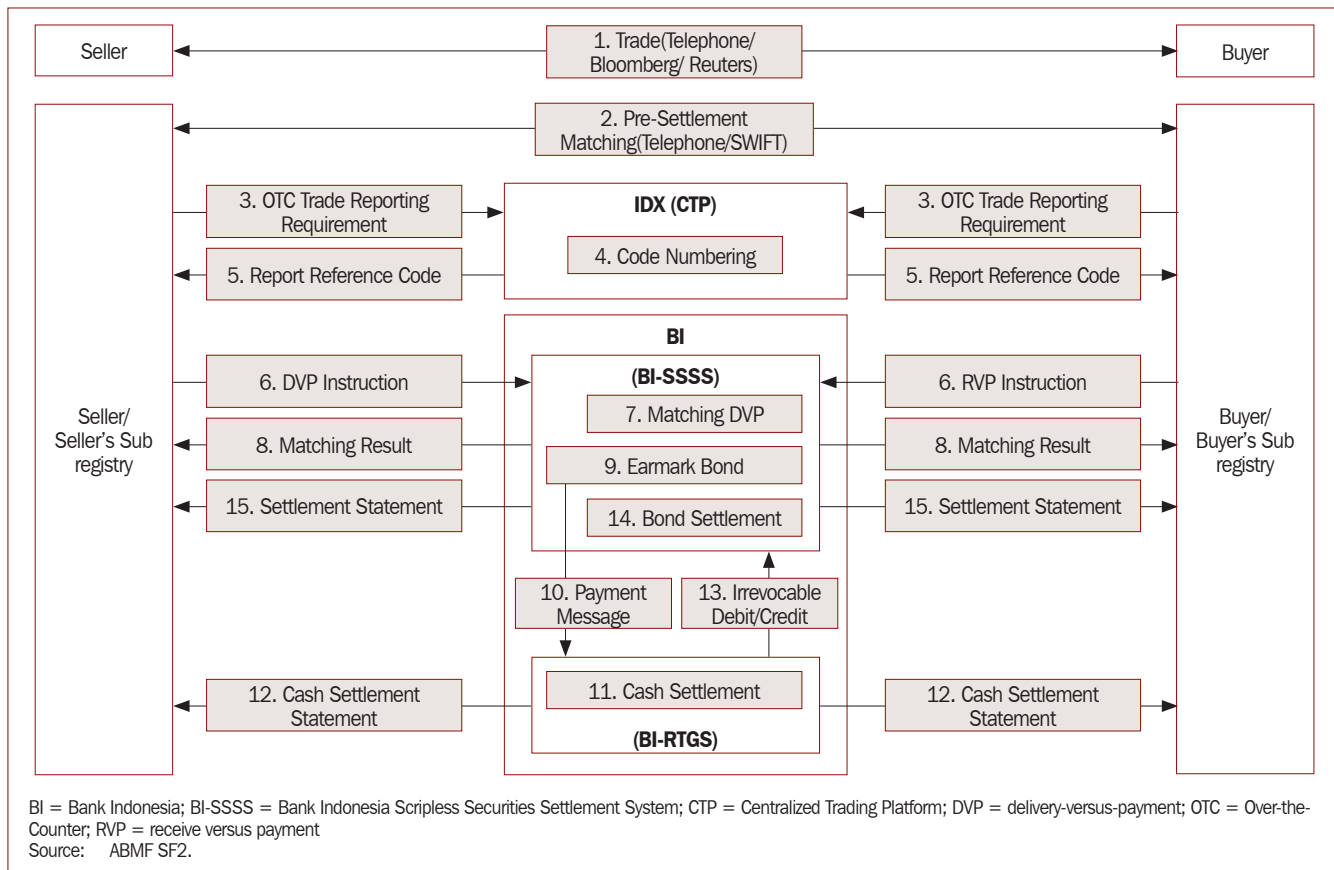
### 1. Bank Indonesia

BI acts as a central registry in conducting the registration, clearing, settlement, payment, and redemption of government securities. It appoints a bank or financial institution as the sub-registry to operate as custodian for each individual customer account. To administer transactions for government securities and Sertifikat Bank Indonesia (SBI), BI employs the BI-SSSS. This system is an information portal that facilitates electronic auctions and the settlement of government securities for market

participants. It is linked seamlessly to BI's Real-Time Gross Settlement System (RTGS). As a result, transactions are conducted on a delivery-versus-payment (DVP) basis.

Figure 5.2 illustrates the OTC market business process flow with direct connection to BI-SSSS. The following are the explanations on the process flow in Figure 5.2.

**Figure 5.2 Business Process Flowchart of the Indonesia Over-the-Counter Bond Market on a Delivery-versus-Payment Basis**



1. The seller and buyer trade government bonds over-the-counter. Most of trades are done by telephones.
2. Both seller and buyer send pre-settlement matching instructions over the SWIFT or pre-match the traded data for settlement over the telephone. Before the pre-settlement matching two components of bond taxes which are capital gain tax (CGT) and interest (withholding) tax need to be calculated. Pre-settlement matching is performed via telephone or swift.
3. The seller or buyer have to report trade data to Centralized Trading Platform (CTP) of Indonesia Stock Exchange (IDX) within 30 minutes of trade.
4. IDX puts the code on each trade.
5. The seller and buyer receive report reference code from IDX.
6. The seller and buyer key in the DVP and RVP instructions to BI-SSSS, respectively.
7. BI-SSSS performs the matching.
8. BI-SSSS reports the matching results to the seller and buyer.

9. Bond is earmarked to secure the DVP.
10. Payment message for DVP is sent to Bank Indonesia Real Time Gross Settlement (BI-RTGS)
11. When the funds are available, the amount is debited from the buyer's cash account and credited to the seller's cash account.
12. BI-RTGS sends the cash settlement statements to the seller and buyer.
13. BI-RTGS notifies the irrevocable debit/credit status to BI-SSSS.
14. BI-SSSS completes bond settlement.
15. BI-SSSS reports the settlement status to both seller and buyer.

BI-SSSS settlement does not have a built-in pre-matching concept; hence, pre-matching of transactions is done via phone. BI matching is based on either both parties' instruction input or upload instructions. Instructions for securities settlement and cash funding or payment would typically be given simultaneously; this is due to the need to link the foreign exchange with the underlying transaction and the need to prove funding before settlement is effected. Intraday facilities are generally permitted, and availability may depend on an intermediary. The straight-through processing (STP) concept is based on the BI-SSSS format, not international standards. BI is developing a next generation system, which may also support a segregated account structure.

## 2. Indonesian Central Securities Depository

The main functions of KSEI are the registration of listed corporate bonds and management of depository accounts. It also facilitates the settlement of securities from the Indonesian exchange. KSEI has been appointed by Bank Indonesia to act as a sub-registry handling government bonds. Thus, KSEI has become a member of BI-RTGS.

KSEI designed the C-BEST to carry out electronic registration and settlement of securities, including Shari'a bonds, multi-currency bonds, and promissory notes.

