# ASEAN+3 BOND MARKET GUIDE 2017

## INDONESIA

ASIAN DEVELOPMENT BANK

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In this report, international standards for naming conventions—International Organization for Standardization (ISO) 3166 for country codes and ISO 4217 for currency codes—are used to reflect the discussions of the ASEAN+3 Bond Market Forum to promote and support implementation of international standards in financial transactions in the region. ASEAN+3 comprises the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China, Japan, and the Republic of Korea.
The economies of ASEAN+3 as defined in ISO 3166 include Brunei Darussalam (BN; BRN); Cambodia (KH; KHM); the People's Republic of China (CH; CHN); Hong Kong, China (HK; HKG); Indonesia (ID; IDN); Japan (JP; JPN); the Republic of Korea (KR; KOR); the Lao People's Democratic Republic (LA; LAO); Malaysia (MY; MYS); Myanmar (MM; MMR); the Philippines (PH; PHL); Singapore (SG; SGP); Thailand (TH; THA); and Viet Nam (VN; VNM).
The currencies of ASEAN+3 as defined in ISO 4217 include the Brunei dollar (BND), Cambodian riel (KHR), Chinese renminbi (CNY), Hong Kong dollar (HKD), Indonesian rupiah (IDR), Japanese yen (JPY), Korean won (KRW), Lao kip (LAK), Malaysian ringgit (MYR), Myanmar kyat (MMK), Philippine peso (PHP), Singapore dollar (SGD), Thai baht (THB), and Vietnamese dong (VND).

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# Foreword

The Asian Development Bank (ADB) is working closely with the Association of Southeast Asian Nations (ASEAN) and the People's Republic of China, Japan, and the Republic of Korea—collectively known as ASEAN+3—to develop local currency bond markets and facilitate regional bond market integration under the Asian Bond Markets Initiative to strengthen the resilience of the region's financial systems.

Thanks to the efforts of member governments, local currency bond markets in ASEAN, the People's Republic of China, and the Republic of Korea have grown rapidly, with the total outstanding amount of bonds reaching more than USD10 trillion in 2016. Despite this remarkable development, intraregional investment in bond markets has remained subdued. As ADB has estimated that developing Asia will need to invest USD26 trillion from 2016 to 2030 (or USD1.7 trillion per year) in infrastructure, it is critical to mobilize the region's vast savings for the enormous investment needs. The markets in ASEAN+3 need to be more harmonized and integrated. Also, the regional efforts should support the developing member countries at early stages of market development.

The ASEAN+3 Bond Market Forum (ABMF) was established with the endorsement of the ASEAN+3 finance ministers in 2010 as a common platform to foster the standardization of market practices and harmonization of regulations relating to cross-border bond transactions in the region. As an initial step, ABMF published the ASEAN+3 Bond Market Guide in 2012, which was welcomed as the first official information source offering a comprehensive explanation of the region's bond markets.

Since publication of the ASEAN+3 Bond Market Guide, bond markets in the region have continued to develop. ABMF recognizes the need for revisions to the guide to reflect these changes, though it is never an easy task to keep up with rapid changes in the markets. This report is an outcome of the strong support and kind contributions of ABMF members and experts, particularly from Indonesia. The report should be recognized as a collective good to support bond market development among ASEAN+3 members. It is our hope that the revised ASEAN+3 Bond Market Guide will facilitate further development of the region's bond markets, contribute to increased intraregional bond transactions, and promote efficient allocation of capital within the region.

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# Acknowledgments

The Indonesia Bond Market Guide was first published in 2012 as the initial output of Phase 1 of the ASEAN+3 Bond Market Forum (ABMF).[1] Across the region, domestic bond markets, including the Indonesian bond market, have experienced tremendous development over the past 5 years. Now in Phase 3, ABMF would like to share, in the public domain, information on these developments by publishing an update to the Indonesia Bond Market Guide.

The ABMF Sub-Forum 1 team—comprising Satoru Yamadera (Principal Financial Sector Specialist, Asian Development Bank, Economic Research and Regional Cooperation Department); Kosintr Puongsophol (Financial Sector Specialist, Asian Development Bank, Economic Research and Regional Cooperation Department); and Asian Development Bank consultants Shigehito Inukai and Matthias Schmidt—would like to stress the significance and magnitude of the contributions made by the ABMF national members and experts for Indonesia, including Bank Indonesia, the Financial Services Authority, Indonesia Stock Exchange, Indonesia Central Securities Depository, and Indonesia Clearing and Guarantee Corporation. These policy bodies, regulatory authorities, and market institutions generously gave their time for market visit meetings, discussions, and follow-up. They have also reviewed and provided inputs on the draft Indonesia Bond Market Guide over the course of ABMF Phase 3.

The Indonesia Bond Market Guide would not be complete without the excellent input from colleagues at the Ministry of Finance of Indonesia who on numerous occasions patiently detailed and clarified features of the Indonesian market.

The ABMF team would like to express its thanks to the ABMF international experts, who contributed significantly to the research and discussions on Indonesian bond market developments. In addition, the ABMF team acknowledges the input from Indonesian bond market participants that are not ABMF members, including law firm Mochtar Karuwin Komar, who contributed their time and expertise in support of the market visits and specific topics of discussion.

No part of this report represents the official views or opinions of any institution that participated in this activity as an ABMF member, observer, or expert. The ABMF Sub-Forum 1 team bears sole responsibility for the contents of this report.

June 2017

ASEAN+3 Bond Market Forum

[1] ASEAN+3 refers to the 10 members of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China, Japan, and the Republic of Korea.

# Abbreviations

| | |
|---|---|
| ABIF | ASEAN Banking Integration Framework |
| ABMF | ASEAN+3 Bond Market Forum |
| ABS | asset-backed securities |
| ADB | Asian Development Bank |
| AMBIF | ASEAN+3 Multi-Currency Bond Issuance Framework |
| ASEAN | Association of Southeast Asian Nations |
| ASEAN+3 | Association of Southeast Asian Nations plus the People's Republic of China, Japan, and the Republic of Korea |
| BI | Bank Indonesia |
| CGIF | Credit Guarantee and Investment Fund |
| CPSS | Committee on Payment and Settlement Systems |
| CRA | credit rating agency |
| CSD | central securities depository |
| CTP | Centralized Trading Platform |
| C-BEST | Central Book-Entry Settlement System |
| DMO | Directorate General of Budget Financing and Risk Management |
| DTA | double taxation agreements |
| ETP | Electronic Trading Platform |
| FITS | Fixed Income Trading System |
| GMRA | Global Master Repurchase Agreement |
| IBPA | Indonesian Bond Pricing Agency |
| IDR | Indonesian rupiah (ISO code) |
| IDX | Indonesia Stock Exchange |
| KIK | Kontrak Investasi Kolektif |
| KPEI | Kliring Penjaminan Efek Indonesia (Indonesia Clearing and Guarantee Corporation) |
| KSEI | Kustodian Sentral Efek Indonesia (Indonesia Central Securities Depository) |
| LPS | Lembaga Penjamin Simpanan (Indonesia Deposit Insurance Corporation) |
| MDB | multilateral development bank |
| MOF | Ministry of Finance |
| MTN | medium-term note |
| OJK | Otoritas Jasa Keuangan (Financial Services Authority) |
| ON | Obligasi Negara |
| ORI | Obligasi Republik Indonesia |
| OTC | over-the-counter |
| P3IEI | Penyelenggara Program Perlindungan Investor Efek Indonesia |
| PBS | project-based Sharia |
| SBI | Sertifikat Bank Indonesia |
| SBIS | Sertifikat Bank Indonesia Sharia |
| SBN | Surat Berharga Negara |
| SBSN | Indonesian Sharia securities (government *sukuk*) |
| SDBI | Sertifikat Deposit Bank Indonesia |
| SF1 | Sub-Forum 1 of ABMF |
| SID | Single Investor Identification |
| SPN | Surat Perbendaharaan Negara |
| SPN-S | Surat Perbendaharaan Negara-Syariah |
| SRO | self-regulatory organization |
| SSSS | Scripless Securities Settlement System |
| SUN | Surat Utang Negara |
| USD | United States dollar |
| VAT | value-added tax |

USD1 = IDR13,436 as of 30 December 2016 (Bank Indonesia Middle Rate published by BI)[2]

[2] The exchange rate as of 30 December 2016 is given here since this rate is used for the purpose of calculating total bonds outstanding across currencies, as applied in the text, figures, and tables in the Indonesia Bond Market Guide.

I

# Overview

## A. Introduction

The Indonesian bond market has seen significant changes in the years since the original Bond Market Guide was published in 2012. The regulatory framework of the capital and financial market was reorganized with the creation of the Financial Services Authority (OJK) and the convergence of all regulatory and supervisory functions for Capital Market Participants and financial institutions into OJK (see section B). Other notable changes include the introduction of a Single Investor Identification (SID) (see Chapter II.K) and an Indonesia Annex to the Global Master Repurchase Agreement (GMRA Indonesia), which OJK has prescribed for use by market participants (see Chapter IV).

The Government of Indonesia, Bank Indonesia (BI), and corporates issue a variety of debt securities, both conventional and Sharia bonds and notes, as well as asset-backed securities (ABS) in the Indonesian market and, occasionally, in international markets as well. Chapter III.B contains details of the types of securities issued. The predominant issuance currency is the Indonesian rupiah. The market is well frequented by foreign institutional investors, who accounted for 37.6% of total government securities, or the equivalent of USD49.6 billion, as of 30 December 2016.

The total outstanding balance of tradable government bonds stood at USD132.0 billion while outstanding corporate bonds were valued at USD23.2 billion as of 30 December 2016. Based on data recorded by the Indonesia Central Securities Depository (KSEI), corporate bond ownership was still dominated by mutual funds, who accounted for 25.7% of the total market (USD5.8 billion).

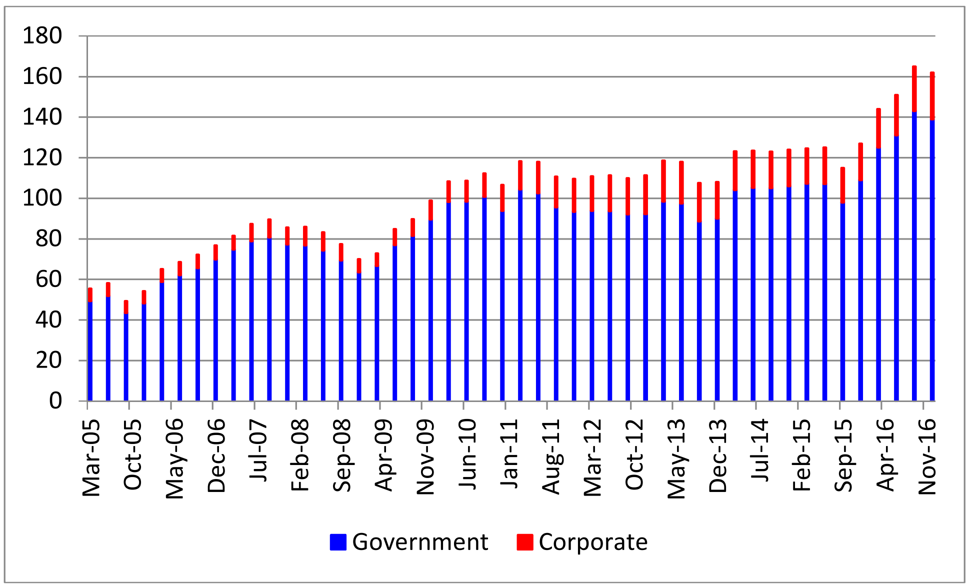
At the same time, issuance and trading of conventional bonds and their equivalent instruments that follow Islamic principles, which are referred to in the market as Sharia bonds, have recently seen new peak volumes. The trading of debt instruments in Indonesia may be done on a multitude of platforms (see Chapter IV), but is concentrated in the over-the-counter (OTC) market. The trade volume of government bonds increased 7.5% between 2015 and 2016 to IDR3,655.209 billion (USD280.1 billion) and the value of transactions rose 10.3% to IDR3,751.4 trillion. The average daily trading volume in 2016 for government securities was IDR14.7 trillion, up 6.6% from IDR13.8 trillion in 2015. The average daily trading frequency increased 24.7% to 860.9 times in 2016 from 690.3 times in 2015.

The trade volume of corporate bonds climbed in 2016 to IDR244 trillion—an increase of nearly 20%—with the value increasing by a similar percentage to IDR225 trillion. The trading frequency reached an encouraging 24.3 times, slightly up from 22.2 times in 2015. The average daily trading volume in 2016 rose 18.6% to IDR904.5 billion from IDR762.8 billion in 2015.

There was no trading of US dollar-denominated government bonds in 2016, while in 2015, the trade volume for government bonds reached USD1.5 billion, with a daily average of USD6.1 million and a trading frequency of 77.0 times. The 2016 average daily trading volume for corporate bonds denominated in US dollars rose to USD0.3 million for an annual total of USD8.0 million.

The local currency bond market in Indonesia reached a size of IDR2,153 trillion at the end of September 2016, climbing 8.5% quarter-on-quarter and 42.2% year-on-year in the third quarter of 2016. Growth was driven by increases in both government and corporate bonds (Figure 1.1). At the end of September, the outstanding amount of government bonds had expanded to IDR1,866 trillion and corporate bonds stood at IDR286.7 trillion. Please see Chapter III.D for an overview of outstanding debt securities and Sharia bonds, or *sukuk*, in the Indonesian market.[1]

**Figure 1.1: Local Currency Bonds Outstanding in Indonesia**
(USD billion)




Note: Data as of 31 December 2016 and include bonds issued by nonresidents.
Source: *AsianBondsOnline*. Indonesia Bond Market.
https://asianbondsonline.adb.org/indonesia/data/bondmarket.php?code=LCY_Bond_Market_USD

In June 2016, the Ministry of Finance of Indonesia (MOF) provided tax incentives to investors in conventional and Islamic foreign-currency-denominated government bonds by removing the withholding tax on interest payments. A withholding tax of 15% had been levied for Indonesian residents and a 20% tax was levied for nonresidents. The removal of the withholding tax will help lower the government's borrowing costs on its foreign currency government bonds. This will also help corporate bonds receive better pricing as government bonds are normally used as a benchmark for pricing. The regulation was made effective retroactively to 1 January 2016. Additional information on costs and taxation in the Indonesia bond market, which are often cited as a key market challenge, can be found in Chapter VI.

In December 2016, out of 540 listed companies' stocks, 331 were categorized as Islamic stocks, accounting for 55% of overall market capitalization. At the same time,

[1] This information and selected statements adopted from *AsianBondsOnline*. Indonesia Market Summary. https://asianbondsonline.adb.org/indonesia/market_summary.php

there were 53 outstanding corporate *sukuk* with a value of IDR11.9 trillion (3.8% market share). In terms of Sharia mutual funds, there were 136 products with a combined net asset value of IDR14.9 trillion (4.4% market share). Details on the Islamic finance market in Indonesia are provided in Chapter VIII.

Indonesian policy bodies and regulatory authorities are also in discussion with the ASEAN+3 Bond Market Forum (ABMF) to consider implementing the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) developed by ABMF under the guidance of the Asian Development Bank (ADB). Further details on AMBIF can be found in Chapters IX and X.

The bond market in Indonesia features many of the components of a professional market, even if no specific professional market is defined in laws and regulations, and although a professional investor concept does not yet exist. At the same time, market participants are professional for all intents and purposes, and are licensed and regulated by OJK. Corporate bond and note issuance—in the form of private placements agreed between issuers and investors deemed professional—is active and includes note issuance programs modeled on medium-term note (MTN) programs in other jurisdictions. In addition, Indonesian law permits the acceptance of governing law other than Indonesian law for professional issuances. However, challenges to the effective functioning of a recognized professional bond market, or market segment, remain and will need to be addressed in the coming years. Chapter IX explains in further details the challenges and opportunities facing the Indonesian bond market.

## B. Significant Change in the Regulatory Framework

In 2011, OJK was created to assume the role of the single regulatory authority for the financial and capital markets in Indonesia.

OJK assumed the remit of the previous Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK) in 2013 and took over the supervision of financial institutions from BI in 2015.

BI continues to focus on its key objectives: (i) establish and maintain the stability of the Indonesian rupiah, (ii) set and administer the foreign exchange (FX) policy of Indonesia, and (iii) guide and govern market institutions in their activities in the FX and swap markets.

With the assumption of all regulatory activities involving financial and capital markets in Indonesia, the task ahead for OJK is significant. OJK's mission is to (i) implement all financial services sector activities in a regulated, fair, transparent, and accountable manner; (ii) safeguard sustainable and stable growth of the financial system, and (iii) protect the interests of consumers and the public at large. Activities completed by OJK include (i) the launching of a series of initiatives to help stimulate economic growth, which was experiencing a contractionary cycle; (ii) efforts to extend public access to the financial services sector, including aspects of consumer protection, as well as efforts to expand Sharia finance in the domestic economy; and (iii) the establishment of the Sharia Financial Services Development Committee in order to achieve synergies.

## C. Bond Market Development Team

Under the provisions of Law No. 21 of 2011, part of the OJK mandate became the development of the capital market in the national interest, particularly the bond market. At the same time, in a market with a large number of stakeholders, both market institutions and self-regulatory organizations (SROs), as well as the presence of a variety of conventional bonds and notes and Sharia instruments, the coordination of development initiatives and related efforts is crucial.

Recognizing this, OJK initiated the so-called Bond Market Development Team on 28 February 2014, consisting of representatives from OJK; BI; the Directorate General of Debt Management, the Directorate General of Tax, and the Fiscal Policy Agency of the Ministry of Finance; KSEI; Indonesia Stock Exchange (IDX); the Indonesia Clearing and Guarantee Corporation (KPEI); and the Indonesia Bond Pricing Agency. The Bond Market Development Team is responsible for defined programs, including

- an electronic trading platform (ETP),
- development of the regional bond market,
- development of other products such as MTNs and government bond futures, and
- the integration of bond reporting and settlement data.

On 26 January 2015, OJK launched GMRA Indonesia, an agreement document required to be used in the Institute of Financial Services Transactions Repo by OJK Regulation Number 9/POJK.04/2015 on Guidelines for Repo Transactions and the OJK Circular No. 33/SEOJK.04/2015 on Indonesia Global Master Repurchase Agreement. Even though the ceremonial launch of GMRA Indonesia was held on 29 January 2016, the associated regulations were effective 1 January 2016. All market participants in the financial services industry are subject to the provisions for the conduct of repo transactions prescribed by OJK.

Another Bond Market Development Team program that has already been implemented is the SID for government bonds and Sertifikat Bank Indonesia (SBI). For this purpose, KSEI was officially appointed as the generator of a SID for all government bonds and SBI. According to KSEI, as of 7 November 2016, there were 104,091 investors with a SID for government bonds and SBI (92,252 local investors and 11,839 foreign investors).

Individual developments under these programs may be found in the relevant chapters of the Indonesia Bond Market Guide. Further details may also be obtained in the *OJK Annual Report 2015*, from which the above text has been adapted for easy reference.

## D. Regional Cooperation

### Regional Cooperation under the ASEAN Integration Framework

As one of the steps toward implementation of the ASEAN Banking Integration Framework (ABIF), OJK signed a letter of intent with the Bank of Thailand on 31 March 2016 addressing both institutions' preparations of a bilateral agreement between Indonesia and Thailand.[2]

The cooperation between the two countries is envisaged not only to pave the way for Indonesia's financial services industry to develop businesses in Thailand by opening and operating banking institutions in both jurisdictions, but also to improve trading relations between the two jurisdictions.

[2] For the press release, please visit the OJK website at http://www.ojk.go.id/en/kanal/perbankan/berita-dan-kegiatan/siaran-pers/Pages/Press-Release-OJK-Enhances-Regional-Cooperation-with-Bank-of-Thailand.aspx#sthash.iNdediGI.dpuf

The bilateral agreement is a part of the ABIF implementation process in which two ASEAN member states will conduct negotiations based on the principle of reciprocity related to the establishment of Qualified ASEAN Banks, access to markets, and operational flexibility. The ABIF implementation process refers to principles that have been agreed by the banking supervision authorities of all ASEAN member states, expressed in the ABIF Guidelines. The principles include orientation on output, progress in accordance with each member state's preparedness, inclusiveness, and transparency.

One of the main features of ABIF is the flexibility for Qualified ASEAN Banks to gain market access and flexibility in their operations from the host authority based on the principle of reciprocity. Moreover, banks with such status can enjoy the same treatment as local banks in the jurisdiction of the host authority.

By formulating this bilateral agreement, OJK supports Indonesian banking institutions in expanding their business in Thailand. Furthermore, OJK and the Bank of Thailand are expected to sign a memorandum of understanding on cross-border supervision. The Memorandum of Understanding with the Bank of Thailand is part of the implementation of Law No. 21 of 2011, which provides the mandate for OJK to pursue cooperation with financial services authorities in other countries, international organizations, and other international institutions, among others, in institutional capacity building and the exchange of information in the fields of regulation and supervision over financial services institutions by emphasizing the principles of reciprocity and fairness.

For more information on recent initiatives and developments with relevance for the Indonesian bond market, please refer to Chapters IX and X.

II

# Legal and Regulatory Framework

## A. Legal Tradition

The Indonesian legal system features a combination of civil law traditions, elements of traditional (Islamic) law owing to its ethnic diversity, and modern Indonesian law principles that have evolved since independence in 1945.

## B. English Translation

Laws and regulations in Indonesia are generally published in the official national language of the Republic of Indonesia, Bahasa Indonesia. In addition, the issuing policy bodies and regulatory authorities provide an unofficial English translation of laws and major regulations on their websites. These unofficial translations, which are authorized by official institutions, are widely used. At the same time, only the versions in Bahasa Indonesia are relied upon for matters before the courts.

On its website, IDX points out that its decrees are officially promulgated in Bahasa Indonesia, the provided English translations aim to only assist users who are not proficient in Bahasa Indonesia, and said translations shall not affect the interpretation of the original decrees. In the event of any inconsistency between the Bahasa Indonesia and English texts, the Bahasa Indonesia version shall prevail. Please also see Chapter III.G for additional information on this topic.

## C. Legislative Structure

Indonesia features a multi-tiered legislative structure to govern the financial and capital markets. The Constitution of Indonesia, which is also referred to as the 1945 Constitution, is the basis for the legislative and regulatory structure of Indonesia:

- [1st tier] Constitution of Indonesia
  - [2nd tier] Laws (key legislation for the securities market)
    - [3rd tier] Regulations (issued by the government or regulators)
      - [4th tier] Circular letters (issued by regulators or market institutions)
        - [5th tier] Regulations issued by SROs

Table 2.1 applies the prevalent legislation and regulations to the individual tiers of the legislative structure for the securities market mentioned above.

**Table 2.1: Examples of Securities Market Legislation by Legislative Tier**

| Legislative Tier | Content or Significant Examples |
|---|---|
| Constitution of Indonesia | Principles, Rights, and Obligations |
| Laws (key legislation) | • Law No. 21 of 2011 on Otoritas Jasa Keuangan<br>• Law No. 6 of 2009 on Bank Indonesia<br>• Law No. 21 of 2008 on Sharia (Islamic) Banking<br>• Law No. 8 of 1995 on Capital Market |
| Regulations | • Government Regulation Number 45/1995 on Management of Activities in Capital Market<br>• OJK Regulation concerning Guideline of Repurchase Agreement Transaction for Financial Services Institution (POJK Nomor 9/POJK.04/2015)<br>• OJK Regulation concerning Shelf Registration (POJK Nomor 36/POJK.04/2014)<br>• OJK Regulation concerning Securities Exchange Transaction Settlement Guarantee (POJK Nomor 26/POJK.04/2014)<br>• OJK Regulation concerning Licensing of Underwriter Representative and Broker–Dealer Representatives (POJK Nomor 27/POJK.04/2014)<br>• OJK Regulation concerning Securities Broker–Dealer Agent (POJK Nomor 24/POJK.4/2016)<br>• OJK Regulation concerning Document of Registration Statement for Equity and Debt/Sukuk Securities Public Offering (POJK Nomor 7/POJK.04/2017)<br>• Bank Indonesia Regulation Number 16/17/PBI/2014 concerning Foreign Exchange Transactions against Rupiah between Banks and Foreign Parties (2014) |
| Instructions and announcements (circular letters) | • OJK Circular Letter concerning Procedures for Electric Reporting by the Issuers or Public Company (SEOJK Nomor 6/SEOJK.04/2014)<br>• OJK Circular Letter concerning Global Master Repurchase Agreement Indonesia (SEOJK Nomor 33/SEOJK/.04/2015) |
| SRO regulations | • IDX Decree SK-024/LGL/BES/XI/2004-I.F.1: Debt Security Listing (for Listing Bonds and Sukuk)<br>• KSEI Board of Directors Decree No. KEP-0013/DIR/KSEI/0612 regarding the Amendment of Central Securities Depository Regulations |

IDX = Indonesia Stock Exchange, KSEI = Kustodian Sentral Efek Indonesia (Indonesia Central Securities Depository), OJK = Otoritas Jasa Keungan (Financial Services Authority).
Source: Compiled by ADB consultants for SF1 and based on publicly available information.

Key legislation is the summary term for those laws specifically aimed at a particular market such as the securities market or capital market. These laws establish and govern securities markets or market segments, including the bond market, its institutions, and participants.

In Indonesia, laws are enacted by the People's Representative Council to be signed by the President, and take effect upon promulgation and publication in the official gazette. Law No. 8 of 1995 on Capital Market (Capital Market Law) is the key legislation for the Indonesian capital market. Law No. 21 of 2011 established OJK and Law No. 6 of 2009 shaped the current role and functions of BI.

Regulations are issued by policy bodies, such as the relevant ministries, and by OJK as the single regulatory authority for the capital and financial markets in Indonesia. BI handed over the supervision of the banking system to OJK with effect from January 2015 to concentrate on its central bank mandate, pursuant to corresponding legislation. OJK issues regulations to govern particular aspects of the financial and capital markets in Indonesia, and to detail prescriptions in the Capital Market Law. At the same time, regulations issued by OJK's predecessor, Bapepam-LK, remain in force unless amended by OJK. BI continues to issue regulations for the country's payment system for cash and government securities, as well as for procedures and transactions concerning FX. OJK and BI regulations are published in the official gazette.

BI and OJK also issue circular letters that contain guidelines and instructions for the market in general, select market segments, or participants under their respective purview on how specific market activities are to be carried out.

Given that OJK only took over the single regulatory authority role in 2013, a number of regulations issued by Bapepam-LK, its predecessor agency, remain in force until amended or superseded. This is significant for the bond market since the so-called Bapepam Rulebook contains rules ranging from licensing and rule-making for market institutions to the actions of market participants and issuers, as well as disclosure and reporting requirements. For the development and improvement of capital market regulations and the convenience of investors, some Bapepam Rulebook provisions have been converted to OJK regulations.

OJK has issued 10 regulations related to the Islamic capital market, 4 of which were specifically relevant to *sukuk.* This includes (i) OJK Regulation Number 15/POJK.04/2015 concerning Implementation of Sharia Principle in Capital Market, (ii) Regulation Number 16/POJK.04/2015 concerning Sharia Capital Market Expert, (iii) Regulation Number 18/POJK.04/2015 concerning Issuance and Requirement for Sukuk, and (iv) Regulation Number 53/POJK.04/2015 concerning Islamic Contract in Issuance of Sharia Securities in Capital Market.

IDX, KPEI, and KSEI issue SRO regulations and procedures as well as decrees and decisions to their members and participants, which govern the activities of their member institutions and constituents. These regulations (or rules) and procedures are promulgated via a corresponding board of directors' decree.[5] For a more detailed description of the practices of these market SROs, please refer to section H.

## D. Indonesian Bond Market Regulatory Structure

The Indonesian capital market, including the bond market, is supervised by OJK as the single regulatory authority. The MOF acts as the key policy body for initiatives in the bond and capital markets. In addition, BI governs Indonesian rupiah stability and the activities of financial institutions in the FX and swap markets, including through prescriptions of whether or in what currency instruments may be traded, acquired, or held by Indonesian market participants.

IDX administers and enforces listing and disclosure, trading, and membership rules on its bond trading segment, although trading is largely confined to the OTC market. IDX

[5] In Bahasa Indonesia, the terms "regulations" and "rules" have the same meaning (*peraturan*). Hence, it is possible to come across both terms for the same regulatory prescription in official documentation and public domain material. For consistency, and to distinguish OJK regulations, the term rules is used in the Indonesia Bond Market Guide for Bapepam and Bapepam-LK regulatory issuances, and in the context of IDX administrative instruments.

also operates the trade capture and reporting system for OTC bond transactions, which is mandated by law. In turn, KSEI represents the infrastructure for bond market transaction settlement among market participants and, for that purpose, sets and enforces settlement rules and practices for its constituents.

### 1. 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. The MOF is also the leading policy body for the development of the financial and capital markets in Indonesia.

The issuance of government securities is overseen by the Directorate of Government Debt Securities and Directorate of Sharia Financing in the MOF Directorate General of Budget Financing and Risk Management. The Directorate General of Budget Financing and Risk Management's functions with relevance for government securities include

- formulating policy in terms of debt management;
- implementing policy in terms of debt management;
- composing norms, standards, procedures, and criteria in terms of debt management; and
- providing technical guidance and evaluation in terms of debt management.

### 1. Financial Services Authority

OJK is an independent government institution that regulates, supervises, and investigates all sectors of financial services in Indonesia. One of the key objectives of OJK is the protection of consumers in the financial and capital markets.

OJK was established under Law No. 21 of 2011 to eventually assume the role as the single regulatory authority for the financial and capital markets in Indonesia. OJK's new role was finalized in 2015 (see also Chapter I.B for details).

For both conventional and Sharia financial services, OJK administers the banking and capital market laws and regulations, and licenses and supervises all participants in those markets for their related activities. OJK issues regulations and circular letters that govern the market and its participants. In addition, OJK administers existing regulations promulgated under its predecessor agency, Bapepam-LK, which remain in force unless amended.

For the bond market, OJK approves the public issuance of corporate debt securities, supervises IDX, KSEI, KPEI, and IBPA with regard to their respective functions in the bond market; and licenses or registers Capital Market Participants, Capital Market Supporting Institutions, and Capital Market Supporting Professionals for their respective activities as market participants and intermediaries.

For the roles and responsibilities of OJK in the regulatory process of approving the issuance of publicly offered corporate debt securities, please refer to section F in this chapter. The licensing or registration of market participants is further detailed in section I in this chapter.

### 2. Bank Indonesia

The official name in Bahasa Indonesia of the central bank is Bank Sentral Republik Indonesia. BI became an independent central bank with the enactment of the Central Bank Act (Law No. 6 of 2009 on Bank Indonesia), which conferred on BI 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 law. BI is responsible for maintaining the stability of the rupiah, sets and executes monetary policy, and operates and supervises the country’s payment systems and infrastructure.

As a public legal entity, BI has the authority to issue policy rules and regulations in relation to its mandated functions, which are binding to the public at large. To concentrate on its central bank functions, BI handed over the supervision of the banking system and its constituents to OJK with effect from January 2015, as stipulated in Law No. 21 of 2012 (see also Chapter I.B). BI has defined its strategic objectives as follows:

- strengthen inflation control in terms of demand and supply;
- maintain exchange rate stability;
- foster deep and efficient financial markets;
- maintain financial system stability, underpinned by solid payment system surveillance;
- realize directed, efficient, and synergetic financial inclusion;
- maintain a payment system that is secure, efficient, and free from disruption;
- strengthen accountable financial management at BI;
- realize an effective and efficient work process supported by information systems, culture, and governance;
- expedite the availability of competent human resources; and
- build and strengthen strategic alliances and enhance the public perception of BI.

In the context of the bond market in Indonesia, BI continues to act as the issuing agent of government securities on behalf of the Government of Indonesia, represented by the MOF. BI also issues its own debt securities in the form of SBI and Sertifikat Deposit Bank Indonesia (SDBI) as monetary policy instruments. BI owns and operates the Scripless Securities Settlement System, which is referred to as SSSS (or 4S) in the domestic market and is the central depository and settlement system for government securities and SBI. As part of its open market operation, BI transacts government securities and SBI with banks and non-bank financial institutions in the form of repurchase (repo) or reverse repo agreements. SDBI are only transacted between banks.

In addition, BI regulations continue to have a bearing on the ability of market participants to invest in certain instruments (see section M in this chapter for details).

For details on the roles and responsibilities of BI in the context of the issuance, trading, and settling of government securities, please see the relevant parts of Chapters II and III, as well as Chapter IV.

### 3. Indonesia Stock Exchange

IDX is the sole securities exchange in Indonesia. IDX was formed as a result of the merger of the Jakarta Stock Exchange with the Surabaya Stock Exchange in 2007.

In its capacity as a licensed securities exchange, IDX fulfils the function of a frontline regulator of its markets, pursuant to the powers conferred to it under the Capital Market Law. IDX issues listing and disclosure, trading, and membership rules, and uses board decisions and circular letters to address specific issues pursuant to these rules. IDX owns the IBPA and is a major shareholder in KSEI and KPEI.

With regard to the bond market, IDX operates the Centralized Trading Platform (CTP) on behalf of OJK and enforces the timely capture of OTC trades of debt instruments in the system. CTP and its functions are described in detail in Chapter IV.

IDX governance of markets and members, as well as individual regulations, are further described in sections H and J, respectively.