Under Indonesia's bond settlement system, pre-matching can be done either via telephone or the C-BEST system. KSEI can maintain accounts at an individual account-holder level, while maintaining an omnibus account at BI. No third-party access to KSEI is allowed; only brokers and custodians are allowed as participants.

All trades executed on the IDX FITS are routed to KPEI, the clearing house for CCP. Bond trades on the exchange are handled in the Electronic Bond Clearing System (e-BOCS), including allocations. Affirmations in the e-BOCS is only required for brokers. These trades are then settled in KSEI via C-BEST. The transaction status in C-BEST is available for viewing and is downloadable every 15 minutes. KSEI can settle transactions for bonds denominated in rupiah or US dollar.

Selling bonds attracts CGT. The seller's agent calculates the tax while the buyers' agent will withhold and pay the corresponding tax to tax authorities. As a result, the seller will need to amend the original instructions after calculation of tax impact. The documentation required to prove the applicable tax rate is complex. Two documents are submitted for documentation: 1) a COR or COD and 2) a certificate from the issuer. The COR or COD are renewed annually while the issuer certificate is valid only for 1

month. The withholding of tax is strictly on the basis of the supporting documents received. Some issuers are very strict while some are actively working with KSEI on solutions. KSEI is the withholding agent for government bond transactions.

For cash settlement, cash is settled via payment banks if settlements are made between KSEI account holders. In the settlement process, KSEI currently uses five payment banks: BCA, CIMB Niaga, Mandiri, Permata and BNI. Banks are chosen based on their strength, technology capabilities, and member benefits. KSEI recently arranged the intraday facilities from five payment banks to enable KSEI's participants (custodians and brokers) to withdraw the payment proceeds right after trades are settled in C-BEST, without waiting for the realignment process in C-BEST. With this arrangement, there will be no time lag between trade settled in C-BEST and cash received in the participant's account.

## B. Definition of Clearing and Settlement

Clearing is defined under *Bapepam-LK Regulation No. III.A.10* regarding securities transactions as “a process of determining the rights and obligations that arise from Exchange transactions.” This is also stipulated in *KPEI Rule No. V-1 on Clearing and Transaction Settlement Guarantee of Debt Securities*. In addition, the fulfillment of rights and obligations is stipulated in *KPEI Rule No. V-1. 8.b*. The finality of settlement is also stipulated in *Exchange Rule No. II.F.3.5*.

The definition of settlement in KSEI regulation regarding central depository services is:

“Securities transaction settlement services are part of central depository services provided for the fulfillment of rights and obligations as the result of stock exchange transactions or over-the-counter transactions conducted by means of book-entry of securities and/or funds between securities accounts.”

# VI. Cost and Charging Methods

This part discusses the maintenance (ongoing) costs and initial fees in the Indonesian bond market.

## A. Market Costs

### 1. Stamp Duty

Stamp duty is applicable to registration fees. The following stamp duty is applicable to securities traded in Indonesia.

**Table 6.1 Stamp Duty Fees for Securities (IDR)**

Transaction Value	Stamp Duty
Less than IDR1 million	3,000
More than IDR1 million	6,000

Source: Deutsch Bank, 2010. Domestic Custody Services Market Guide, Indonesia.

### 2. Brokerage

For purchase or sale of securities, an investor is charged with a commission fee by the brokers. IDX does not prescribe any ceiling on brokerage fees. In such cases, the brokerage is mutually agreed between the investor and the broker.

### 3. Transaction Fees for Debt Securities Traded on the Exchange

#### a. Transaction Fees in the Regular Market

The transaction fees in the regular market are as follows:

- i. Transaction value of up to IDR500 million requires a transaction fee of IDR20,000 per transaction;
- ii. Transaction value of above IDR500 million to IDR10 billion has a transaction fee of 0.005% per transaction;
- iii. Transaction value above IDR10 billion has a transaction fee of 0.00375% per the transaction.

### b. Transaction Fees in the Negotiations Market

Transaction fees in the negotiations market are as follows:

- a) Transaction value of up to IDR500 million corresponds to a transaction fee of IDR35,000 per transaction;
- b) Transaction value above IDR500 million to IDR10 billion has a transaction fee of 0.0075% per transaction;
- c) Transaction value above IDR10 billion has a transaction fee of 0.005% per transaction.

These fees are stipulated under *Exchange Rule No. II.F.2 on Commissions and Debt Securities Transaction Fees*.

## B. Registration Costs

There are no registration costs applicable to dematerialized securities traded across the exchange. However, registration costs are applied if investors de-materialize securities that are held in physical form, or re-certificate securities held in dematerialized form. To de-materialize physical shares, the shares must be registered in the client's name. If the shares are not registered in the client's name, the client should provide a power of attorney (PoA) issued in the current registered name for the conversion process.

There is a registration fee of IDR2,000 to IDR10,000 plus 10% value-added tax (VAT) per certificate for physical share denominations up to 50,000. For physical certificate share denominations greater than 50,000, the registration fee is calculated using the formula

$$1/1000 \times \text{total nominal value}$$

where

$$\text{Total Nominal Value} = \text{Number of shares} \times \text{Nominal or par value of the shares},$$

with a minimum of IDR25,000 and a maximum of IDR10 million. There is also a conversion fee of IDR1,500 and IDR10,000 per certificate with a minimum fee of IDR20,000 plus 10% value-added tax. For physical certificate share denominations greater than 50,000, the conversion fee is calculated using the formula

$$1/1000 \times \text{total nominal value}$$

where

$$\text{Total Nominal Value} = \text{Number of shares} \times \text{Nominal or par value of the shares}$$

with a minimum of IDR25,000 and a maximum of IDR10 million.

A stamp duty is applicable on the total amount of registration fees on a registration application form. The stamp duty is generally payable by the investor and calculated based on the receipt for the registration fees.

Investors may withdraw their dematerialized holdings from KSEI and convert them into physical form. Such shares will be registered according to the name specified in the PoA. KSEI will charge a fee calculated as follows:

$$0.1\% \times \text{quantity} \times \text{closing market price},$$

subject to tax, with a minimum of IDR25,000 and a maximum of IDR500,000. The registrar will issue the scrip in a jumbo lot and charges a fee calculated as follows:

$$0.1\% \times \text{quantity} \times \text{nominal value},$$

subject to tax, with a minimum of IDR27,500 and a maximum of IDR550,000. The fee for splitting shares is IDR3,000 plus 10% VAT.

## C. Listing Fees Charged by Exchanges

### 1. Corporate Bond and Sukuk

Security listing fees shall consist of initial listing fee and annual listing fee. The rates of initial listing fee and annual listing fee of debt securities are the same. Issuers that issue more than one type of debt securities in one issuance shall pay the initial and annual listing fee for each type of debt securities. The following listing fee rates are applicable to types of debt securities denominated in rupiah:

**Table 6.2 Listing Fees per Type of Debt Securities**

Total Nominal Amount of Debt Securities per Type	Listing Fee
Up to IDR200 billion	0.025% x Nominal
More than IDR200 billion up to IDR400 billion	0.024% x Nominal
More than IDR400 billion up to IDR600 billion	0.023% x Nominal
More than IDR600 billion	0.022% x Nominal
Source: ??????	