### 4. Indonesia Central Securities Depository

The Indonesia Central Securities Depository is best known by its acronym KSEI, which is based on the institution's name in Bahasa Indonesia (Kustodian Sentral Efek Indonesia).

KSEI is the central securities depository (CSD) for all securities listed and traded on IDX, as well as most of the securities that are traded in the OTC market. As a sub-registry for BI, KSEI also maintains holdings in government bonds and BI instruments for its members and participants.

KSEI was established on 23 December 1997 in Jakarta, succeeding its predecessor institution KDEI, and obtained its operational license from Bapepam on 11 November 1998.

KSEI is owned by many of its constituents, among them custodian banks (including the major foreign custodians), securities companies, registrars, and other SROs. The IDX Group is the majority shareholder with a 30.5% ownership share.

KSEI is an SRO and governs settlement and safekeeping activities in the Indonesian market, including for debt securities and instruments, and sets rules for its members and participants. KSEI issues Central Securities Depository Services Regulations (CSD Regulations) and also introduced and administers the SID, which is further explained in section M in this chapter. For further information on the role of KSEI as an SRO, please refer to section H in this chapter.

### 5. Indonesia Clearing and Guarantee Corporation

Indonesia Clearing and Guarantee Corporation is known as Kliring Penjaminan Efek Indonesia in Bahasa Indonesia and is typically referred to as KPEI. It acts as the central counterparty for all trades executed on IDX. KPEI is a subsidiary of IDX, as well as an SRO.

In the context of the Indonesian bond market, KPEI acts as the central counterparty for trades in government bonds and corporate bonds between IDX trading participants and prescribes and administers clearing practices and obligations for all participants.

Additional information on KPEI's function as an SRO with relevance for the bond market may be found in section H in this chapter.

## E. Regulatory Framework for Debt Securities

The issuance of corporate debt securities—here including conventional bonds and notes, as well as *sukuk* and ABS—via a public offering is subject to approval from OJK, while the private placement of debt securities is not yet covered in regulations. Securities issued by the Government of Indonesia and BI are not subject to approval requirements, while debt securities issued by other governments or their agencies may require the consent of the MOF.

Regulations promulgated by BI—in its function as the central bank and guardian of the stability of the Indonesian rupiah and the country's FX regime—continue to have a bearing on the ability of market participants to invest in particular securities.

The listing of debt securities requires the approval of IDX, which also ensures that continuous disclosure obligations are met by the issuer. Publicly issued and listed debt securities must be registered with KSEI to be eligible for settlement and safekeeping. Privately placed securities may also be registered with KSEI.

## F. Debt Securities Issuance Regulatory Processes

The regulatory processes for corporate debt securities issued through a public offering center around the issuance approval from OJK, via the submission of a Registration Statement and related documentation. An effective Registration Statement is a prerequisite for the listing, trading, and separate registration for settlement of publicly offered debt securities.

In contrast, no regulatory processes are prescribed for bond, note, or s*ukuk* issuance via private placement, which is presently not covered under regulations. Such issuances are placed in the domestic market, which is principally populated by investors considered to be professional (see also Chapter III.N). Market practices in line with international markets govern the expectations and activities of the participants (see also section F.5 in this chapter).

The subsequent listing of bonds and notes on IDX would be subject to a separate listing approval, regardless of the form of issuance. This process is further explained in Chapter III.I.

### 1. Regulatory Processes by Issuer Type

Table 2.2 provides an overview of regulatory processes by corporate issuer type and identifies which regulatory authority or market institution will be involved. In order to make the issuance process by issuer type more comparable across ASEAN+3 markets, the table features common issuer-type distinctions that are evident in regional markets. Not all markets will distinguish all such issuer types or prescribe approvals. Sovereign issuers are typically exempt from corporate issuance approvals but may be subject to different regulatory processes.

At present, all regulatory processes are geared toward the issuance of bonds and notes via public offers, without differentiation between issuer types. Private placements do not fall under the regulatory purview of OJK.

**Table 2.2: Authorities Involved in Regulatory Processes by Issuer Type**

| Type of Issuer | OJK | IDX (listing only) |
|---|---|---|
| Resident issuer | | |
| Resident nonfinancial institution | X | X |
| Resident financial institution | X | X |
| Resident issuing FCY-denominated bonds and notes | X | X |
| Nonresident issuer | | |
| Nonresident nonfinancial institution | X | X |
| Nonresident financial institution | X | X |
| Nonresident issuing FCY-denominated bonds and notes | X | X |

FCY = foreign currency, IDX = Indonesia Stock Exchange, OJK = Otoritas Jasa Keuangan (Financial Services Authority).
Note: "X" indicates approval is required.
Source: ADB consultants for SF1.

### 2. Regulatory Process Overview

The regulatory framework in Indonesia is geared toward the issuance of debt securities via a public offering. Such issuances are subject to the approval from OJK. As a matter of market practice, the public offer of debt securities is followed by a listing of the securities on IDX, although trading is most likely conducted in the OTC market.

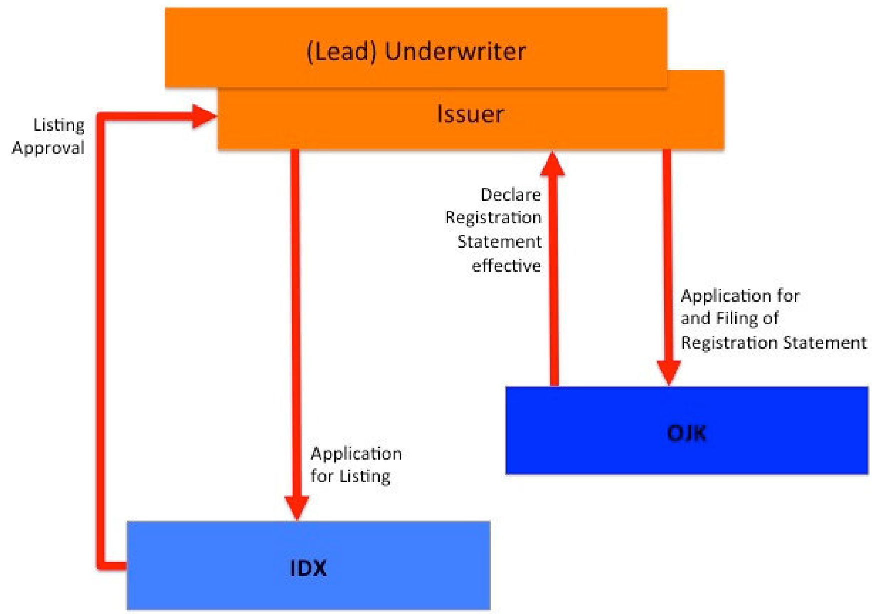
At present, the issuance of securities via private placement is not covered by regulations.

Principally, there are no distinctions between issuance processes for different corporate issuer types. At the same time, issuers belonging to specific industries will need to address their applications to the supervisory section for their respective industry in OJK.

In some cases, bonds or notes issued by a foreign government or government-linked agency may require additional consent or approval from the MOF.

The regulatory process map shown in Figure 2.1 provides an overview of the regulatory processes applicable in Indonesia. For all intents and purposes, there are no distinctive differences between the regulatory processes for conventional debt securities and *sukuk*, although *sukuk* do require an extra step of having their eligibility as a Sharia instrument certified by a qualified intermediary.

**Figure 2.1: Regulatory Process Map—Debt Securities Issuance in Indonesia**




IDX = Indonesia Stock Exchange, OJK = Otoritas Jasa Keuangan (Financial Services Authority).
Source: ADB consultants for SF1.

Individual regulatory processes, as may be applicable, are explained below.

### 3. Regulatory Process in Case of a Nonresident Issuer

In principle, the regulatory process to obtain approval for the issuance of bonds, notes, or *sukuk* in the Indonesian market is the same for nonresidents and residents. As such, the process for a public offer applies, as detailed in section F.4 in this chapter.

Since the private placement market in Indonesia is not presently based on regulations, common market practice takes their place (see also section F.5 in this chapter). Current market practice for issuing bonds, notes, or *sukuk* to professional investors does not principally distinguish between domestic or foreign issuers.

A foreign (nonresident) issuer of bonds, notes, or *sukuk* via private placement would still be subject to applicable FX-related rules and regulations by BI. Under the Regulations on Foreign Exchange Transactions against Rupiah between Banks and Foreign Parties (BI Regulation Number 18/19/PBI/2016), which came into effect in September 2016, a nonresident issuer may choose to swap the proceeds from a bond or note denominated in Indonesian rupiah into a foreign currency if a number of specific requirements are fulfilled. While BI approval is not required, issuers must advise their swap intermediary (bank) of the underlying business transaction (bond issuance) if the planned swap amount exceeds USD1 million or its equivalent in other foreign currencies (see also section M.5 in this chapter).

As for spot transactions of FX against the rupiah conducted between a bank and a foreign party, information on the underlying business transaction must be provided if the rupiah transfer to the foreign party's account resulted from the sale of foreign currency through a spot transaction of more than USD1 million or its equivalent.

Underlying transactions must also be provided for the purchase of foreign currency against the rupiah through spot transactions when the nominal amount exceeds USD25,000 or its equivalent in a given month.

Similar to domestic issuers, a nonresident issuer of *sukuk* via a private placement is required to obtain certification of the instrument as Sharia-compliant prior to an offer to investors, even if no formal OJK approval is required for the issuance.

### 4. Regulatory Process for Public Offers

The regulatory framework in Indonesia is geared toward the issuance of securities via public offering. Such issuances are subject to approval from OJK. As a matter of market practice, the public offer of debt securities is followed by a listing of the debt securities on IDX, although trading will most likely be conducted in the OTC market. Publicly offered debt securities also need to be registered with KSEI.

According to Article 40 of the Capital Market Law, the appointment of an underwriter for a public offering is optional. However, the issuer usually appoints an underwriter to manage the process of bond issuance from pre-issuance to post-issuance, including coordinating the creation and submission of a Registration Statement. If the issuer chooses to appoint more than one underwriter (e.g., for the purpose of distributing the issued securities to a larger or more diverse group of investors), then the issuer will have to appoint a lead underwriter who will support the compilation of the issuance documentation and its submission to OJK.

The approval process from OJK involves a number of steps that are explained in greater detail below. Some of the registration and disclosure requirements do not apply if the issuer is considered a small or medium-sized enterprise.[6]

#### Step 1—Application of Registration Statement to the Financial Services Authority

The issuer, or the (lead) underwriter on behalf of the issuer if the issuer so chooses, will need to submit an application for the Registration Statement, together with any supporting documents, to the appropriate section of the Corporate Finance Department of OJK, which is organized by industries. The appropriate section follows the industry of which the issuer is a part. At the time of submission, the issuer will also need to pay the registration fee for the Registration Statement application, pursuant to OJK Regulation Number 3/POJK.02/2014.

The (lead) underwriter and other Capital Market Supporting Institutions and Capital Market Supporting Professionals (see also section I in this chapter and Chapter III.M) are responsible for their respective advice or opinions contained in the Registration Statement and supporting documents, while the issuer retains overall responsibility for the accuracy, adequacy, truthfulness, and fairness of all information contained in the Registration Statement and its supporting documents.

The requirements for the Registration Statement follow Bapepam Rule Number IX.A.1 (General Requirements regarding Submission of a Registration Statement) from the original Bapepam Rulebook, which remains in force unless amended by OJK. In turn, the actual regulatory process is also stipulated in Bapepam Rule Number IX.A.2 (Registration Procedures for a Public Offering).

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[6] For the exemptions in cases of small or medium-sized enterprise issuers, please refer to the text of Bapepam Rule IX.A.2 at http://www.ojk.go.id/Files/regulation/capital-market/bap-rules/is-pc/1/IXA2.pdf

The content of the Registration Statement has to be in Bahasa Indonesia. Supporting documents may be in another language if accompanied by a translation into Bahasa Indonesia by a sworn translator. OJK requires the submission of two printed copies of the Registration Statement, of which at least one copy is to be signed by the authorized representatives of the issuer, plus a copy in electronic form. Bapepam Rule Number IX.A.1 sets out other requirements about the form and format of the Registration Statement.

The form and content of the Registration Statement itself is stipulated in OJK Regulation Number 7/POJK.04/2017 concerning Document of Registration Statement for Equity and Debt/Sukuk Securities Public Offering and requires the following:

- cover letter,
- prospectus,
- summary prospectus (for publication in the media),
- preliminary prospectus (for use in a book building exercise), and
- other required documents including

(i) proposed issue schedule;
(ii) draft of the securities certificate;
(iii) issuer's articles of association;
(iv) audited financial statement as required in OJK Regulation Number 9/POJK.04/2017;
(v) comfort letter from the accountant with respect to changes after the date of the audited financial statements;
(vi) written statement from the issuer with regard to accounting matters;
(vii) further information on any forecasts and/or projections, if included in the prospectus;
(viii) legal audit report and opinion;
(ix) curriculum vitae of members of the board of commissioners and the board of directors;
(x) underwriting agreements (if any);
(xi) trust agent agreements (if any);
(xii) guarantee agreement (if any);
(xiii) preliminary agreement with one or more securities exchange (if securities are to be listed on exchange[s]);
(xiv) other information requested by OJK as deemed necessary in reviewing the Registration Statement to the extent that it can be made available to the public without adversely affecting the interest of the prospective issuer or others associated with the public offering process;
(xv) a rating published by a securities rating agency on bonds or other debt securities; and
(xvi) a statement concerning the completeness of the public offering documents from
    - the issuers;
    - the managing underwriter; and
    - Capital Market Supporting Professionals, as specified in a form attached to OJK Regulation Number 7/POJK.04/2017.

The details to be included in the cover letter (the application) are stipulated in a form attached to OJK Regulation Number 7/POJK.04/2017, and comprise salient information on the issuer, its license and business, and a list of the documents being submitted.

The requirements for the contents of the prospectus are to follow OJK Regulation Number 9/POJK.04/2017 concerning Forms and Contents of Prospectus and Summary Prospectus for Debt Securities Public Offering, which replaced the previous Bapepam Rule with effect from 14 March 2017.

### Step 2—Review of Registration Statement by the Financial Services Authority

After receiving the application for the Registration Statement (cover letter and required documents and disclosure information), OJK will review the submission and evaluate the application and information based on

- completeness of documentation;
- adequacy and clarity of information for three major aspects:
  - business aspects,
  - financial aspects, and
  - legal aspects.

OJK may, at its discretion, request for an explanation or additional information from the issuer or their agent(s), or insist on an amendment of the submission. The issuer and/or its agent(s) will have to provide such requested information, or furnish an amended submission of the application for a Registration Statement within 10 working days from the receipt of such request from OJK. If the additional information or explanation is not received by OJK within 10 days, the application will be considered discontinued.

If OJK requests such explanation or additional information, the application for the Registration Statement is considered resubmitted and the timeline toward an effective date of the Registration Statement is reset.

### Step 3—Publication of Summary Prospectus and Potential Book Building Exercise

After reviewing the Registration Statement documents, and in case OJK does not have any queries regarding information and documents, or requests additional information or documents, OJK will issue a letter to order the issuer to publish the Summary Prospectus.

Pursuant to Bapepam Rule Number No.IX.A.2, the issuer will have to publish the Summary Prospectus within 2 working days in at least one national Indonesian-language daily newspaper. Issuers may only undertake book building after OJK issues the letter that allows the issuer to publish the Summary Prospectus.

An issuer should confirm the price and/or interest rate of the bond, note, or *sukuk* within 7 working days after the date of the OJK letter. In case the issuer does not provide such confirmation regarding the value and/or interest rate of the bond, note, or *sukuk* within 21 working days, OJK will consider that the issuer has canceled the Registration Statement.

### Step 4—Registration Statement Declared Effective by OJK

Under the prevailing regulations, the Registration Statement becomes effective either 45 days from the date when the completed Registration Statement is received by OJK or when.OJK issues a letter to the issuer that the Registration Statement has become effective, signalling that it requires no further information and considers that the information in the Registration Statement satisfies regulations. The letter follows Form IX.A.2-1, which is provided as a sample in the appendixes to Rule Number IX.A.2.

OJK has implemented a so-called "quick-win" policy. Under the policy, OJK attempts to finish the review process of a Registration Statement and its supporting documents within 30 days.

At the time the Registration Statement is declared effective, the financial statement contained in the prospectus submitted as part of the Registration Statement application should not be more than 6 months old.

The approval from OJK is valid for one public offering that should be conducted within the prescribed period (see Step 3) after the effective letter has been issued.

### Step 5—Public Offer and Allotment of Securities

Following the effective date of the Registration Statement, the issuer may conduct a public offering of the debt securities. The time frame for a public offering must be at least 3 business days.

Prior to the actual public offering, the issuer is required to publish—in a national Indonesia-language daily newspaper—any corrections or additions to the original Summary Prospectus published after the submission of the Registration Statement application to OJK. The publication of such corrections or additions, if necessary, needs to be advised to OJK within 2 business days after publication.