The listing fees above, in any case, shall not be lower than IDR10 million and not greater than IDR150 million. The listing fee of debt securities also applies to debt securities denominated in foreign currencies based on the nominal value after conversion into rupiah at the middle exchange rate of BI 8 exchange days before the date of debt securities listing, or 8 exchange days before the date of the listing anniversary. Provisions on initial and annual listing fees of municipal bonds shall follow those of the debt security listing fee.

### 2. Government Securities

Listing fee for government bonds shall only consist of initial listing fee. The exchange shall collect the initial listing fee from the Directorate General of Treasury of the MOF after the listing date. The listing fee for the government bonds shall amount to IDR100 million for each new issue or reopening valued at IDR1 trillion or more. Government bonds listing that constitutes a new issue and reopening valued at less than IDR1 trillion shall not be imposed with listing fees. The listing fee for government securities is exclusive of VAT.



The following Exchange Rules govern the listings fees in exchanges:

- a. *Exchange Rule No. I.A.5 regarding security listing fees;*
- b. *Exchange Rule No. I.F.2 regarding government securities listing; and*
- c. *Exchange Rule No. I.F.3 regarding municipal bond listing*

#### **D. Other Costs**

KSEI charges participants a transaction fee of IDR20,000 per transaction and a safe-keeping fee of 0.001% per annum from the market value. KSEI levies a dormant account fee of IDR1 million per month for any account that has no holdings and has not executed a trade for 6 months. If an investor closes a dormant account mid-month, the fee will be pro-rated. KSEI will give at least 30 days notice to allow investors an opportunity to close their accounts or to purchase securities before the charge is applied.

## VII. Market Size and Statistics

Total local currency (LCY) bonds outstanding in Indonesia expanded 2.8% year-on-year as of the end of December 2010 reaching IDR956.1 trillion (USD106.3 billion). On a quarter-on-quarter basis, however, bonds outstanding fell 4.4% in the fourth quarter of 2010. As of the end of December 2010, the growth in total government bonds outstanding was flat on a year-on-year basis.

The 10.2% year-on-year growth in the stock of central government bonds (Treasury bills and bonds issued by the MOF) in the fourth quarter of 2010 was offset by the 23.0% year-on-year decline in the stock of central bank bills issued by BI in the form of SBI. Meanwhile, corporate bonds outstanding grew 29.8% year-on-year to IDR114.8 trillion (USD12.8 billion) in the fourth quarter of 2010.<sup>25</sup>

### A. Debt Securities and Sukuk Trade Reporting Data through PLTE (Indonesia Stock Exchange)

**Table 7.1** Listed Bonds (Outstanding), 2008–September 2011 (IDR trillion)

Period	Listed Bonds (Outstanding)	
	Government Bonds	Corporate Bonds
As of September 2011	705.69	130.76
2010	641.21	115.34
2009	574.65	88.32
2008	525.69	72.97

Source: Bapepam-LK Statistics Department; Debt Management Office.

<sup>25</sup> Bapepam-LK. [http://www.bapepam.go.id/pasar\\_modal/publikasi\\_pm/statistik\\_pm/index.htm](http://www.bapepam.go.id/pasar_modal/publikasi_pm/statistik_pm/index.htm)

## B. Debt Securities and Sukuk Outstanding Data

**Table 7.2 Debt Securities and Sukuk Outstanding Data, 2008–2010**  
(IDR billion)

Period	Total Nominal Outstanding	
	Government Securities	Corporate Bonds and Sukuk
2010	641,214.61	115,840.57
2009	581,747.89	88,896.77
2008	525,694.73	73,010.00

Source: Bapepam-LK Statistics Department; Debt Management Office.

## C. Composition of Bond Holding as of September 2011

**Table 7.3 Composition of Bond Holdings as of September 2011**  
(IDR trillion)

Holding	Government Bond		Corporate Bond	
	Value	%	Value	%
Foreign	218.09	31.3	6.55	5.0
Local	478.47	68.7	123.03	95.0

Source: Bapepam-LK Statistics Department; Debt Management Office.

## D. Type of investors for bonds as of September 2011

**Table 7.4 Type of Investors of Bonds as of September 2011**  
(IDR billion)

Type of Investors	Government Bond		Corporate Bond	
	Value of Foreign Investors	Value of Local Investors	Value of Foreign investors	Value of Local Investors
Corporate	27.40	443.61	534.15	6,378.75
Individual	10.80	7,651.43	37.86	2,033.25
Mutual Fund	20.00	862.10	609.01	30,332.38
Securities Company	0.00	17.92	25.00	417.10
Insurance	0.00	294.45	17.00	31,755.42
Pension Fund	24.38	549.50	0.00	29,445.59
Financial Institution	5.00	196.97	3,720.82	21,112.46
Foundation	0.00	55.96	0.00	1,553.12
Others	133.50	53.93	1,609.46	5.50

Source: Bapepam-LK Statistics Department; Debt Management Office.

## E. Size of Local Currency Bond Market in Percentage of Gross Domestic Product

**Table 7.5** Size of Local Currency Bond Market (% GDP)

Size of LCY Bond Market in % GDP (Local Sources)						
Date	Government (% GDP)	Corporate (% GDP)	Total (% GDP)	Government (USD Billions)	Corporate (USD Billions)	Total (USD Billions)
Dec-97	0	2.4	2.4	0	2.81	2.81
Dec-98	0	1.4	1.4	0	1.73	1.73
Dec-99	30.3	1.3	31.5	46.86	2.00	48.85
Dec-00	35.4	1.4	36.8	50.84	1.95	52.79
Dec-01	29.8	1.1	31.0	47.22	1.81	49.03
Dec-02	26.2	1.2	27.4	53.30	2.40	55.70
Dec-03	24.7	2.3	27.0	59.09	5.39	64.48
Dec-04	21.9	2.6	24.5	54.28	6.34	60.62
Mar-05	19.5	2.4	21.9	49.26	6.17	55.43
Jun-05	20.3	2.5	22.7	51.85	6.29	58.14
Sep-05	17.1	2.3	19.4	43.48	5.78	49.26
Dec-05	17.1	2.1	19.2	48.27	5.88	54.14
Mar-06	18.2	2.0	20.2	58.81	6.33	65.14
Jun-06	18.7	2.0	20.7	62.07	6.52	68.59
Sep-06	18.8	1.9	20.7	65.62	6.57	72.19
Dec-06	18.8	1.8	20.7	69.87	6.84	76.71
Mar-07	19.6	1.8	21.4	74.70	6.86	81.56
Jun-07	19.6	2.1	21.8	78.81	8.47	87.28
Sep-07	19.5	2.1	21.6	80.72	8.86	89.58
Dec-07	18.4	2.0	20.4	77.26	8.42	85.67
Mar-08	17.1	2.0	19.1	76.79	9.11	85.90
Jun-08	15.6	1.9	17.5	74.27	8.94	83.21
Sep-08	14	1.7	15.7	69.29	8.19	77.48
Dec-08	14.3	1.5	15.7	63.47	6.57	70.04
Mar-09	15.1	1.4	16.5	66.61	6.27	72.88
Jun-09	14.8	1.5	16.3	76.99	7.83	84.82
Sep-09	14.5	1.4	15.9	81.54	8.17	89.70
Dec-09	15.0	1.6	16.6	89.50	9.41	98.90
Mar-10	15.4	1.6	17.0	98.18	10.13	108.31
Jun-10	14.9	1.6	16.5	98.34	10.25	108.59
Sep-10	14.4	1.7	16.1	100.30	11.58	111.87
Dec-10	13.1	1.8	14.9	93.70	12.76	106.46
Mar-11	13.6	1.8	15.4	103.93	13.91	117.85