The subsequent allotment of the securities to the investors must be completed within 2 business days. The allotment of securities officially concludes a public offer. The reporting requirements after a public offer has concluded are further detailed in section 6 in this chapter.

### Step 6—Listing Process (Optional)

As stipulated in Section 24 of Bapepam Rule Number IX.A.2, a planned listing of debt securities issued via a public offering needs to be carried out within 3 business days after the allotment date of said securities. The allotment date officially concludes the public offer process.

A listing is not mandatory in Indonesian law or regulations, but market practice has seen publicly offered debt securities listed as a matter of course. Current regulations support that a listing application may be submitted to IDX concurrently with the submission of the Registration Statement to OJK.

Chapter III.I of the Indonesia Bond Market Guide contains a comprehensive description of the listing process.

## 5. Regulatory Process for Private Placements

At present, the issuance of debt securities via a private placement is not covered under either the Capital Market Law or OJK regulations. As such, no approval is required from OJK for the issuance of bonds, notes, or *sukuk*.

While the Indonesian bond market does not feature a professional investor concept and, consequently, no formal professional market segment, a private placement market has developed among issuers and institutional investors for which market practices have evolved according to the needs of the participants. Such market practices also influence the provision of necessary or expected issuance documentation and disclosure information among issuers, Capital Market Supporting Institutions and Professionals, and investors.

While Indonesia principally requires issuance documentation and disclosure information to be in Bahasa Indonesia (see Chapter III.H), such requirement may not be applicable to private placements due to the absence of specific regulations for such issuances. Market practice in Indonesia allows for the provision of documentation and disclosure items by the issuer to professional investors in English.

### 6. Obligations after Approval and after Issuance

Under the current regulatory framework, post-issuance reporting obligations apply to public offers only and are detailed below.

#### a. Public Offers

Following the conclusion of a public offer—taken as the completion of the allotment of debt securities—the issuer or (lead) underwriter is required to submit a number of reports on the conclusion of said offer to OJK, pursuant to Section 25 of Bapepam Rule Number IX.A.2, and other supplementary rules. These include an Underwriter’s Activities Report (Form IX.A.2-2); Selling Agent(s) Activities Report(s) (Forms IX.A.2-3 and IX.A.2-4); and an Allotment Report, which follows specific prescriptions in Rule IX.A.7. The reports cover the type of securities and amounts sold as well as the type(s) of investors and their geographical dispersion. Samples of the respective reporting formats may be found as appendixes to the corresponding rules.

The reports need to be submitted to OJK no later than 3 business days after the allotment date and no later than 10 business days after the Registration Statement for the debt securities to become effective.

The Allotment Report includes a fund flow report that has to be reviewed by a public accountant within 30 days of the allotment.

#### b. Private Placements

In the absence of specific regulations for private placements, issuers are not required to fulfill official reporting requirements after issuance. At the same time, customized reporting requirements may have been agreed between the issuer, Capital Market Supporting Institutions and Professionals, and investors, which the issuer would need to comply with as part of contractual arrangements.

### 7. Issuance Process Specific for a Domestic Financial Institution

If the issuer of debt securities is a domestic financial institution under the supervision of OJK, a separate approval by the OJK banking supervisor for such issuance is only required if the proceeds are intended to address capital requirements.

In order to raise funds through the issuance of debt securities, a bank should state this planned fund raising in the bank’s annual business plan, which is submitted to the OJK banking supervisor. This business plan should be approved by the OJK banking supervisor and, at the time the bank intends to execute its plan, the bank should seek approval from the OJK banking supervisor. The approval letter from the OJK banking supervisor then becomes part of the registration documents. Approval from the OJK banking supervisor is only applicable to banks, not to all financial institutions.

Under its mandate as guardian of the stability of the Indonesian rupiah, BI approval is still required only in case a financial institution intends to issue money market instruments.

### 8. Regulatory Process for Foreign-Currency-Denominated Debt Instruments

The issuance of bonds, notes, or *sukuk* in currencies other than rupiah, such as US dollars, is possible but not common in the domestic bond market in Indonesia, even in the form of private placements. Only a few such bonds have been observed in the Indonesian market in recent years.

The public offering of debt securities denominated in a foreign currency will principally have to follow the regulatory process described in section 4. In addition, the issuer and underwriter will have to observe Bapepam Rule Number IX.A.11 (Public Offering of Debt Securities Denominated in Foreign Currency), which was issued in 2002 and remains in force until amended by OJK.

Foreign-currency-denominated bonds or notes issued in Indonesia, including if issued via private placements, are presently not subject to issuance approval from BI. In the absence of underlying regulations, private placements denominated in foreign currency also do not require the approval of OJK.

## G. Continuous Disclosure Requirements in the Indonesian Bond Market

At present, continuous disclosure requirements are only in place for the issuance of debt securities via a public offering and those securities that are listed on IDX.

### 1. Where a Public Offer of Debt Securities Was Made

Listed companies, including those that have only listed their debt securities, are required to submit periodical reports and incidental reports to both OJK and IDX, as detailed below.

#### a. Reports To Be Submitted to the Financial Services Authority

Periodic reports to be submitted to OJK include

- annual financial statement (audited by public accountant),
- semiannual financial statement, and
- annual report.

Incidental information that should be submitted to OJK or disclosed to the public is stipulated under Regulation Number 31/POJK.04/2015 concerning Disclosure of Material Information or Facts. Information related to the following activities, among others, should be submitted or disclosed as material information:

- merger, separation of business, consolidation, or formation of a joint venture;
- offer to purchase any other company's listed shares;
- sale and purchase of shares of an issuer that have material value;

- distribution of interim dividends;
- delisting or listing of shares in the stock exchange;
- share split or combination of shares;
- entering into or disposition of any important contract or agreement;
- new findings or new product invention that give additional value to the issuer;
- change of the board of directors or commissioners composition of an issuer;
- sale and purchase of material assets of an issuer;
- any dispute against an issuer, its board of directors, or board of commissioners, as well as any labor dispute that may disrupt the operation of an issuer;
- replacement of an accountant auditing an issuer;
- replacement of a trustee;
- replacement of a securities administrator;
- amendment of an issuer’s financial year; and
- debt restructuring.

#### b. Reports to be Submitted to Indonesia Stock Exchange

Based on IDX Rule Number I.A.3 (Reporting Obligation of the Issuers), periodical reports that must be submitted include

- annual report (at the latest 5 months after the end of a fiscal year),
- financial report (annually and semiannually each year), and
- quarterly financial statement (if IDX requests the issuer to submit that report).

Incidental information must immediately be disclosed to the public in accordance with OJK Regulation Number 31/POJK.04/2015 concerning Disclosure of Material Information or Facts. Other information that must be disclosed relates to

- shareholder general meeting and bondholder meeting, if any;
- change of management;
- change of corporate secretary; and
- change of company address, business, and other details.

Statutory reports and announcements released by listed companies will immediately be published through IDXNet, the exchange’s electronic reporting system, once they are received. Investors may obtain these reports directly via the IDX website. Reports must be sent as a printed original and in electronic format as a PDF file.

### 2. Where a Private Placement Was Made

There are no specific continuous disclosure requirements for private placements in the Indonesian bond market in the absence of applicable regulations issued by OJK.

At the same time, expectations among market participants who, for all intents and purposes, can be considered professional investors and are likely familiar with international bond market practices may require a certain level of information supply from the issuer over the life cycle of the debt securities. Requirements of continuous disclosure are usually stated in the agreement made at the time of the debt securities issuance.

### 3. Debt Securities Listed on Indonesia Stock Exchange

Debt securities listed on IDX must have been issued through a public offering for which the regulatory prescriptions, including for disclosure, are defined by OJK. Private placement cannot be listed on IDX.

As such, the continuous disclosure requirements for debt securities listed on IDX carry continuous disclosure obligations to both OJK and IDX.

Continuous disclosure obligations to IDX include regular reports and incidental information pursuant to IDX Rule Number I.A.3 (Reporting Obligation of the Issuers) and OJK Regulation Number 31/POJK.04/2015 concerning Disclosure of Material Information or Facts:

**Periodical reports**

- annual report (at the latest 5 months after the end of a fiscal year),
- financial report (annually and semiannually each year), and
- quarterly financial statement (if IDX requests the issuer to submit that).

**Incidental information**

- shareholder general meetings and bondholder meetings, if any;
- change of management;
- change of corporate secretary; and
- change of company address, business, and other details.

Statutory reports and announcements released by listed companies will immediately be published through IDXNet, the exchange's electronic reporting system, once they are received. Investors may obtain these reports directly via the IDX website. Reports must be sent as a printed original and in electronic format as a PDF file.

## H. Self-Regulatory Organizations in the Indonesian Bond Market

The Indonesian market features a number of SROs carrying out their respective functions in the Indonesian capital market, including the bond market.

### 1. Indonesia Stock Exchange

Article 9 of the Capital Market Law states that a securities exchange must make rules, including on membership, listing, the fungibility of securities, and the clearing and settlement of exchange transactions. This makes IDX an exchange-type SRO, where the license to operate as a securities exchange, issued by Bapepam as a predecessor to OJK overseeing the then Jakarta Stock Exchange, also conferred the powers to govern its markets and members.

As an exchange-type SRO, IDX defines rules on membership eligibility and conduct, and formulates rules on how it admits, governs, and sanctions exchange members and exchange participants. Changes to rules must be approved by OJK to become effective.

*Exchange Members and Participants*

IDX stipulates the rules for exchange membership in Rule Number III-A concerning Exchange Membership.

Exchange member refers to a securities company having received an operating license as a broker–dealer from OJK, or Bapepam or Bapepam-LK previously, pursuant to Article 1 paragraph 2 of the Capital Market Law, and having received exchange membership approval from IDX to conduct securities trading activities at the exchange pursuant to the IDX Rules.

At the end of 2015, IDX had 115 exchange members, of which 109 were active exchange members and 6 had been suspended.

In addition to exchange members, IDX had also admitted 115 exchange participants—comprising 61 securities companies, 36 banks, and 18 custodian banks—as of the end of 2016.[7]

In the context of the Indonesian bond market, IDX has established Rule Number III-C concerning Securities Exchange Membership to Perform Debt Securities, Sukuk, and Fixed Income Asset-Backed Securities Trading (Kep-00082/BEI/10-2011). Under the rule, exchange members will have to separately apply to participate in debt securities trading, showing the ability to handle and process such transactions from a technical, operational, and risk management perspective. IDX will need to approve such applications—by issuing a Trading Approval Certificate—before an exchange member may commence debt securities trading.

For details on the listing, disclosure, and trading rules of IDX and their underlying regulations, please refer to section J in this chapter.

### 2. Indonesia Clearing and Guarantee Corporation

Bapepam conferred the operating license on KPEI to act as a Clearing and Guarantee Institution, pursuant to Section 2 of the Capital Market Law, in June 1998. The law states that a clearing and guarantee institution is established for the purpose of providing clearing services that support an orderly, fair, and efficient securities market, and for the purpose of guaranteeing the settlement of exchange transactions.

KPEI acts as a seller for every buyer and a buyer for every seller in all trades on IDX, thereby fulfilling the function of a central counterparty. This function encourages efficiency and assures certainty in the settlement of stock exchange transactions and, in effect, is an extension of the exchange transactions toward settlement.

In order to carry out its vital market function effectively, KPEI is required under Article 16 of the Capital Market Law to establish rules on its clearing and guarantee function. OJK affirmed KPEI's mandate through Regulation Number 26/POJK.04/2014 concerning Securities Exchange Transaction Settlement Guarantee. Hence, as an SRO, KPEI sets and administers rules that prescribe the rights and obligations in the clearing process, admits and governs its clearing members, and redresses violations of its rules. For transaction in exchange traded bonds, notes, and *suku*k, KPEI issued Rule Number V-1 on Clearing and Transaction Settlement Guarantee of Debt Securities. Article 17 of the Capital Market Law states that such rules become effective once approved by OJK.

KPEI manages the collateral posted by clearing members and provides an intraday facility for the effective funding of clearing and collateral obligations. KPEI also operates the securities borrowing and lending facility for exchange members, which is principally available for debt securities as well but currently operates for equity securities only, as well as a guarantee fund to ensure the clearing function at all times.

[7] Indonesia Stock Exchange. *IDX FactBook 2016*.
http://www.idx.co.id/Portals/0/StaticData/Publication/FactBook/FileDownload/20161025_FB-2016.pdf

As an SRO, KPEI is also fully committed to, and actively involved in, the infrastructure development and further study of the Indonesian capital market. KPEI is required to invest its guarantee fund in line with prevailing rules and regulations, which stipulate eligible instruments as time deposits and government securities.[8]

#### *Clearing Members and Settlement Agents*

Exchange members are to be registered as clearing members to receive clearing and guarantee services from KPEI. One of the requirements to be a clearing member is the deposit of collateral for which the amount, type, and procedures are determined by the application of KPEI Rule Number II-12 concerning Collateralization. KPEI will assess exchange members for their ability to fulfill the obligations as a clearing member, especially from a credit risk perspective.

As of 31 December 2016, KPEI had registered 112 clearing members.

Settlement agents are KSEI account holders (see section H.3 in this chapter) that are involved in clearing or securities borrowing and lending activities on KPEI's platform. Settlement agents move funds or securities according to the instructions of the clearing members that use their services, or according to KPEI instructions as the case may be. Settlement agents are not under the governance of KPEI but are required to observe the KPEI rules for clearing and other processes.

### 3. Indonesia Central Securities Depository

KSEI is the market institution in the Indonesian capital market responsible for the effective settlement of transactions in registered securities—including bonds, notes, and *sukuk*, as well as ABS—as well as the safekeeping of these instruments.

Under Article 16 of the Capital Market Law, KSEI, as a CSD licensed under the provisions of the law, is required to formulate, administer, and enforce rules relating to the carrying out of its designated role and functions in the market. As such, KSEI has been conferred the role of an SRO under the law. There are no separate Bapepam or OJK rules or regulations on the conduct of KSEI.

KSEI sets the CSD Regulations as well as the Operating Procedures and other regulations on specific products, functions, or topics. KSEI issues these regulations as appendixes to Board of Directors' Decrees, pursuant to approval by OJK.

In its CSD Regulations, amended from time to time, KSEI stipulates the eligibility of its account holders and their obligations.

#### *Account Holders*

The official term used by KSEI for its participants is account holders, as the parties whose names are registered as the owners of the securities accounts in KSEI's C-BEST system. Account holders can be securities firms and custodians, as well as other institutions that may be deemed suitable as participants, pursuant to specific capital market regulations.

[8] For more detailed information about KPEI's role and functions, and its performance in relation to these roles and functions, see the KPEI Annual Report at http://www.kpei.co.id/page/annual-reports

Account holders may open one securities account and one or more subaccounts in C-BEST. If account holders would like to participate in the securities lending service provided by KSEI, they will have to open an additional securities lending account, as well as securities lending subaccounts according to the number of their individual customers who wish to lend their securities. The operation of the securities accounts and the conduct of account holders are subject to the execution of a standard KSEI contract, the Agreement regarding Securities Account, as well as supporting documentation defined in the CSD Regulations.

As of 28 December 2016, KSEI had 147 account holders.

## I. Licensing and Registration of Market Participants

The licensing and/or registration of all market participants is conducted by OJK, regardless of whether the participants are banks, other financial institutions, or capital market intermediaries and service providers. In its official classification, OJK distinguishes between the following categories of market participants:

- Banks
    - Commercial Banks
    - Rural Banks
    - Sharia Banks

- Capital Market Participants
    - Securities Company
    - Securities Company Representative
    - Investment Management
    - Issuer and Public Company
    - Capital Market Supporting Institutions
    - Capital Market Supporting Professionals
    - Sharia Capital Market Participants

The categorization of the banks and Capital Market Participants is available on the OJK website, together with a brief summary of their functions and underlying regulations. The list of securities companies is available for viewing or download on the OJK website.[9] The other institutions and professions are typically listed and further information is provided in the OJK annual reports, which can also be downloaded.[10]

### 1. Banks as Participants in the Indonesian Bond Market

OJK grants and revokes licenses for financial institutions and certain banking activities, establishes regulations, performs banking supervision, and imposes sanctions on banks.

Banks may participate in the Indonesian capital market, particularly the bond market, through a number of activities specifically permitted under the banking license. These activities include the buying, selling, or guaranteeing (at their own risk or at the interest of and for the benefit and behest of their customers) of

[9] See http://www.ojk.go.id/en/kanal/pasar-modal/Pages/Perusahaan-Efek.aspx
[10] See http://www.ojk.go.id/en/berita-dan-kegiatan/publikasi/Default.aspx

- drafts and bills of exchange, including drafts accepted by banks with a validity period that shall be no longer than the norm in the trading of the referred drafts;
- promissory notes and other commercial paper with a validity period that shall be no longer that the norm in the trading of the notes;
- Treasury bills and government securities;
- SBI;
- bonds;
- commercial paper with a maturity date of up to 1 year; and
- other commercial paper with a maturity date of up to 1 year.