Source: Asia Bonds Online. [http://asianbondsonline.adb.org/indonesia/data/bondmarket.php?code=LCY\\_in\\_GDP\\_Local](http://asianbondsonline.adb.org/indonesia/data/bondmarket.php?code=LCY_in_GDP_Local)

## F. Trading Volume

**Table 7.6** Trading Volume of Government and Corporate Bonds (in USD billion)

Trading Volume			
Year	Govt Bonds	Corp Bonds	Total
Mar-05	8.46	0.34	8.80
Jun-05	7.90	0.32	8.22
Sep-05	7.07	0.35	7.42
Dec-05	3.10	0.21	3.31
Mar-06	8.83	0.21	9.04
Jun-06	8.62	0.13	8.75
Sep-06	10.89	0.46	11.35
Dec-06	10.84	1.04	11.88
Mar-07	13.85	0.79	14.64
Jun-07	22.37	1.08	23.45
Sep-07	18.88	1.15	20.03
Dec-07	14.86	0.75	15.61
Mar-08	13.41	0.77	14.18
Jun-08	13.88	0.84	14.72
Sep-08	14.41	0.73	15.14
Dec-08	8.06	0.43	8.49
Mar-09	6.66	0.33	6.99
Jun-09	10.24	0.50	10.74
Sep-09	9.30	0.38	9.68
Dec-09	13.59	0.72	14.31
Mar-10	18.08	1.16	19.24
Jun-10	22.99	1.23	24.22
Sep-10	19.48	1.40	20.88
Dec-10	19.11	1.21	20.32
Mar-11	24.17	1.41	25.58

Source: Asia Bonds Online. [http://asianbondsonline.adb.org/indonesia/data/bondmarket.php?code=Trading\\_Volume](http://asianbondsonline.adb.org/indonesia/data/bondmarket.php?code=Trading_Volume)

# VIII. Presence of an Islamic Finance (Islamic Bond [*Sukuk*]) Market

## A. Definition

*Law No. 8/1995* concerning the capital market (UUPM) defines “capital market” as “an activity concerned with the public offering and trading of securities, the Public Company relating to the issuance of securities, as well as the institutions and professions related to securities.” Based on this definition, the terminology of Shari’a capital market can be defined as the activity in capital markets as provided for in UUPM that does not conflict with Shari’a principles. Therefore, the Shari’a capital market is not a separate system from the capital market as a whole. In general, the Shari’a capital market activity is no different with the conventional capital market, but there are some special characteristics of the Shari’a capital market products in that the transaction mechanisms do not conflict with Shari’a principles.

## B. Shari’a Principles

The application of Shari’a principles in the stock market certainly springs from the Koran as the supreme source of law and tradition of the Prophet Muhammad. Furthermore, from these two sources of legal interpretation is the so-called *fiqih*. One of the discussions in *fiqih* is about *muamalah*, which is the relationship among human beings and all their acts and interconnections that includes financial activities. Based on the Shari’a, capital market activities are developed on the basis of *fiqih muamalah*. The rule which states that, “In essence, all forms of *muamalah* be done unless there is proof (*dalil*) that it is otherwise (*haram*).” This is the basic principle of the Shari’a capital market in Indonesia. Moreover, Bapepam-LK defined Shari’a Principles in the Capital Market as the principles of Islamic laws in capital market activities based on the *fatwa* of the National Shari’a Board—the Indonesian Ulama Council (DSN-MUI) which do not violate Bapepam-LK rules.

## C. Rules

### 1. Rule No. II.K.1 on Criteria and Publishing List of Shari'a Securities

The list of Shari'a Securities (DES) is a collection of securities that do not conflict with Shari'a principles in the capital market, which is set by Bapepam-LK or parties approved by Bapepam-LK. Currently, DES consists of the Shari'a stock list and other Shari'a securities. DES is a mutual fund investment guide for the Shari'a in placing funds under its management and can also be used by investors who have a desire to invest in the securities portfolio of the Shari'a. There are two types of DES:

#### a. Periodic DES

A periodic DES is published periodically, i.e., at the end of May and November each year. It was first published by Bapepam-LK in 2007.

#### b. DES Incidental

Incidental DES is not published regularly. It is issued when:

- i. The determination of stocks meets the criteria of Shari'a securities simultaneously with the issuers of an effective Registration Statement conducting initial public offering or a public company registration statement.
- ii. The determination of stocks of the issuer and public companies that meet the criteria of Shari'a securities based on periodic financial reports submitted to Bapepam-LK after the DES decree is periodically determined.

### 2. Rule No. IX.A.13 on Shari'a Securities Issuance

This rule regulates the issuance process and requirements needed to be fulfilled in issuing Shari'a securities. The securities, among others are:

- i. Stocks;
- ii. Mutual funds Shari'a, which is defined in the *Capital Market Law* and its implementing regulations that states that the management does not conflict with Shari'a principles in the capital market;
- iii. Asset-Backed Securities Collective Investment Contract Shari'a; and
- iv. Corporate sukuk.

In principle, the procedure and documents are the same with other Shari'a securities, and, in addition, those securities definitely have to comply with Shari'a principles.

### 3. Rule No. IX.A.14 on contracts (akad) used in the issuance of Shari'a securities in the capital market

This rule regulates the contracts (akad) that can be used in the issuance of Shari'a securities. The types of contract are Ijarah, Kafalah, Mudharabah, and Wakalah.

## D. Fatwa and the Legal Basis of Islamic Bonds (Sukuk) in Indonesia

The following form the fatwa and legal basis of Islamic bonds (sukuk) in Indonesia.

1. *Fatwa No. 32/DSN-MUI/IX/2002 concerning Shari'a Bonds*
2. *Fatwa No. 33/DSN-MUI/IX/2002 concerning Shari'a Mudharabah Bonds*

3. *Fatwa No. 40/DSN-MUI/X/2003 concerning the Capital Market and the General Guidelines for Implementation of Shari'a in the Capital Market*
4. *Fatwa No. 41/DSN-MUI/III/2004 concerning Shari'a Ijarah Bonds*
5. *Fatwa No. 59/DSN-MUI/V/2007 concerning conversion of Shari'a Mudharabah Bonds*
6. *Fatwa No. 69/DSN-MUI/VI/2008 concerning of the Government Shari'a Securities (SBSN)*
7. *Fatwa No. 70/DSN-MUI/VI/2008 concerning the method of SBSN Issuance*
8. *Fatwa No. 72/DSN-MUI/VI/2008 concerning Sale and Lease Back of Ijarah SBSN*

## E. Regulations on Domestic and International Issuance of Government Sukuk

### 1. Domestic Issuance

- a. Bookbuilding for Sovereign Sukuk (*Finance Minister Regulation No. 118/PMK.08/2008 on Issuance and Sale of SBSN in Domestic Primary Market through Bookbuilding*);
- b. Book Building for Sovereign Retail Sukuk (*Finance Minister Regulation No. 218/PMK.08/2008 on Issuance and Sale of Retail SBSN in Domestic Primary Market*);
- c. Auction (*Finance Minister Regulation No. 11/PMK.08/2009 on Issuance and Sale of SBSN in Domestic Primary Market through Auction*); and
- d. Private Placement (*Finance Minister Regulation No. 75/PMK.08/2009 concerning Issuance and Sale of SBSN through Private Placement*)

### 2. International Issuance

- a. Book Building (*Finance Minister Regulation No. 152/PMK.08/2008 concerning SBSN Issuance in Foreign-Currency Denomination in the International Primary Market with changes reflected in Finance Minister Regulation No. 129/PMK.08/2009*);
- b. Private Placement (*Finance Minister Regulation No. 75/PMK.08/2009 concerning Issuance and Sale of SBSN through Private Placement*)

## F. Statistics

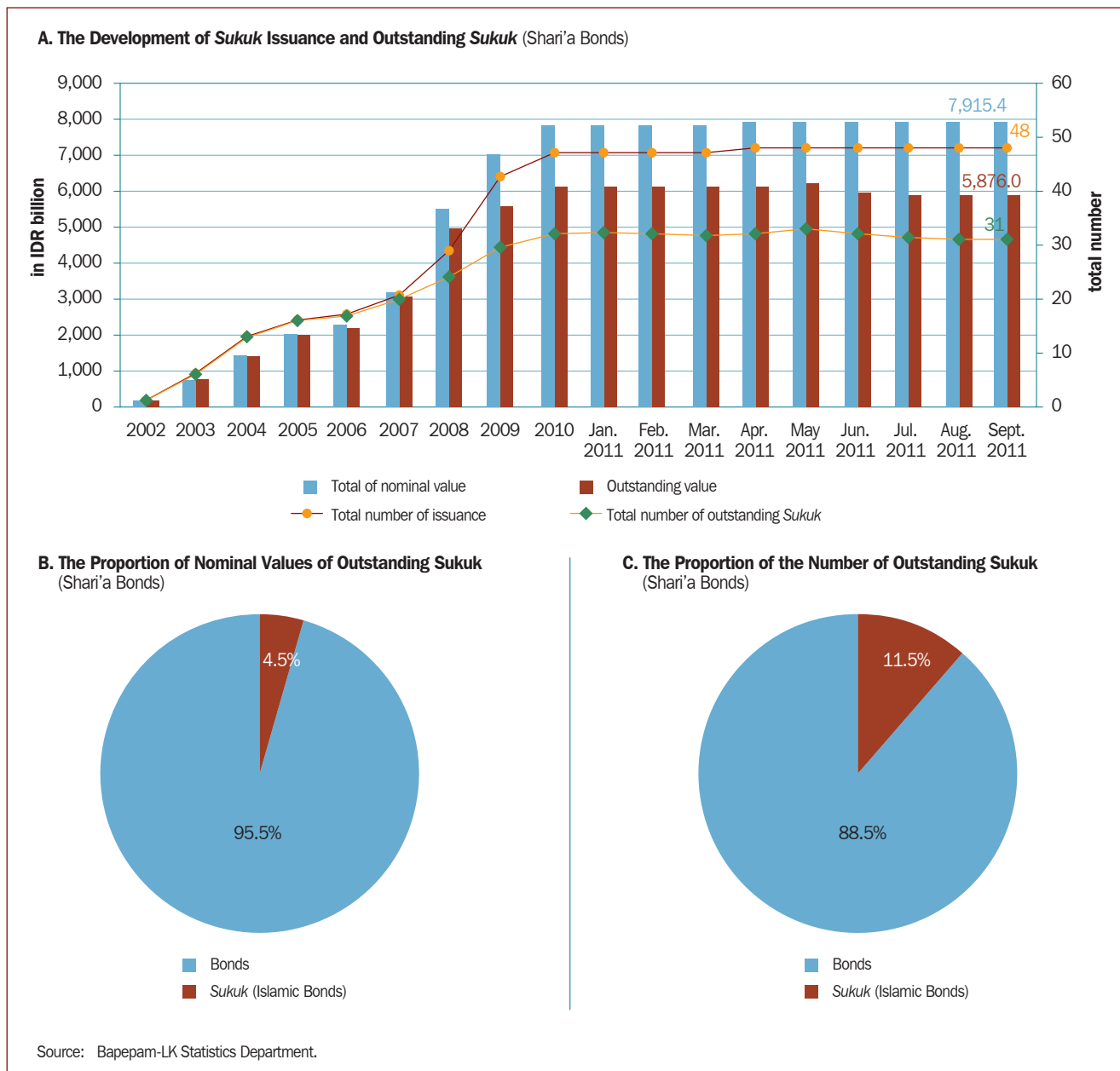
**Table 8.1 Statistics on the Islamic Finance Market in Indonesia (2007–2011)**

Group of asset	2007	2008	2009	2010	2011
Sharia Insurance (as of March 2011)	1,889.00	2,669.00	4,803.00	6,974.00	7,840.00
Sukuk (Islamic Bonds) (as of September 2011)	3,174.00	5,498.00	7,015.00	7,815.00	7,915.40
Sharia Mutual Funds (as of September 2011)	2,203.00	1,814.80	4,629.22	5,225.78	5,358.85
Government Sukuk (as of September 2011)	not available	4,699.70	20,329.00	44,344.00	64,782.51
Sharia Banking (as of June 2011)	36,538.00	49,555.00	66,090.00	97,519.00	109,750.00
<b>Total asset of Sharia Financial Industry</b>	<b>43,538.90</b>	<b>64,236.50</b>	<b>102,866.22</b>	<b>161,877.78</b>	<b>195,646.76</b>
Percentage of growth		46.64	60.14	57.37	20.76