This means that banks are eligible to act as underwriters of debt securities pursuant to their banking license. In contrast, banks are specifically prohibited from conducting stock trading activities in the Indonesian market.[11]

If a bank would like to also act in a capacity as a Capital Market Supporting Institution, such as acting as a custodian, it would need a corresponding license from OJK.

### 2. Capital Market Participants

Securities companies need to obtain a business license to act in the capital market in Indonesia, including in a capacity as underwriter of securities or as investment manager, or a combination of these functions (Table 2.3). Individuals working in positions as securities brokers or underwriter for their securities firms will need to obtain an individual license.

In order to support the development of capital market activities, in 2016, OJK published Regulation Number 24/POJK.04/2016 concerning Securities Brokerage Agencies. This regulation is focused on the licensing of individuals or institutions, such as a bank, that want to act as a referral agent for a securities brokerage company.

**Table 2.3: Licenses Issued for Securities Companies**

| Operating License(s) Held | Number |
|---|---|
| Broker–Dealer | 36 |
| Underwriter | 3 |
| Broker–Dealer + Underwriter | 88 |
| Broker–Dealer + Investment Manager | 2 |
| Underwriter + Investment Manager | - |
| Broker–Dealer + Underwriter + Investment Manager | 3 |

Note: Data as of the end of 2016.
Source: Otoritas Jasa Keuangan (Financial Services Authority). 2016. *Capital Market Press Release*. 29 December.

[11] Text adapted from Otoritas Jasa Keuangan. 2016. *Indonesian Banking Booklet*. http://www.ojk.go.id/en/kanal/perbankan/data-dan-statistik/booklet-perbankan-indonesia/Pages/-Indonesian-Banking-Booklet-2016.aspx

As of 29 December 2016, the number of securities companies registered at OJK totaled 132, which consisted of 114 IDX members and 18 non-IDX members. In 2016, OJK issued 458 individual broker–dealer representative licenses and 41 underwriter representative licenses, bringing the totals to 8,964 and 2,014, respectively.

Issuers or public companies do not need a license separate from their company registration to issue securities, including debt securities; instead the issuance of securities is subject to OJK approval. A public company is a company that has at least 300 shareholders and paid-in capital of at least IDR3 billion, or such other number of shareholders and paid-in capital that may be stipulated in government regulations. The latest IDX Rules define a listed company as an issuer or public company whose securities are listed at IDX.

Capital Market Supporting Institutions and Professionals are required to be licensed by or registered with, or obtain approval from, OJK before acting in such capacity. For details on the licensing, approval, or registration required for individual categories, please see Chapter III.M.

Capital Market Supporting Institutions include credit rating agencies, custodian banks, security administrators, and trustees (Table 2.4). In turn, Capital Market Supporting Professionals (Table 2.5) include accounting and audit firms, appraisers, legal advisors, and notaries, as well as professionals from other professions, including those who can offer opinions or views with regard to the development of the capital market.

**Table 2.4: Capital Market Supporting Institutions**

| Capital Market Supporting Institution | Type of Licensing or Registration | Number of Institutions |
|---|---|---|
| Credit Rating Agencies | Licensed | 2 |
| Custodian Bank | Approved | 21 |
| Securities Administration Agents | Licensed | 10 |
| Trust Agents (Trustees) | Registered | 12 |

Note: Data as of the end of 2016.
Source: Otoritas Jasa Keuangan (Financial Services Authority). 2016. *Capital Market Press Release*. 29 December.

Capital Market Supporting Professionals are required to constantly enhance their competence and adhere to capital market rules and regulations. Each professional is required to attend professional training prior to and after OJK registration. A minimum of 30 professional training credits must be earned prior to registration with OJK, the materials for which are compiled by the respective professional associations in conjunction with OJK. With the exception of notaries, each OJK registered professional is also required to attend continuing professional education and attain five professional training credits annually, while reporting attendance to OJK.

**Table 2.5: Licenses Issued for Capital Market Supporting Professionals**

| Capital Market Supporting Profession | Number of Active Registrations |
|---|---|
| Accountant | 604 |
| Legal Adviser | 720 |
| Appraiser | 199 |
| Notary Public | 1379 |

Note: Data as of the end of 2016.
Source: Otoritas Jasa Keuangan (Financial Services Authority). 2016. *Capital Market Press Release*. 29 December.

Sharia Capital Market Participants are institutions that carry out Islamic banking activities or support the issuance of *sukuk* in the Indonesian market.

## J. Indonesia Stock Exchange Rules Related to Listing, Disclosure, and Trading of Debt Securities

As an SRO, IDX sets and enforces its own regulations for the listing, related disclosure, and trading of the securities on its markets, as well as for its constituents. This also applies to listed debt securities. For more details on the role and functions of IDX as an SRO, please see section H in this chapter.

### 1. Debt Securities Listing Rules and Related Disclosure

The listing of debt securities, including *sukuk*, and ABS, is not mandatory in the Indonesian bond market. At the same time, market practice has seen publicly issued debt securities listed on IDX as a matter of course.

If an issuer wishes to list their debt securities on IDX, they will have to observe the IDX Listing Rules. The Listing Rules can be found on the IDX website.[12] They contain a number of individual regulations that stipulate obligations and requirements for different types of securities to be listed. For the listing of debt securities, issuers need to observe IDX Rule I.A on General Provisions of Securities Listing (for Bond and Sukuk Issuers) (SK-017/LGL/BES/XI/2004), as well as a number of other rules. Provisions for government securities and municipal bonds are contained in separate rules.

Further details on the actual listing process of debt securities on IDX can be found in Chapter III.I.

### 2. Debt Securities Trading Rules

Rules relating to the trading of debt securities are defined in Trading Rule Number II.F concerning General Terms of Debt Securities Trading at the Exchange, which was originally published by the Surabaya Stock Exchange in August 2006, subsumed into the IDX Rules, and remains in force until amended. The trading of ABS is further

[12] See http://www.idx.co.id/en-us/home/regulation/listingregulations.aspx

subject to Rule Number II-F concerning Asset-Backed Securities Trading at the Exchange, which was published by IDX in 2009.[13]

For further details on the actual trading of debt securities, please refer to Chapter IV.

### 3. Membership Rules

IDX published the Rule III-A concerning the Exchange Membership in December 2010, which became effective in February 2011. Rule III-A states that only securities companies with an operating license from OJK (or previously Bapepam-LK) can be considered as exchange members. Membership in IDX is expressed through the Exchange Membership Certificate, which will be issued following IDX's approval of a membership application.

The rule stipulates the requirements for securities companies to obtain such approval, and the rights and obligations of a member. Exchange members must also become clearing members of KPEI and participants, or account holders, in KSEI. Additional requirements exist for exchange members that provide exchange access to their customers through their own system. Other rules for members concern the reporting and inspection requirements, as well as the application of sanctions or revocation of membership by IDX.

In the context of the bond market, exchange members trading debt securities on IDX must also observe Rule Number III-C concerning Securities Exchange Membership to Perform Debt Securities, Sukuk, and Fixed Income Asset-Backed Securities Trading, which regulates access to the Fixed Income Trading System (FITS) (see Chapter IV.B) and the need for adequate procedures for the trading of debt securities.

## K. Market Entry Requirements (Nonresidents)

Nonresidents are principally able to participate freely in the Indonesian bond market, but investors need to obtain a SID (see section M.1 in this chapter). At the same time, nonresidents will need to be aware of or observe certain prescriptions for the use of Indonesian rupiah as well as FX transactions.

### 1. Nonresident Issuers

While there is no requirement for approval from OJK, current BI regulations require a nonresident (foreign) issuer to be subjected to the Regulations on Foreign Exchange Transactions against Rupiah between Banks and Foreign Parties if foreign parties conduct FX transactions with domestic banks. This regulation is managed by the BI Department of Financial Market Development.

Under the present regulations, a nonresident issuer may choose to swap the proceeds from a bond or note issuance denominated in rupiah into a foreign currency if a number of specific requirements are fulfilled. Issuers must advise their swap intermediary (bank) of the underlying business transaction (bond issuance) if the planned swap amount exceeds USD1 million or its equivalent per transaction. As for FX spot transactions of foreign currency against the rupiah conducted between a bank and a foreign party, the underlying business transaction must be provided if the rupiah transfer to the foreign party's account resulted from the sale of foreign currency through a spot transaction above USD1 million or its equivalent. Underlying transactions must also be provided for the purchase of foreign currency against the

[13] A list of applicable trading regulations may be found on the IDX website at http://www.idx.co.id/en-us/home/regulation/tradingregulations.aspx

rupiah through spot transactions if their nominal amount exceeds USD25,000 or its equivalent in a given month.

### 2. Foreign Investors

Foreign investors can participate freely in the Indonesian bond market, but like domestic investors, they need to obtain a SID from KSEI via their custodian or broker.

## L. Market Exit Requirements (Nonresidents)

The sections below contain details on any applicable exit requirements for nonresidents.

### 1. Nonresident Issuers

There are no specific exit requirements for nonresident (foreign) issuers. At the same time, the remittance of foreign currency for the purchase of rupiah to support interest payment on and the redemption of debt securities is subject to the Regulation on Foreign Exchange Transactions against Rupiah between Banks and Foreign Parties, which came into effect in September 2016.

### 2. Foreign Investors

There are no specific exit requirements for nonresident investors. The disposal of debt securities is subject to applicable taxation on a transaction basis (see also Chapter VI), so repatriation of sale proceeds may occur without restriction. At the same time, proceeds in rupiah will need to be exchanged for foreign currency before remitting them to another jurisdiction (see also section K.5 in this chapter).

## M. Regulations and Limitations Relevant for Nonresidents

The applicable regulations and possible limitations for nonresidents are provided below in brief, grouped according to some of the key topics of interest for nonresidents.

### 1. Single Investor Identification

The SID represents a building block in the development of capital market infrastructure in Indonesia. Through a SID, investors can consolidate their portfolios at various securities companies or custodian banks. A SID also facilities OJK surveillance.

KSEI introduced the SID in June 2011 and extended the relevant SID regulation in March 2014 and July 2016 to make available to stakeholders the complete features intended for the SID.[14] The SID serves both as a customer identification for any account holder—direct (participants) or indirect (customers of participants)—and as a reporting device for aggregate holdings and market activities to OJK.

The SID was developed to serve as a single identity for every investor in the Indonesian capital market. It was also designed to provide benefits to capital market authorities to perform more effective supervision of securities transaction settlements

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[14] See Regulation of KSEI Number I-E regarding Single Investor Identification (July 2016) at http://www.ksei.co.id/files/Regulation_No._I-E_Regarding_Single_Investor_Identification_(SID).pdf

conducted by investors and brokers to minimize the misuse or abuse of investors' portfolios.

At the same time, the SID enables investors to monitor their securities ownership balance, securities movements, and instructions data related to transactions executed on IDX. In addition, investors are able to monitor calculation data from KPEI regarding transaction settlement rights and obligations, up to the settlement instruction data from KSEI.

The SID is allocated and administered by KSEI and requires investors who are direct or indirect account holders in KSEI to submit selected information to KSEI. The application for a SID is to be submitted by the participant who maintains the investor account in KSEI. Once allocated, an investor is also referred to as a SID Holder.

The information required for a SID application contains the following data elements:

- client type (individual or institutional),
- client account number at KSEI,
- client name,
- client nationality,
- identity number,
- date of establishment,
- address, and
- business type.

For complete information about the complete data that needs to be submitted, please refer to KSEI's Circular Letter No. SE-002/DIR-KSEI/0916.

### 2. Foreign Ownership Regulations

Regulations and limitations exist for foreign ownership of companies, through the acquisition of listed and unlisted shares, in selected industries. There are no limitations on foreign investors investing in debt securities issued in Indonesia.

### 3. Investment in Debt Securities Issued by Nonresidents

Under BI Regulation Number 18/19/PBI/2016 (5 September 2016) concerning Foreign Exchange Transactions against Rupiah between Banks and Foreign Parties (Article 15 of BI Regulation 18/19/PBI/2016), with effect from September 2016, banks and financial institutions that are registered in Indonesia are no longer able to buy bonds or notes, regardless of the type of instrument, from nonresident issuers, including through their agents; there is no further distinction of issuer type. Article 18 of this regulation states that banks are prohibited from making transfers of rupiah to foreign countries.

At the same time, Article 19 of the regulation stipulates that

> Banks may perform rupiah transfers to accounts owned by foreign parties and/or to joint accounts between foreign parties and nonforeign parties in a domestic bank if
>
> - the nominal value of the rupiah transfer is up to the equivalent of USD1 million per day per foreign party; or
> - it is performed through inter-account transfers of rupiah owned by the same foreign party.

The expected documentation and the submission of said documentation and the requirements of the reporting of transactions are stipulated in the same BI regulation.

While BI has passed on its role as regulatory authority for financial institutions to OJK, effective January 2015, this prescription is made under the continuous function of BI to govern the FX and swap markets, and to ensure the stability of the rupiah.

As a result of this BI regulation, banks and financial institutions are unable to buy such issuances for their own books or to satisfy reserve or capital requirements. However, banks may still buy, sell, and hold such issuances for and on behalf of their customers as intermediaries.

### 4. Intermediary Limitations

Bank intermediaries—financial institutions keeping cash accounts for their customers—are required to observe a limitation related to the keeping of rupiah balances on behalf of their investing clients. If the custodian is a branch of an international financial institution, the custodian may only maintain rupiah balances across all investor clients of up to 30% of its applicable capital.

There are, however, no approvals to be obtained for the provision of services to either issuers or investors in relation to the issuance of IDR-denominated debt securities, including in the form of private placements.

### 5. Foreign Exchange Controls

The Indonesian rupiah is the currency of Indonesia. The rupiah is freely convertible from and into other currencies but may not be used outside Indonesia.

FX transactions are required to observe the real demand principle; that is, the customer must prove to the executing financial institution that an underlying transaction exists to support an FX transaction. In the context of the investment of debt securities, the custodian of the investor will normally keep records for both the securities and FX transaction to fulfill this requirement. Violations may attract heavy fines.

Limitations exist as to which parties an issuer may issue—sell, offer for sale, or market—IDR-denominated debt securities to, including private placements (see also section M.3 in this chapter).

A foreign (nonresident) issuer of bonds, notes, or *sukuk* as private placements would still be subject to applicable FX-related rules and regulations by BI. Under the Regulations on Foreign Exchange Transactions against Rupiah between Banks and Foreign Parties, which came into effect in September 2016, a nonresident issuer may choose to swap the proceeds from a bond or note issue denominated in Indonesian rupiah into a foreign currency as long as a number of specific requirements are fulfilled. While BI approval is not required, issuers must advise their swap intermediary (bank) of the underlying business transaction (bond issuance) if the planned swap amount exceeds USD1 million or its equivalent in other foreign currencies (see also section M.5 in this chapter). As for FX spot transactions of foreign currency against the rupiah conducted between a bank and a foreign party, the underlying business transaction must be provided if the rupiah transfer to the foreign party's account resulted from the sale of foreign currency through a spot transaction above USD1 million or its equivalent. Underlying transactions must also be provided for the purchase of a foreign currency against the rupiah through spot transactions if their nominal amount exceeds USD25,000 or its equivalent in a given month.

In addition, a nonresident issuer of *sukuk* via a private placement is required to obtain certification of the instrument as Sharia-compliant prior to an offer to investors.

While there is no requirement of an approval from OJK, current BI regulations require a nonresident (foreign) issuer to be subjected to the Regulations on Foreign Exchange Transactions against Rupiah between Banks and Foreign Parties. This regulation is managed by the BI Department of Financial Market Development.

### 6. Bank Accounts in Domestic or Foreign Currency

Nonresidents may open domestic currency accounts and nonresident foreign currency accounts freely and without the need for further approval.

### 7. Borrowing and Lending

The single borrowing limit, in this case the limit of an investor to invest in specific bonds of a single issuer or issuer group, is presently under review and discussion by the policy bodies and relevant regulatory authorities. Potential changes may result in additional interest in local currency issuance in the Indonesian bond market as a funding source.

## N. Regulations on Credit Rating Agencies

This section covers the regulations and requirements applicable to credit rating agencies (CRAs) operating in Indonesia and their business. For the actual credit rating requirements in the Indonesian market and the application of such credit ratings in the issuance process of bonds, notes, and *sukuk*, please refer to Chapter III.O.