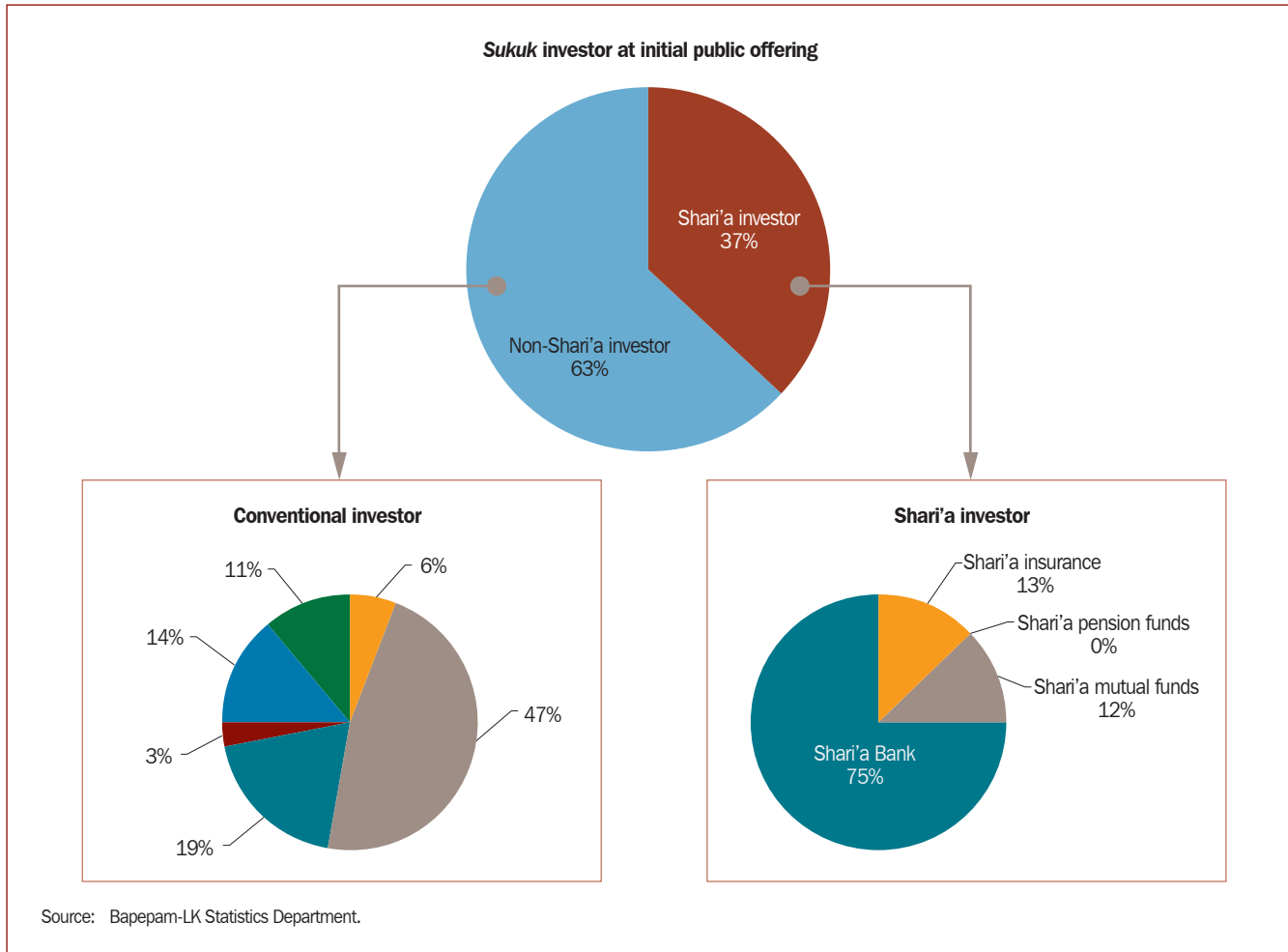
\* Including global sovereign Sukuk of USD650 million or approximately IDR6,500.00 billion (USD1=IDR9,325) and government sukuk are not tradable.



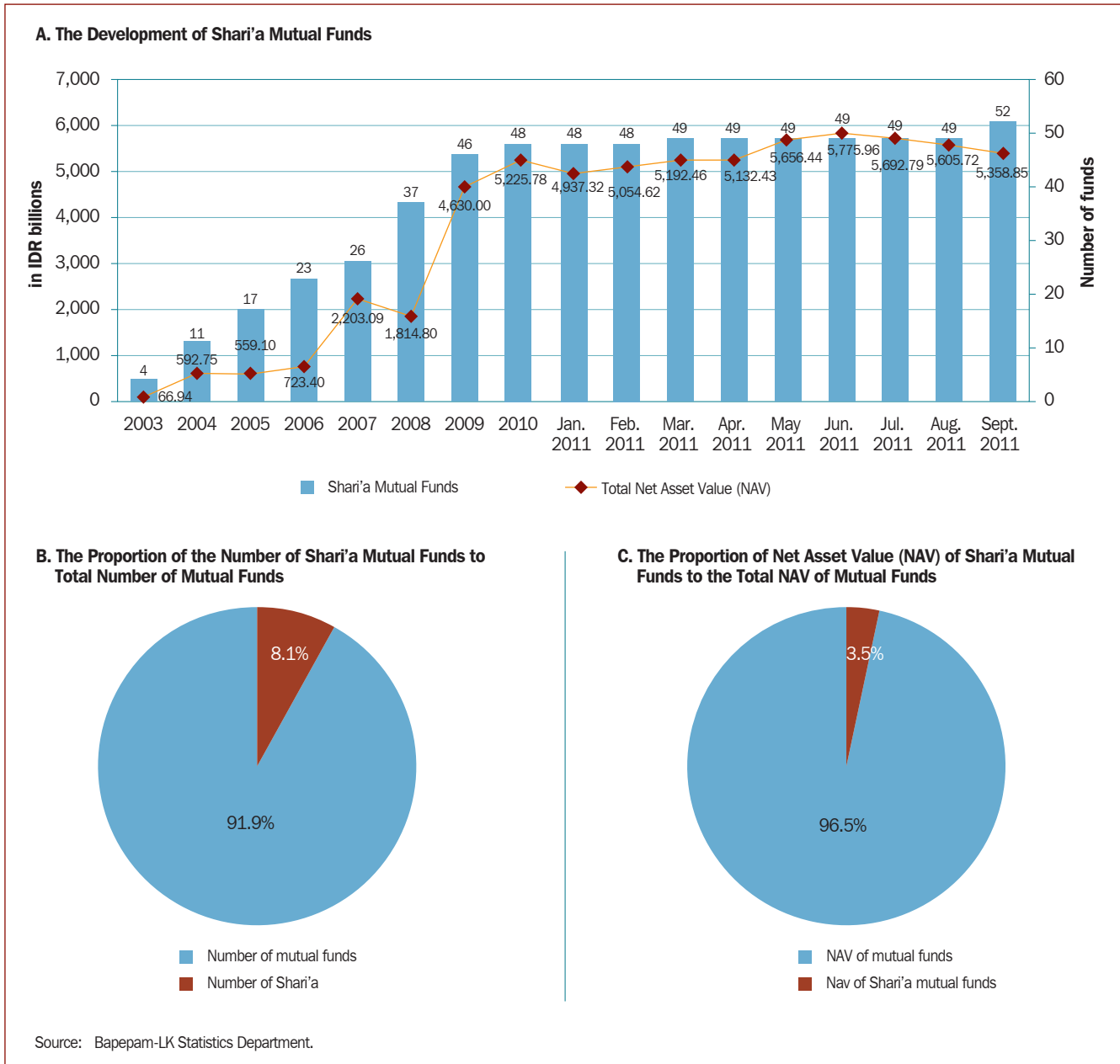
**Figures 8.1 The Development of Sukuk Issuance and Outstanding Sukuk (Shari'a Bonds)**



**Figure 8.2 The Profile of Corporate Sukuk Investors**



**Figure 8.3 The Development of Shari'a Mutual Funds**



# IX. History of Debt Market Development

In the history of the Indonesian capital market, shares and bonds trading began since the early 19th century. On 14 December 1912, *Amsterdamse Effectenbueurs* established a stock exchange branch in Batavia. In Asia, the exchange was the fourth established after those in Bombay, Hong Kong, and Tokyo. The stocks traded were shares and bonds of Netherlands firms and/or plantations in Indonesia, bonds issued by the government (provinces and municipalities), securities certificates of American companies issued by the administrative offices in Netherlands, and bonds of other firms from the Netherlands.