CRAs operating in Indonesia are required to obtain a business license from OJK prior to engaging in credit rating services. For the purpose of participating in the capital market, OJK classifies CRAs as Capital Market Supporting Institutions (see also section I in this chapter), which are institutions that service capital market operational activities for professional and public investors.[15]

The principal obligations of CRAs, as well as prohibited activities, are stipulated in OJK Regulation Number 51/POJK.04/2015 concerning Behaviour of Credit Rating Agency Companies. Other specific activities of CRAs are regulated in supplementary regulations, including those previously issued by Bapepam-LK, including

- Bapepam Rule Number V.H.4 concerning Ranking Agreement Guidelines,
- OJK Regulation Number 57/POJK.4/2015 concerning Reports of Credit Rating Company,
- OJK Regulation Number 58/POJK.04/2015 concerning Document Maintenance by Rating Agency, and
- OJK Regulation Number 59/POJK.04/2015 concerning Publications by Rating Agency

CRAs are required to carry out rating activities independently, free from the intervention of another party that uses its services, being objective and accountable in giving ratings. CRAs can provide ratings on debt securities, *sukuk*, ABS, and other kinds of securities that can be rated.

The two active domestic rating agencies licensed by OJK are Fitch Ratings,[16] a wholly owned subsidiary of Fitch Ratings Ltd., and PEFINDO Credit Rating Agency.[17]

[15] For the categorization of supporting institutions and a summary of the underlying regulations for their respective function, please refer to http://www.ojk.go.id/en/kanal/pasar-modal/Pages/Lembaga-dan-Profesi-Penunjang.aspx
[16] See PT Fitch Ratings at http://www.fitchratings.co.id

## N. Regulations on Securities Pricing Agencies

This section explains the regulations and requirements applicable to securities pricing agencies operating in Indonesia and their business. Securities pricing agencies (SPAs) are regulated under Bapepam-LK Rule Number V.C.3 regarding Securities Pricing Agency.

SPAs shall obtain a business license from OJK prior to performing activities as a securities pricing agency. There is no clear statement in the original regulation as to the market classification for SPAs, but due to its main role to support capital market activities, an SPA shall be considered a Capital Market Supporting Institution.

SPAs are required to perform pricing activities in an objective, independent, credible, and accountable manner. SPAs are obliged to generate and publish fair prices for bonds and debt securities on a daily basis. SPAs are allowed to perform other services related to their main role as an SPA.

The only active and licensed SPA is PT Penilai Harga Efek Indonesia, also known as IBPA, a company owned by IDX, KPEI, and KSEI.

[17] See PEFINDO at http://www.pefindo.com

III

# Characteristics of the Indonesian Bond Market

The Government of Indonesia issues securities regularly and in a variety of forms and tenors to meet is budgetary needs and cater to different investor universes. BI continues to issue its own securities to support its open market operation and to offer liquidity management tools for the financial industry. Corporate bonds and notes in the Indonesian market are typically issued in rupiah; this is also the case for private placements to professional market participants.

Indonesian issuers, both sovereign and corporate, have been issuing IDR-denominated debt securities across a number of categories for many years and in significant volume, for both conventional bonds and *sukuk*. Hence, local currency issuance is a familiar issuance approach to both issuers and investors in Indonesia, including foreign institutional investors. Foreign-currency-denominated private placements have also been observed in the Indonesian market.

The characteristics specific to the Indonesian bond market are described in more detail in this chapter.

## A. Definition of Securities

The current fundamental and key legislation does not contain a consolidated definition of securities. Instead, securities are mentioned and some examples are given in both legislation and a number of applicable regulations for the individual purposes of and use by market institutions.

### 1. Definition in the Capital Market Law

Pursuant to the Capital Market Law, securities are promissory notes, commercial paper, shares, bonds, evidences of indebtedness, participation units of collective investment contracts, futures contracts related to securities, and all derivatives of securities.

### 2. Reference to Debt Securities in Bank Indonesia Regulations

BI regulations refer to debt securities in the following manner:

> Debt Securities are debt instruments, notes payable, bonds, credit securities, or its respective derivative, or other interests, or a liability of the issuers, in the form of commonly traded instruments at capital and money markets, including bonds issued by multilateral institutions or supranational in which all funds from the issuance of bonds are used for the financing interest of economic activities in Indonesia, including securities based on Sharia principle.

For specific definitions of individual debt instruments, readers are directed to BI's Circular Letter to All Commercial Banks and Intermediary Agencies in Indonesia concerning Open Market Operations, which also explains its role in the issuance and handling of debt securities in great detail.[18]

### 3. Reference to Debt Securities in Indonesia Stock Exchange Rules

In the definitions of its Rule Number III-C concerning Securities Exchange Membership to Perform Debt Securities, Sukuk, and Fixed Income Asset-Backed Securities Trading, IDX refers to debt securities, as follows:

> Debt Securities means Debt Securities as set forth in Bapepam-LK Rule Number IX.C.11 concerning Rating Upon Debt Securities, and Securities issued and guaranteed by the Government of Indonesia as intended in Article 70 paragraph (2) letter d of Law Number 8 of 1995 concerning Capital Market.

### 4. Debt Securities in Indonesia Clearing and Guarantee Corporation Rules

KPEI Rule Number V-1 on Clearing and Transaction Settlement Guarantee of Debt Securities provides a practical reference to debt securities as follows:

> Debt Securities are Scripless Debt Securities listed and traded in the Stock Exchange.

### 5. Debt Securities in Indonesia Central Securities Depository Regulations

In Chapter 1 (1.1 Definitions) of its CSD Regulations, KSEI defines debt securities in the following manner:

> Debt Securities shall mean the Securities in the form of debentures which have been registered by the Securities Issuer at KSEI, Certificates of Bank Indonesia, and Government bonds.

## B. Types of Bonds, Notes, and *Sukuk*

The amount issuance of debt securities—conventional and *sukuk*, as well as ABS—in the Indonesian market is significant and comes in a variety of debt securities types and formats by a multitude of issuers. While the Indonesian government is the main issuer of debt securities, the market also features substantial issuances from the private sector, plus instruments issued by BI, and municipal bonds. Debt securities are issued mostly in Indonesian rupiah but selected instruments may also be issued in foreign currencies, including in the domestic market.

### 1. Debt Securities Issued by the Government

Debt securities issued by the Government of Indonesia are typically referred to in their entirety as Surat Berharga Negara (SBN), including in official statistics issued by BI and other institutions.[19] SBN, in effect, consist of Treasury bonds and Treasury bills, retail bonds of different varieties, as well as their equivalent *sukuk.* Collectively known as SBN, Treasury bonds and Treasury bills are also referred to as Surat Utang Negara (SUN).

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[18] See http://www.bi.go.id/en/peraturan/moneter/Documents/SE_173715.pdf
[19] An example from the Bank Indonesia website is available at http://www.bi.go.id/en/iru/market-data/ownership-government-bi-securities/Pages/SBN-October-2016.aspx

Government securities are issued in Indonesian rupiah domestically, as well as in foreign currencies in international markets, pursuant to regulations issued by the MOF.

The legal basis for the management of SUN and Sukuk Negara (SBSN) is contained in Law No. 24/2002 on Government Debt Securities and Law No. 19/2008 on Government Sharia Securities. These laws are supplemented by other derivative regulations, comprising government regulations, MOF decrees, and director general's letters to cover the management of government securities (SUN and SBSN), excluding the instrument types which may be employed under the discretionary policy of the Directorate General of Budget Financing and Risk Management.

### a. Government Debt Securities (Obligasi Negara)

The legal basis for the issuance of (conventional) government debt securities is Law Number 24 of 2004 concerning Conventional Based Government Securities. The law describes government bonds as government debt securities with a maturity of more than 12 months that have been issued with a coupon or at a discount. Market participants and official MOF materials refer to government bonds as the abbreviation for Obligasi Negara (ON), which may be placed via public offers or private placements in the domestic or in international markets (see section E of this chapter).

Since 2002, the Government of Indonesia, represented by the MOF, has issued different types of government bonds based on this law as the government has the flexibility to issue any type of bonds that meet market preferences. As such, the government has issued series including coupon-bearing and zero-coupon bonds; fixed- and variable-rate bonds; and tradable and nontradable bonds, including retail bonds with different maturities ranging from short-term to medium-term to long-term bonds (see also subheadings d and e).

Variable-rate bonds, also known as floating-rate bonds, have a variable coupon equal to the 3-month SBI market interest rate, which is referred to as the average rate method. The issuance of variable rate bonds aims to recapitalize banks by restoring their negative capital adequacy ratios. In cases when BI discontinues the issuance of 3-month SBI, the reference rate for variable rate bonds is changed to the 3-month Surat Perbendaharaan Negara (SPN).

In addition, domestic government bonds outstanding still include nontradable promissory notes that were issued under the banking liquidity support and guarantee program in response to the 1997/98 Asian financial crisis.

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

SPN, as they are referred to in the market, are Treasury bills, or short-term notes issued by the government and sold at a discount. The maximum maturity of SPN is 12 months. The government regularly offers 3-month and 12-month SPN at every auction.

### c. Government Retails Bonds (Obligasi Negara Ritel)

Government retail bonds, or Obligasi Negara Ritel (ORI), are issues specifically designed for retail investors. ORI carry a minimum denomination of IDR5 million to allow small savers to also invest in government securities. ORI are issued in Indonesian rupiah only, with a fixed coupon, and a tenor of 3–5 years. ORI are sold to individual investors via selling agents in the primary market. In the secondary market, ORI are traded via banks and securities companies.

### d. Government Retail Savings Bonds (Saving Bond Ritel)

Retail savings bonds, or SBR, have similar issuance purposes and denominations as ORI. However, these bonds have characteristics different from ORI in that they are nontradable, come with a floating interest rate determined by the Indonesia Deposit Insurance Corporation on a periodical basis, and have an early redemption feature. To ensure reasonable returns, the floating rate has a floor. SBR are sold to individual investors via selling agents.

### e. Government Sharia Securities (Sukuk Negara or Surat Berharga Syariah Negara)

The legal basis for the issuance of Sukuk Negara, or SBSN, is Law Number 19 of 2008 concerning Government Sharia Securities. The law describes Sukuk Negara as sovereign securities issued based on Islamic principles, as evidence of the participation in SBSN assets, issued both in Indonesian rupiah and foreign currencies. The issuance of Sukuk Negara is not only for financing the State Budget (general financing), but also to finance the construction of projects allocated in the State Budget. The issuance of SBSN may be conducted directly by the government or by the SBSN Issuing Company, which is an onshore special purpose vehicle established by government regulation. Market participants and official MOF materials refer to government Sharia securities as both SBSN and Sukuk Negara. Sukuk Negara may be placed via public offer or private placement in domestic or international markets.

Since 2008, the Government of Indonesia, represented by the MOF, has issued seven types of Sukuk Negara with different maturities ranging from short to medium to long term, with a monthly or semiannual fixed coupon, and on a discounted basis. Both tradable and nontradable *sukuk* are issued for institutional and retail investors. The Government of Indonesia, with assistance from the National Sharia Board of the Indonesian Council of Ulama (DSN-MUI) has developed four *sukuk* structures by utilizing underlying assets in the form of fixed tangible assets and projects.

### f. Government Project-Based Sharia Bonds (Project-Based *Sukuk*)

Project-based Sharia (PBS) bonds are Sharia-compliant government securities issued to secure financing for specific government projects that have been included in the government budget and which use said government project(s) as their underlying assets, utilizing an asset-to-be-leased agreement structure. PBS series are medium- to long-term *sukuk* with a fixed coupon payable semiannually and are offered at every auction.

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

Surat Perbendaharaan Negara-Syariah (SPN-S), as they are referred to in the market, are Islamic Treasury bills, being short-term notes issued by the government and sold at a discount. Currently, the only maturity of SPN-S is 6 months. They have regularly been offered at every auction since February 2013.

### h. Government Retail *Sukuk* (Sukuk Ritel)

Retail SBSN, or retail *sukuk*, are government Sharia bonds aimed at individual investors who must be Indonesian citizens. Retail SBSN are sold through selling agents—typically brokers—with a minimum denomination of IDR1 million and a maximum denomination of IDR5 billion. SBSN are issued in Indonesian rupiah only, with a fixed coupon payable monthly, and a tenor of 3.0–3.5 years. Retail SBSN terms and conditions are subject to revision in the future.

### i. Government Savings *Sukuk* (Sukuk Tabungan)

Similar to retail *sukuk* in purpose and denomination, Sukuk Tabungan carry slightly different features such as being nontradable and having an early redemption option. Sukuk Tabungan are sold to individual Investors via selling agents (brokers).

### j. Hajj Funds Sukuk (Sukuk Dana Haji Indonesia)

SDHI are *sukuk* issued to cater to the mutual needs of the MOF to finance the State Budget and the Ministry of Religious Affairs to place Hajj Funds. SDHI are nontradable *sukuk* with a medium- to long-term tenor and a fixed coupon payable monthly.

### k. Government Debt Securities in Foreign Currencies

The Government of Indonesia also issues SUN denominated in foreign currencies in international markets, pursuant to Regulation Number 137/PMK.08/2013 regarding Sale and Buyback of Sovereign Debt Securities in Foreign Currency in the International Market, which superseded earlier regulations as amended by Regulation Number 264/PMK.08/2015. SUN may be sold in international markets through private placements or book building exercises (see also section E in this chapter).

Among these foreign-currency-denominated bonds, the government has launched US dollar global conventional bonds, euro-denominated bonds, and yen-denominated samurai bonds (bonds issued in Japan by a foreign issuer). The issuance of samurai bonds is subject to Regulation Number 41/PMK.08/2012 of the Minister of Finance concerning State Debt Instruments Sale on the Primary Market in Yen Denomination in Japan, as amended several times by Regulation Number 46/PMK.08/2016.

### l. Government Sharia Bonds in Foreign Currencies

Similar to conventional government debt securities, government Sharia bonds may also be placed in international markets in foreign currencies. Such issuance is prescribed in the Regulation of the Finance Minister Number 119/PMK.08/2011 on the Issuance of Foreign Government Sharia Securities in the International Primary Market, which amended earlier regulations. Indonesia has issued USD-denominated global *sukuk.*

## 2. Instruments Issued by Bank Indonesia

BI issues its own debt securities, separately from the government, in support of its open market operation as well as to provide liquidity management tools for financial institutions. Since the tenor of BI instruments is limited to 1 year, the details are reviewed in section C.

### 3. Municipal Bonds

Municipal bonds are issued by a province or district government, typically for the financing of public utilities projects. The MOF issued regulations on the issuance of municipal bonds as far back as 2007, and OJK has supported cities and regions to access the capital market for such larger projects, instead of relying on bank loans.

At present, West Java province is the first local government to consider issuing municipal bonds. The Asian Development Bank has been providing technical assistance for this pilot issuance. Municipal bonds require the approval of OJK, similar to other public offers (see Chapter II.F for details).

### 4. Bonds, Notes, and *Sukuk* issued by the Corporate Sector

The issuance of corporate bonds, notes, and *sukuk*, which are typically referred to as Sharia bonds, is common in Indonesia. The number of bonds, *sukuk*, and ABS listed on IDX in 2015 was 55 issuances from 38 listed companies. Corporate bonds may only be listed on IDX if issued through a public offering. A fair volume of corporate bonds and notes are issued to specific investors via private placements.

#### a. Corporate Bonds and Medium-Term Notes

Corporate bonds and notes are typically issued by banks, finance companies, and other corporates as straight bonds or subordinated debt, in the case of financial institutions.

The issuance of corporate notes via MTN programs is common in Indonesia, although typically limited to private placements since MTN programs may not be listed in IDX under current regulations. As of December 2016, KSEI was safekeeping notes for its participants issued under 224 active MTN programs.

Most corporate bonds and *sukuk* are issued via public offerings under the shelf-registration concept (see also section E in this chapter). At the end of June 2016, 102 listed issuers accounted for 425 outstanding corporate debt issues or series denominated in Indonesian rupiah and a further 3 bond series denominated in US dollars.[20]

#### b. Corporate *Sukuk* and Their Types

Corporate *sukuk*, or Sharia bonds, are debt-like instruments issued in accordance with Islamic principle. They are issued by both conventional and Sharia banking institutions, as well as corporates, to tap the large Islamic finance market segment and address the needs of investors focused on or interested in assets that follow Islamic principles, such as Sharia investment funds (see Chapter VIII for details).

In 2015, 16 corporate *sukuk* series were issued with a total value of IDR3.3 trillion. Also in 2015, four series of corporate *sukuk* matured, which were valued at IDR484 billion, bringing the number of outstanding corporate *sukuk* to 47, which accounted for 11.4% of the 414 corporate debt issues outstanding.

The value of outstanding corporate *sukuk* totaled IDR9.9 trillion or 4.0% of total outstanding corporate issuances, up nearly 40% on the previous year.

[20] Indonesia Stock Exchange. *IDX FactBook 2016*. http://www.idx.co.id/Portals/0/StaticData/Publication/FactBook/FileDownload/20161025_FB-2016.pdf

Cumulatively, 87 corporate *sukuk* had been issued through 2016 (40 since 2010) with a total value of IDR16.2 trillion.