## A. Corporate Debt Securities

During the first 10 years since the reactivation of the Indonesian capital market in 1977, there were nine companies that conducted a public offering of bonds with a total offering value of IDR936 billion. This value was far greater than the offering value of shares which was IDR174 billion. Until 1996, 55 companies conducted public offering of bonds, with an offering value of IDR11.54 trillion. During the period of 1999 to 2010, the average growth of the number of debt securities issuers in Indonesia was 6.39% annually, while the issue amount had grown 22.6% annually on average. Until the end of 2010, 189 companies have conducted bond public offerings with a total value of IDR709.82 trillion.

In 2002, the first corporate sukuk was offered in the Indonesian capital market. Since the first offering, the number of sukuk public offerings has increased steadily. Until the end of 2010, 47 sukuk have been offered to the public with a total offering value of IDR7.8 trillion.

## B. Government Debt Securities

The debt market in Indonesia has shown significant growth with the issuance of recap bonds by the government in 1999 and the commencement of recap bonds trading in the secondary market in 2000. The condition of the Indonesian macroeconomy, which

was marked by a decreasing interest rate, has also highly supported the development of the debt market at that time. The increasingly diverse types and total value of debt securities and sukuk instruments issued by the government, as well as those issued by corporates, also marked the growth of the Indonesian debt market. Such diverse types encompass fixed rate, variable rate, zero coupon, retail, treasury notes, and sukuk of government securities, all in rupiah as well as in US dollars and Japanese yen. The value of recap bonds, later on referred to as government debt securities, traded in the secondary market had grown significantly from IDR31.6 trillion in 2000 to around IDR712 trillion by the end of October 2011.

The amount of outstanding debt securities and sukuk issued by the government and the corporate sector traded in the secondary market year-on-year had also shown remarkable growth from approximately IDR49 trillion in 2000 to approximately IDR832 trillion in October 2011. As of October 2011, there were 85 series of government debt securities and sukuk and 268 series of corporate debt securities and sukuk in the market.

To improve the infrastructure and for better price-discovery mechanism, Bapepam has set as priority the development of the bond market under three main objectives or pillars, namely:

1. Develop primary dealers by designing a merit-based cross industry that bridge the capital market industry and the banking industry, as well as by implementing a product standardization program.
2. Develop reporting and collection of trade data by issuing regulation regarding reporting obligations and reporting platform, and the establishment of the Bond Pricing Agency (BPA). The goals of this pillar are to create a debt securities benchmark and to encourage market transparency and ensure the existence of professional responsibility and independence in the process of price formation or bonds valuation.
3. Develop an electronic trading system by taking into account the existence of the retail market.

The development in the debt market had a positive influence on encouraged the long-term investment climate. This was indicated by the growth and diversity of debt securities- and sukuk-based instruments such as mutual funds, unit-linked, bank assurance, ABS, and others. The increasing growth of the Indonesian debt market is the real evidence of the important role of debt securities as fiscal and monetary instruments for the government, as well as funding and investment instruments for the corporate and business sectors.

# X. Next Steps

## 1. Development Plans

A masterplan laid out the big picture desired for technology and market developments such as:

1. BI Next Generation System project, which consists of the development of the BI-SSSS and BI-RTGS.
2. Bapepam, BI and market players are in cooperation to develop the repo market by establishing the Global Master Repo Agreement (GMRA) with Indonesia Annex, which will use international standards adapted to the Indonesian market.
3. Optimizing the functions of IBPA in assessing the price of debt securities, sukuk, and other securities, as well as expanding the use of products of IBPA in financial markets.

KSEI already introduced AKSES, which allows investors to check all their holdings with KSEI, and across intermediaries by using the new Single Investor ID (SID), as long as all custodians or brokers for the same client use the SID. However, AKSES still could not yet facilitate government bond investors who are not sub-account holders in KSEI.

In January 2011, the MOF and the State Enterprises Ministry signed a memorandum of understanding requiring state-owned firms to act as stand-by purchasers of government bonds in the event of sudden capital outflows. Under the scheme, a bond stabilization fund will be created to help protect the economy in case of sudden capital flight. The government has appointed 13 major state companies and financial institutions to participate in the bond stabilization fund. These comprise four banks (Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia, and Bank Tabungan Negara), and nine non-banks and insurance companies (including Jaminan Kredit Indonesia and Asuransi Kredit Indonesia).

## 2. Market Development

The concept of a financial sector supervisory agency (i.e., the convergence of supervisory powers into a single agency) is planned, but slow moving. Several major desirable developments, including a possible convergence of depositories into a single entity, should not be expected before the conclusion of implementation. Please refer to the “Indonesia Capital Market and Financial Institution Master Plan,” which can be accessed through the Bapepam website.<sup>26</sup>

## 3. G-30 Compliance<sup>27</sup>

The so-called G-30 Recommendations were originally conceived as the Group of Thirty’s Standards on Securities Settlement Systems in 1989, detailing in a first of its kind report, nine recommendations for efficient and effective securities markets and covering legal, structural and settlement process areas. The recommendations were subsequently reviewed and updated in 2001, under the leadership of the Bank for International Settlements (BIS), and through the efforts of a Joint Task Force of the Committee on Payment and Settlement Systems (CRSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO). Compliance with the G30 recommendations in individual markets is often an integral part in securities industry participants’ and intermediaries’ due diligence process.

**Table 10.1 Group of Thirty Compliance Recommendations**

	Recommendation	Implemented
1	Eliminate paper and automate communication, data capture, and enrichment.	Yes
2	Harmonize messaging standards and communication protocols.	No
3	Develop and implement reference data standards.	Yes
4	Synchronize timing between different clearing and settlement systems and associated payment and foreign exchange systems.	Yes
5	Automate and standardize institutional trade matching.	No
6	Expand the use of central counterparties.	Yes
7	Permit securities lending and borrowing to expedite settlement.	Yes
8	Automate and standardize asset servicing processes, including corporate actions, tax relief arrangements, and restrictions on foreign ownership.	No
9	Ensure the financial integrity of providers of clearing and settlement services.	Yes
10	Reinforce the risk management practices of users of clearing and settlement service providers.	No
11	Ensure final, simultaneous transfer and availability of assets.	Yes
12	Ensure effective business continuity and disaster recovery planning.	No
13	Address the possibility of failure of a systematically important institution.	No
14	Strengthen assessment of the enforceability of contracts.	Yes
15	Advance legal certainty over rights to securities, cash, or collateral.	Yes
16	Recognize and support improved valuation methodologies and closeout netting arrangements.	Yes
17	Ensure appointment of appropriately experienced and senior board members (of the boards of securities clearing and settlement infrastructure providers).	Yes
18	Promote fair access to securities clearing and settlement networks.	Yes
19	Ensure equitable and effective attention to stakeholder interests.	Yes
20	Encourage consistent regulation and oversight of securities clearing and settlement service providers.	Yes

Source: Self-assessment 2011 of ABMF National Members from Indonesia, on basis of G30 recommendations.

<sup>26</sup> Bapepam-LK. 2010. *Indonesia Capital Market and Financial Institution Master Plan*. [http://www.bapepam.go.id/pasar\\_modal/publikasi\\_pm/info\\_pm/MASTERPLAN\\_BAPEPAMLK\\_2010-2014.pdf](http://www.bapepam.go.id/pasar_modal/publikasi_pm/info_pm/MASTERPLAN_BAPEPAMLK_2010-2014.pdf)

<sup>27</sup> Group of 30 (G30). 2003. *Global Clearing and Settlement – A Plan of Action*. <http://www.partad.ru/wrld/word/g30app1.pdf>

#### 4. Group of Experts Final Report: Summary of Barriers Market Assessment (April 2010)

The GoE Report refers to the published results in 2010 of the Group of Experts (GoE) formed under Task Force 4 of the Asian Bond Market Initiative (ABMI). In the report, published under the leadership of the Asian Development Bank (ADB), a group of securities market experts from the private and public sector in ASEAN+3, as well as International Experts, assessed the ASEAN+3 securities markets on potential market barriers, the costs for cross-border bond transactions, and the feasibility for the establishment of a Regional Settlement Intermediary (RSI). The findings in the GoE Report lead to the creation of ABMF.

Table 10.2 below summarizes the Group of Experts (GOE) Final Report on barriers market assessment for Indonesia as of April 2010.

**Table 10.2 Summary of Barriers Market Assessment – Indonesia (April 2010)**

Potential Barrier Area	Current Situation	Market Assessment Questionnaire Scores	Overall Barrier Assessment
Quotas	There are no quotas on foreign involvement in the local market. There are no significant limits on foreign investor holdings in individual issues.	OK	OK
Investor registration	There is no requirement for foreign investor registration.	OK	OK
FX controls - conversion	<p>Foreign exchange activities of each bank are restricted to 20% of total capital per day, shared between the bank's customers.</p> <p>Offshore foreign exchange transactions are prohibited.</p> <p>Third-party FX trades are allowed. However, given the restrictions and risks associated with the movement of funds in the market, custodians may not support third party FX.</p> <p>Investors who purchase foreign currencies against IDR more than the equivalent of USD 100,000 per calendar month must make a declaration stating that all FX activity is supported by underlying investments and a letter declaring the validity of all supporting documents provided. Non-resident custody clients can provide an annual blanket confirmation.</p> <p>Reports on IDR transfers are submitted on a monthly basis by custodian banks. Reports on FX transactions effected are submitted on a daily basis. Comments from market participants indicated some investor perception of these currency controls being problematic. 8 survey responses mentioned Indonesia as a problem in this area.</p>	HIGH	HIGH
FX controls - repatriation of funds	<p>Similar controls are imposed on repatriation of funds.</p> <p>6 survey responses mentioned Indonesia as a problem in this area.</p>	LOW	LOW
Cash controls - credit balances	<p>IDR received from an FX which is to be used for the purchase of securities can only be held in the non-resident account for a maximum of 2 working days. Failed trades are not common in the Indonesian market, but should a purchase trade not have settled by SD+1, the custodian will be forced to reverse the initial FX and sell the IDR same-day. The IDR cannot remain in the account, although it can be used to fund another purchase.</p> <p>There are significant restrictions on credit balances, but some flexibility.</p>	LOW	LOW

*continued on next page*



Table 10.2 continuation

Potential Barrier Area	Current Situation	Market Assessment Questionnaire Scores	Overall Barrier Assessment
Cash controls - overdrafts	<p>A non-resident's IDR current account cannot, under any circumstances, be overdrawn overnight.</p> <p>Intra-day overdrafts are allowed. However, in practice, sales proceeds cannot be used to fund purchases of the same value date due to limited cut-off time of securities settlement. Therefore, while pre-funding in the sense that funds are needed prior to settlement date is not required, foreign investors must ensure that sufficient IDR funds are in their account on SD, without allowing for any sales proceeds due in that day, to ensure purchases are settled.</p>	LOW	HIGH
Taxes	<p>Withholding taxes are applied both when selling bonds and at the maturity of bonds. Market participants need to track historic trades in order to calculate the tax on a sale.</p> <p>For foreign investors, the standard rate of withholding tax is 20%. Double-taxation treaties can reduce this to 10%. Exemption is currently obtained by submitting an original Certificate of Domicile/Residency. Additional documentation may be required under the new Indonesian income tax law (as from 1 January 2009), but the implementation guidelines have not yet been issued.</p> <p>It appears there are ambiguities in the tax regulations in Indonesia and tax reclaim is a cumbersome and lengthy process. Investors commented that tax is complex and high and terminology can be unclear. 6 survey responses mentioned Indonesia as a problem in this area. It was also mentioned that there have been some improvements in recent years.</p>	HIGH	HIGH
Omnibus accounts	Omnibus accounts are permitted. However, for tax reasons it may be advisable to open individual accounts, and many investors now do so.	OK	OK
Settlement cycle	The settlement cycle for bonds is negotiated, normally on T+2, but can be settled between T+1 to T+7.	OK	OK
Message formats	The CSD, and most local market participants, do not currently use ISO 15022 / 20022 message formats.	LOW	LOW
Securities numbering	ISIN codes are available for all local bond issues, and are available at the time of issue. However, the CSD, and most local market participants, do not currently use ISIN codes in securities messages.	LOW	LOW
Matching	There are trade matching and pre-settlement matching systems for bonds.	OK	OK
Dematerialisation	The market is basically dematerialised but some physical bond certificates still exist (if issued prior to 2000).	LOW	LOW
Regulatory framework	<p>Perceived regulatory risk, especially fear of capital controls, is a factor in investors' minds.</p> <p>It was commented that immediate regulatory changes are often made, and rules can be ambiguous.</p>	–	HIGH

Source: Group of Experts (GoE) Final Report: Summary of Barriers Market Assessment – Indonesia (April 2010). [https://wpqr1.adb.org/LotusQuickr/asean3goe/Main.nsf/h\\_58E34A1388F9070B48257729000C0A4E/90F408746827C16248257729000C1334/\\$file/Part3.pdf](https://wpqr1.adb.org/LotusQuickr/asean3goe/Main.nsf/h_58E34A1388F9070B48257729000C0A4E/90F408746827C16248257729000C1334/$file/Part3.pdf)