With a share of 62%, *sukuk ijarah* (underlying contract of sell and lease back) is the preferred issuance type for Sharia bonds; the remaining *sukuk* are issued using the *mudharabah* (profit sharing) type.[21]

### c. Convertible Bond

Convertible bonds are debt securities that carry the right to exchange said debt securities for equity in a listed issuer according to conditions prescribed at the time of issuance of the debt securities.

Convertible bonds, or debt securities containing rights to obtain shares, issued to the public require a credit rating, pursuant to Bapepam-LK Rule Number IX.C.11, which remains in force.

For general reference, the last convertible bond matured in 2015, and the Indonesian market has not seen another convertible bond issued since then.

## 5. Asset-Backed Securities

ABS in Indonesia are a participating unit of a collective investment contract with a portfolio that consists of financial assets comprising

- claims arising from commercial paper,
- credit card receivables,
- future receivables,
- loans including homes or apartment mortgages,
- debt securities guaranteed by the government,
- credit or cash flow enhancement, and
- 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. ABS offered to the public require an ABS disclosure document and the submission of a Registration Statement to, and its approval by, OJK.

While there are two types of ABS, fixed cash flow and variable cash flow, the fixed cash flow ABS in practice functions like a debt instrument in that it pays a fixed rate of interest based on the generation of income from the underlying portfolio of assets. The applicable regulation for ABS are contained in the original Bapepam-LK Rule Number IX.K.1 on Guidelines for Asset Backed Securities Collective Investment Contracts and supplementary regulations. This was supplemented in 2014 by the OJK Regulation concerning Guidelines on Issuing and Reporting Asset-Backed Securities in the Form of Participation Certificates for the Purpose of Secondary Mortgage Financing, and other regulations.

[21] For further information on the breakdown of conventional and Sharia bonds, please refer to the *OJK Annual Report 2015* available at http://www.ojk.go.id/id/data-dan-statistik/ojk/Documents/Pages/Laporan-Tahunan-OJK-2015,-Memacu-Pertumbuhan-Ekonomi-Melalui-Sektor-Jasa-Keuangan-Yang-Kontributif,-Stabil-dan-Inklusif/OJK%20Annual%20Report%202015.pdf

At the end of June 2016, seven listed issuers had issued ABS that were subsequently listed on IDX with a combined outstanding value of nearly IDR2 trillion.

## C. Money Market Instruments

Money market instruments are short(er)-term debt instruments, typically issued by the Government of Indonesia as well as BI. They may also be issued by the private sector in the form of commercial paper. Money market instruments generally have maturities of 1 year or less.

### 1. Instruments Issued by the Government

#### a. Treasury Bills

SPN, widely known as Treasury bills, represent a short-term note issued by the government and sold at a discount. Their maximum maturity is 12 months. The government regularly offers 3-month and 12-month SPN at every auction.

#### b. Islamic Treasury Bills

SPN-S, similar to SPN, are issued by the government and sold at a discount, and have a maximum maturity of 12 months. The government issued the first SPN-S in August 2011 with a 6-month tenor and has been issuing 6-month SPN-S regularly since February 2013.

### 2. Instruments Issued by Bank Indonesia

BI issues money market instruments to manage its open market operation and to provide liquidity management tools for financial institutions. BI issues both conventional and Sharia instruments in Indonesian rupiah as well as foreign currencies (mainly US dollars) as the need arises.

#### a. Bank Indonesia Certificates (Sertifikat Bank Indonesia)

SBI were originally issued in two tenors, 28 days and 3 months. Prior to the advent of Treasury bills, SBI were the main tool used by BI for open market operation and to control liquidity in the banking system. Until recently, SBI were the most actively traded money market instrument in Indonesia.

Since June 2010, SBI have been auctioned on a monthly basis with maturities of 28, 91, and 182 days. In addition, BI issues 28-day Sharia-compliant SBI on a monthly basis (see section 2.b). In November 2010, BI stopped issuing 3-month SBI and began offering term-deposit instruments to absorb excess bank liquidity. In February 2011, BI announced that it would no longer issue SBI with maturities of less than 9 months.

Starting in January 2017, BI discontinued issuance of SBI. SBI were replaced by SDBI with maturities of 9 months and 12 months, while SDBI with maturities of 3 months and 6 months will be replaced in 2017 by SBN. This strategy is to align BI issuance with the BI mandate stated in the State Treasury Law No. 1 of 2004, which stipulates the use of government securities as underlying instruments in BI's monetary operation implementation.

### b. Bank Indonesia Sharia Certificates (Sertifikat Bank Indonesia Syariah)

BI issues Sertifikat Bank Indonesia Syariah (SBIS) as short-term securities based on Sharia principles and denominated in Indonesian rupiah. The basis for SBIS issuance was set forth in BI Regulation Number 10/11/PBI (dated 31 March 2008) concerning Bank Indonesia Sharia Certificates, and its supplementary circular letter on the same regulation.

SBIS make use of the *ju'alah* agreement (contract of service) as the underlying transaction, and are denominated in units of IDR1 million with a minimum tenor of 1 month and a maximum tenor of 12 months. SBIS are issued in scripless form through an auction mechanism and are nontradable in secondary markets. SBIS may be collateralized to BI (e.g., in repo transactions or through the BI discount window). As such, SBIS are primarily instruments intended for banks and other financial institutions. SBIS auctions for maturities of 9 months and 12 months take place once a month.

### c. Bank Indonesia Foreign Exchange Bills

BI started issuing Bank Indonesia Foreign Exchange Bills (BI FX Bills) in December 2015, which are short-term debt instruments denominated in foreign currencies (mainly US dollars) and categorized as tradable securities. The objective of BI FX Bill issuance is to strengthen FX reserves and support the deepening of the domestic financial market in order to promote Indonesian rupiah exchange rate stability.

BI FX Bills are issued regularly via auction in a variety of tenors ranging from 1 month to 12 months. Auction details are available on a dedicated BI web page.[22]

## 3. Issued or Used by the Corporate Sector

Corporate money market instruments in the Indonesian market are typically either commercial paper or repo agreements.

### a. Commercial Paper

Commercial paper refers to short-term securities in the money market with no guarantee, issued at a discount by corporates and financial institutions. Commercial paper is typically used for the funding of purchased inventory or to manage working capital.

Commercial paper is mostly purchased by financial institutions because the face value is too large for private investors. Since the maturity of commercial paper does not exceed 12 months, and it tends to be used as a short-term financing tool, the offering of commercial paper was excluded from the obligation to submit a Registration Statement to OJK.

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

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[22] See http://www.bi.go.id/en/moneter/SBBI_Valas/Default.aspx

### b. Repurchase Agreement

Corporate and financial institutions, particularly banks, use repo transactions to maximize the utilization of their holdings in eligible debt securities. Banks transact with BI to obtain liquidity or deposit excess cash in exchange for debt securities (reverse repo) that may be used according to the needs of the counterparty.

## D. Segmentation of the Market

Table 3.1 provides an overview of the outstanding value of debt securities in the Indonesian bond market by type of instrument as detailed in section B, including government securities and corporate bonds and notes, both conventional and Sharia-compliant.

**Table 3.1: Segmentation of the Market—Outstanding Value of Indonesian Rupiah Debt Securities in Indonesia by Instrument Type**

| Issuer Type | Type of Instrument | Conventional or Sharia | Outstanding Amount (IDR billion) | % of Total Outstanding |
|---|---|---|---|---|
| Government | SUN | Government Debt Securities | 1,486,530.25 | 58.5% |
| | SBSN | Government Sharia Securities | 240,593.50 | 9.5% |
| | SPN | Treasury Bills | 41,040.00 | 1.6% |
| | SPN-S | Islamic Treasury Bills | 7,700.00 | 0.3% |
| | SUN FCY | Treasury Bonds in a foreign currency | 639,186.52 | 25.5% |
| | Sukuk Negara FCY | Government Sharia Securities in a foreign currency | 127,642.00 | 5.0% |
| Bank Indonesia | SBI | Bank Indonesia Certificates | 105,377.00 | 69.2% |
| | SDBI | Certificate Deposit Bank Indonesia | 46,985.00 | 30.8% |
| Corporate | Bonds | Corporate bonds (time to maturity > 1 year) | 223,210.86 | 71.0% |
| | Notes | Corporate notes (time to maturity < 1 year) | 77,090.00 | 24.5% |
| | ABS | Asset-backed securities (fixed rate) | 2,808.42 | 0.9% |
| | *Sukuk* | Corporate Sharia bonds | 11,428.00 | 3.6% |

Notes: Data as of the end of December 2016; percentages valid for each issuer type.
Sources: For government debt securities, data on tradable securities are from http://www.djppr.kemenkeu.go.id\; for corporate bonds, data are sourced from CTP-PLTE; for Bank Indonesia issuances, Bank Indonesia data are used.

Detailed information on the outstanding value of bonds, bills, and *sukuk*; new issuances per period; and specific statistics on government securities in the Indonesian bond market can also be found on the websites of *AsianBondsOnline*, BI, IDX, and KSEI. Statistical information on the Indonesian bond market is also included in the annual *IDX Factbook*[23] and OJK's Annual Report.[24] Both publications provide end-of-year data and period comparisons, detail issuance and trading volumes and trends, and list the market participants and their own activities relative to the bond market. Appropriate links are also provided in Chapter VII and Appendix 3.

## E. Methods of Issuing Bonds and Notes (Primary Market)

The Government of Indonesia issues securities—both conventional and Sharia—through public offerings when denominated in Indonesian rupiah, while often using private placements when issuing foreign-currency-denominated bonds in international markets. Publicly offered government debt securities (Sukuk Negara) are typically issued via auction, including for the reopening of existing government debt securities series. BI uses the auction method exclusively when issuing SBI and FX Bills to the constituents of the interbank money market.

In contrast, corporate issuers typically use the book building method to publicly issue corporate bonds and notes, but may also privately place their debt securities to selected investors in the Indonesian market. Corporate issuance in Indonesia of foreign-currency-denominated debt securities is not common. As of 30 December 2016, the outstanding amount for corporate bonds denominated in foreign currency came to only USD67.5 million.

The individual methods of issuance employed by the various issuer types are explained in further detail in this section.

### 1. Government Securities

The Government of Indonesia, represented by the MOF, has been issuing government securities—conventional and *sukuk*—through a number of methods in both the domestic and international markets. In this context, BI acts as the agent of the government to facilitate the auction process, while international placements of government bonds are handled by a panel of selling agents. This section provides an overview of the different methods used for these instruments.

#### a. Auction of Government Securities

An auction of government securities may be conducted using competitive or noncompetitive bidding processes, which depend on the nature of the bidders. Auction participants include the Primary Dealers (see also section M in this chapter) or auction participants, the Indonesia Deposit Insurance Corporation, and BI.

Conventional debt securities (ON and SPN) are auctioned through Primary Dealers, while Sukuk Negara (PBS and SPN-S) are auctioned through auction participants. Auction participants for Sukuk Negara consist of banks and securities companies. These auction participants are subject to different regulations and obligations from those applicable to Primary Dealers for conventional securities auctions. However, there are no differences in terms of

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23 Indonesia Stock Exchange. *IDX FactBook 2016*. http://www.idx.co.id/en-us/home/publication/factbook.aspxhttp://www.idx.co.id/Portals/0/StaticData/Publication/FactBook/FileDownload/20161025_FB-2016.pdf

24 Otoritas Jasa Keuangan. *Annual Report 2015*. http://www.ojk.go.id/id/data-dan-statistik/ojk/Documents/Pages/Laporan-Tahunan-OJK-2015,-Memacu-Pertumbuhan-Ekonomi-Melalui-Sektor-Jasa-Keuangan-Yang-Kontributif,-Stabil-dan-Inklusif/OJK%20Annual%20Report%202015.pdf

method, mechanism, system, and procedures between the auction mechanism for conventional and *sukuk* auctions.

### i. Competitive Bidding

The Government of Indonesia uses a competitive auction process to issue ON and PBS, and SPN and SPN-S to auction participants with BI providing its facilities to conduct the auction and acting as the agent for the government. BI itself does not act as an auction participant in the competitive bidding process.

The auction conduct is prescribed in MOF Regulation Number 43/PMK.08/2013 on the Auction of Government Debt Securities in Rupiah and Foreign Denominated in Domestic Primary Market, as amended with MOF Regulation Number 203/PMK.08/2015. However, the auction of SBSN in the domestic primary market is regulated by MOF Regulation Number 11/PMK.08/2009, as amended with MOF Regulation Number 05/PMK.08/2012.

The MOF will announce an auction plan for each auction, which includes the target amount(s) and the type of instruments and their issuance style (see also under b below). The announcements are made through the MOF website and other channels.[25]

Competitive bidding auctions use the multiple price method, where successful bids are awarded at the yield proposed by the bidders. Auction bids may be submitted by institutional investors, as well as individual investors, but only the actual auction participants may submit auction bids to BI. Hence, nonparticipants need to submit their bids to auction participants prior to auction.

Auctions are conducted the first Tuesday of every month, opening at 10 a.m. and closing at 12 noon (Jakarta time). Auction results will be announced on the same day, with settlement prescribed for the following Thursday (T+2).

### ii. Noncompetitive Bidding

At every auction of ON and PBS, a portion of the issuance is set aside for noncompetitive bids. BI can only submit noncompetitive bids for SPN, while the Indonesia Deposit Insurance Corporation (see section M in this chapter) may only submit noncompetitive bids for ON. However, based on MOF Regulation Number 203/PMK.08/2015 (the first amendment of MOF Regulation Number 43/PMK.08/2013), the Primary Dealers as auction participants may also submit noncompetitive bids if only for SUN.

The amount reserved for noncompetitive bids typically ranges from 30% to 50% of the total anticipated auction volume. The actual percentage will be announced by the MOF in the auction plan.

Successful bidders will pay a yield according to the weighted average yield of the awarded competitive bids.

[25] For a sample auction announcement, please see http://www.mof.go.id/sites/default/files/SPeng_240714_103.pdf

### b. Reopening of Government Debt Securities and Sukuk Negara

The MOF is using the issuance style of reopening for government benchmark bonds in order to ensure liquidity for those widely accepted instruments at similar conditions to the original issuance. A reopening may be done for bonds with remaining tenors of under 1 year to 20 years. For Sukuk Negara, the government has not yet established a benchmark series and therefore the reopening of a Sukuk Negara series issued through auction is to increase their supply in order to improve liquidity in the secondary market.

Reopenings are carried out via auction for both competitive and noncompetitive bids, are facilitated by BI as an agent for the government, and tend to have an issuance amount corridor with an expected minimum and maximum amount of bids.

### c. Book building for Government Retail Bonds and Retail Sukuk Negara

The MOF issues retail bonds and retail *sukuk* through book building using its network of selling agents. Any Indonesian citizen can propose an offer through the book building process within the public offering period (usually 2–3 weeks). One can buy retail bonds at a minimum amount of IDR5 million, with multiples of IDR5 million up to the maximum amount of IDR3 billion (for ORI and SR) and IDR5 billion (for SBR and Sukuk Tabungan). Currently, the government is utilizing the book building method only for issuing retail securities (conventional and *sukuk*) and foreign-currency-denominated securities (conventional and *sukuk*).

### d. Private Placement

The government may issue and offer for sale—typically in international markets, but potentially in Indonesia as well—SUN and SBSN denominated in foreign currencies through the private placement method. Such private placements are based on an Offering Circular and are placed through a panel of selling agents appointed by the government through the MOF. A given issuance will require at least two selling agents from the panel to be involved. Selling agents are typically investment banks.

In addition, such placements require the appointment of a fiscal agent appointed to carry out the registration of ownership (registry) and perform the interest and SUN principal payments in foreign currencies. The Finance Minister may appoint an international financial institution or agency to carry out that function (as well as clearing and settlement) and/or as a trustee.

A domestic private placement involves the government and investors as counterparties. Bids from investors are submitted through Primary Dealers who will negotiate with the government on a bilateral basis, on behalf of their investor's interest, for instrument series, size, and yield. Issuance via the private placement method is usually only available for off-the-run SUN series. The government can accept or reject the offer from Primary Dealers based on the negotiation.

Based on MOF Decree Number 239/PMK.08/2012, the issuance of Sukuk Negara through a private placement does not require selling agents. However, there are some limitations in terms of minimum bid size:

- IDR250 million for investors who bid for a series of Sukuk Negara denominated in Indonesian rupiah, and
- USD100 million for investors who bid for a series of Sukuk Negara denominated in a foreign currency.

### 2. Instruments Issued by Bank Indonesia

All instruments issued directly by BI are issued using the auction method. BI publishes its open market operation auction calendar—and later the auction results—on its website, typically for a time frame of 1 month.

The participants at auction may differ depending on the type of instrument. For SBI and FX Bill auctions, banks and other financial institutions are the participants; in turn, for SBIS, the participants are mostly Sharia commercial banks, Sharia divisions of other banks or corporates, or brokers acting on their behalf since these institutions may not be able to purchase conventional instruments.

### 3. Bonds and Notes Issued by the Private Sector (Corporate Bonds)

The issuance of corporate bonds, notes, or *sukuk* may be done via a public offer or a private placement. Conducting a public offer is a prerequisite to have debt securities listed on IDX. The private placement market is presently not covered under the purview of OJK (see also Chapter II.F).

#### a. Public Offering

The issuance of corporate bonds via a Public Offering is subject to the approval of OJK. Issuers must submit a Registration Statement and supporting documents (see Chapter II.F for a detailed description of this regulatory process).

A 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 is offered either through the mass media or otherwise to more than 100 persons, or results in sales to more than 50 persons. A Public 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.

For details on the regulatory process for the issuance of (debt) securities via a public offer, please refer to Chapter II.F.

#### b. Shelf Registration

Shelf registration, also called a Sustainable Public Offering, is a Public Offering for conventional debt securities and/or *sukuk*, which is done continuously to enable the issuer or public company with a good performance to make a public offering of debt securities and/or *sukuk* within a certain period of time.

A shelf registration needs to be completed within 2 years of the effectivity of the Registration Statement, with certain criteria to be fulfilled by both the issuer and the securities. Shelf registration is covered under OJK Regulation Number 36/POJK.04/2014 concerning Shelf Registration.

Of the 55 new debt securities listed on IDX in 2015, 49 issuances were made using the shelf-registration method.

### c. Private Placement

Under prevailing Indonesian regulations, issuers may choose to issue their debt securities in the form of a private placement. Private placements are defined as an offer of securities to a maximum of 100 parties with purchase by a maximum of 50 buyers. No official marketing or offer material may be made available except to the intended maximum number of investors. No advertising, public communications (print, TV, and online ads), or general marketing may be undertaken.

Should any of the above stipulations be breached, the bond, note, or *suku*k issue in question will automatically be considered a public offer, and be subject to all applicable regulations as well as full approval processes and supervision by OJK. Please see also Chapter II.F for further information in this context.

Private placements in Indonesia are subject to market practices that have evolved in the absence of specific regulations. Issuers are expected to publish to potential or targeted investors an “infomemo,” which is an abbreviated version of an information memorandum used in international bond markets. The format of the infomemo is standardized and may be amended with clauses or separate provisions already accepted in the market. The typical infomemo is compiled in Bahasa Indonesia, but depending on the target investor universe, it may also or exclusively be provided in English.

Presently, the issuance of private placements and their related practices, as well as the initial and continuous disclosure, are not subject to approval or supervision by OJK and, hence, is exempted from the obligation to submit a Registration Statement to OJK and, consequently, exempted from all offering requirements under OJK rules. However, private placements are not able to be listed on the IDX since its regulations and listing rules specify the need for listed securities to have been offered to the public.

At the time of the compilation of the Indonesia Bond Market Guide, OJK was in the process of studying a potential regulatory framework for private placements, with the results and a possible announcement expected in 2017.

### d. Note Issuance Programs

Note issuance programs, typically MTN programs, of major corporate issuers are typically focused on international markets.

At the same time, the private placement market in Indonesia has also featured MTN-type note issuance programs for some time now. As such, professional market participants would principally be familiar with the concept and practices of note issuance programs.

In addition, KSEI is already acting as depository for some note issuance programs that are issued as private placements outside the supervision of OJK. But in many private placement MTN programs cases, the language used for the infomemo and supporting documentation is Bahasa Indonesia.

## F. Governing Law and Jurisdiction (Bond and Note Issuance)

The governing law and jurisdiction for a bond or note issuance is of significance since potential issuers may consider issuing under the laws or jurisdiction of a country or market other than the place of issuance. The choice of governing law or contractual preferences of stakeholders may affect the accessibility to a specific investor universe that may otherwise not be accessible if a bond or note were issued under the laws of the place of issuance.

Article 1338 of the Indonesian Civil Code recognizes the principle of freedom of contract. Contracting parties can determine the jurisdiction of the governing law, which is not restricted to Indonesian law. There is, however, a close connection to the subject of language of such contracts or agreements (see section G).

In any case, the actual use of governing laws or jurisdictions other than those of Indonesia may be subject to clarification or legal advice from a qualified law firm, as may be necessary.

## G. Language of Documentation and Disclosure Items

It is envisaged that most of the ASEAN+3 markets participating in AMBIF will be able to accept the use of a common document in English. However, some markets may require the submission of approval-related information in their prescribed format and in the local language. In such cases, concessions from these regulatory authorities for a submission of required information in English, in addition to local language and formats, may be sought.

The content of the Registration Statement to be submitted to OJK in the context of the issuance of debt securities via a public offering has to be in Bahasa Indonesia (see Chapter II.B). Supporting documents may be in another language but would have to be accompanied by a translation into Bahasa Indonesia by a sworn translator.

Since the private placement market is not covered under existing regulations, debt securities issuance via private placement is usually conducted through business-to-business agreements. Hence, the use of issuance documents in English would depend on the provisions in such an agreement.

Indonesia passed Law 24 of 2009 on National Flag, Language, Emblem and Anthem, typically referred to as the Language Law, which stipulated that any contract or agreement involving an Indonesian party would have to be drawn up in Bahasa Indonesia, in addition to a foreign language. Implementation rules for Law 24 of 2009 have not yet been published. The Minister of Law at the time provided a statement that the absence of a contract or agreement version in Bahasa Indonesia would not affect the validity of said contract or agreement, suggesting that a set of documents in English, for example, would be acceptable on its own. This was subsequently contested in a district court, which ruled that the lack of a Bahasa Indonesia version rendered the contract in question null and void. This court decision is presently under appeal.[26]

[26] The information provided was compiled from a number of sources in the public domain. However, at this point in time, it is not clear whether this ruling would also apply to contracts agreed between issuers and professional investors, which are not currently regulated by OJK.

## H. Registration of Debt Securities

In some jurisdictions, a registration of bonds issued in the domestic market with a designated registration place, such as an SRO, market association, or pricing agency ensures the availability of reference pricing and general bond information for market participants at large. Some professional investors, such as mutual and pension funds, require investment assets to be officially registered or listed in order to satisfy governing prudential regulations.

In Indonesia, such a concept of registration for the purposes of access to information or determination of a fair value is not required. Publicly issued debt securities are typically listed on IDX, all trades on IDX and in the OTC market are reported to a central reporting mechanism (see Chapter IV.C), and the Indonesia Bond Pricing Agency (see section J in this chapter) regularly provides reference prices for all debt securities issued in the Indonesian market, thereby fulfilling all the requirements intended by a separate bond registration concept.

At the same time, the term “registration” is extensively used in the Indonesian bond market. Debt securities intended to be offered to the public need to be registered with OJK, using a Registration Statement. In addition, debt securities to be settled in the Indonesian market need to be registered with KSEI, including government securities that investors hold through their securities accounts at KSEI. Furthermore, selected Capital Market Supporting Institutions and Professionals are required to be registered with OJK to service issuers, investors, and intermediaries.

For details on the OJK approval process of the Registration Statement, please see Chapter II.F, while the registration or licensing of Capital Market Supporting Institutions and Professionals is further explained in Chapter II.I.

## I. Listing of Debt Securities

Issuers can list their debt securities issued in Indonesia on IDX. Current listings include government and corporate issuances, both conventional and Sharia bonds, as well as ABS. A listing on IDX is not mandatory, but the listing on IDX requires the issuance of debt securities to be made via a public offer only, pursuant to the Capital Market Law. The issuer of a public offering has the obligation to disclose in the prospectus whether the securities will be listed on the exchange, regardless of whether the listing is targeted for the time of issuance or a later date.

A total of 220 SBN series were listed on IDX throughout 2016, with a combined outstanding value of approximately IDR484.6 trillion (USD200 million). In addition, 86 new conventional corporate bonds, *sukuk*, and ABS were listed in 2016, with an issuance value of IDR114.7 trillion (USD47.5 million), bringing the total number of debt securities listed on IDX to 601 at the end of 2016. Corporate bonds dominated the listings with 515 series in rupiah (with a cumulative value of IDR314.6 trillion) and 2 series denominated in US dollars (with a cumulative value of USD67.5 million).

### 1. Listing for Public Offers

As mentioned above, the listing of securities in Indonesia requires the issuance of said securities to have been made via a public offer. This is prescribed in Bapepam LK Rules Section IX (see also Chapter II.C), as well as in IDX Decree SK-024/LGL/BES/XI/2004- I.F.1: Debt Securities Listing.

The listing of securities, including debt securities, is subject to IDX approval. Issuers wishing to list their debt securities on IDX will need to observe the IDX Listing Rules.[27] The Listing Rules for debt securities are distinct from those for equity securities and consist of a number of separate provisions that are available for viewing and download from the IDX website.[28] Individual types of debt securities have separate provisions among the Listing Rules. The Listing Rules for debt securities on IDX, which date back to 2004, were issued by the then Surabaya Stock Exchange and remain in force unless specifically superseded.

Issuers wishing to list their debt securities on IDX will have to check their eligibility to list and the eligibility of the debt securities to be listed against the IDX listing criteria for debt securities, defined in IDX Rule Number I.F.1:

(i) satisfaction of all general security listing rule as set out in Security Listing Rule Number I.A on General Security Listing Rules Number I.A.1 on Preliminary Security Listing Agreement and Number I.A.2 on Initial Security Listing;
(ii) issuer being in the form of a legal entity;
(iii) having been in operation for at least 3 years;
(iv) having equity of at least IDR20 billion;
(v) earning operating profits within the last year;
(vi) the Registration Statement having been certified as effective;
(vii) the financial statements for the last 3 consecutive years having been audited by a public accountant registered with OJK and qualified opinion being given to the said financial statements; and
(viii) the security being rated as BBB– (investment grade) by a credit rating agency registered with OJK.

Among the general listing criteria, as defined in Listing Rule Number I.A, IDX provides for a wide range of debt securities eligible for listing, including

(i) debentures that are either convertible or not or can be exchanged for equity securities;
(ii) debentures denominated in Indonesian rupiah or in foreign currencies; and
(iii) debentures issued by private enterprises, state-owned enterprises, regional government-owned enterprises, cooperatives, central government or regional or local governments, as well as other parties.

Listing is also possible for Indonesian depository receipts as well as for other securities that would be declared eligible for listing by OJK.

The individual steps of the process for debt securities listing on IDX are explained in further detail below.

### Step 1—Submission of (Preliminary) Listing Application to Indonesia Stock Exchange

The issuer, or the appointed (lead) underwriter, will need to submit to IDX an Application of Debt Securities Listing, which is expected to follow the format prescribed in Appendix I.F.1-1 to IDX Rule Number I.F.1 (Debt Securities Listing).

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[27] In Bahasa Indonesia, the terms “regulations” and “rules” have the same meaning (*peraturan*). Hence, it is possible to come across both terms for the same regulatory prescription in official documentation and public domain material. For consistency, and to distinguish OJK regulations, the term “‘rules”’ is used in the Indonesia Bond Market Guide for Bapepam and Bapepam-LK regulatory issuances, and in the context of IDX administrative instruments.

[28] See http://www.idx.co.id/en-us/home/regulation/listingregulations.aspx

A prerequisite of this step is that the issuer will either have obtained a Declaration of Effectiveness of the Registration Statement from OJK (see Chapter II.F for the approval process preceding this). In case a registration with OJK is still pending, the issuer would submit a preliminary listing application and would have to enter into and execute a Preliminary Securities Listing Agreement with IDX to commence listing proceedings.

If so executed, the Preliminary Listing Agreement with IDX becomes one of the requirements to complete the OJK checklist of documents related to the Registration Statement and must be submitted to OJK once completed. While this is not mentioned in the applicable IDX Rule, it is a prescribed OJK regulation since it is part of the current public offering process requirements.

The listing application will need to indicate the name and type of the debt securities to be listed, and the type of coupon or discount the debt securities will carry. The issuer should also indicate in the application their targeted listing date. In addition, the application needs to be accompanied by the following documents:

(i) one copy of the Certificate of Declaration of Effectiveness,
(ii) one copy of the Trust Agreement,
(iii) one copy of the investment grade issued by a security rating institution;
(iv) report of the result of initial public offer in accordance with the Appendix to Bapepam Regulation IX.A.2 on the Procedure of Registration for the Purpose of Public Offer,
(v) five copies of the Jumbo Certificate of Debt Security,
(vi) five copies of the prospectus, and
(vii) the Issuer's Letter of Statement in the form of Appendix I.A.2-1.

### Step 2—Review of Application and Approval by Indonesia Stock Exchange

The process for the application review in the context of a listing application is prescribed in IDX Securities Listing Rule Number I.A.2 (Initial Securities Listing), which is available on the IDX website. Issuers whose stock or debt securities are already listed would face a shortened process of evaluation for any (new debt securities) to be listed.

IDX will review the listing application against its listing criteria and requirements, and notify the issuer within 2 exchange days after the securities listing application is received of any missing documents or information it requires to assess the application.

In turn, the issuer (or its agent) will need to supply the missing document or information within 2 exchange days after receiving such notice from IDX. A refusal to provide additional information, or a delay in supplying the information, may result in the postponement or refusal by IDX to process the application.

Once the listing application has been submitted to IDX, the issuer is required to deposit the initial listing fee in accordance with the provisions of Securities Listing Rule Number I.A.5 on Initial Listing Fee and Value-Added Tax (VAT) to IDX's account at the latest 3 exchange days before the listing date. Details of the listing fees and applicable taxes may be found in Chapter VI.

If the listing application and related documents are considered complete, and IDX is satisfied with the information provided, it will issue a Securities Listing Approval Letter—both a physical letter and an email notification—to the issuer at the latest within 2 exchange days after the complete documents have been received and the initial listing fee has been paid. As the National Numbering Agency for Indonesia, KSEI will issue an International Securities Identification Number for the debt securities to be listed.[29] IDX will issue its own securities code, referred to in the market as “short code,” for the debt securities on its markets.

#### Step 3—Actual (Effective) Listing

Once the Securities Listing Approval Letter has been issued to the issuer, IDX will announce the actual securities listing via a notice on its website no later than the following exchange day. The announcement constitutes the actual listing being effective. Debt securities trading may commence on the day after listing.

### 2. Listing of Debt Issuance Programs

The listing of debt issuance programs on IDX is possible and is treated like any other debt securities listing, with the listing of subsequent tranches under a program only needing a shortened listing process. (Please also see section E in this chapter for details on debt issuance programs and shelf-registration.)

### 3. Private Placements

In contrast, the profile listing of debt securities issued via a private placement—that is, those aimed at the professional market participants in Indonesia or beyond—is not available under current regulations.

### 4. Other Listing Places

In principle, bonds, notes, and *sukuk* issued in the Indonesian market may also be listed on a listing place outside Indonesia. Some issuers may take the step of obtaining a profile listing, or an additional profile listing, of their bonds, notes, or *sukuk* in regional markets in ASEAN+3, with the intention to access different or larger investors universes in this manner. Given the fact that a listing in Indonesia is limited to publicly offered debt securities only, issuers of bonds, notes, or *sukuk* aimed at professional investors and issued through a private placement may choose to list their debt securities in another market in ASEAN+3 or beyond.

Even when bonds, notes, or *sukuk* issued in the Indonesian market are listed or registered for profiling in other markets, the settlement of said instruments would still occur in the Indonesian domestic market through KSEI.

The process of such listing is beyond the purview of OJK and would be subject to separate, applicable approvals and listing rules and regulations at the listing place.

## J. Methods of Trading Bonds, Notes, and *Sukuk* (Secondary Market)

Bonds, notes, and *sukuk* issued in the Indonesian bond market are typically traded in the OTC market, while trading on IDX is also possible. Trades are settled in KSEI regardless of the method of trading.[30] All trades in the Indonesian bond market are reported via a central reporting tool (see Chapter IV).

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[29] The allocation of an International Securities Identification Number (ISIN), which is defined under the ISO6166 standard for financial instruments including debt securities, is undertaken by a so-called National Numbering Agency, which is a market institution appointed by the financial market regulator in a given capital market. More information on ISIN and National Numbering Agencies is available at http://www.anna-web.org

[30] Exceptions apply to small private placements that are not intended to be traded.

### 1. Over-the-Counter Market

The vast majority of debt securities, including *sukuk*, are traded in the Indonesian OTC market. Trading is conducted directly between counterparties via phone or through standard international or proprietary bond trading platforms. Trades via intermediaries, such as banks or brokers, are also carried out.

Debt securities issued via private placement may only be traded in the OTC markets, since a listing (and subsequent trading on an exchange) of privately placed debt securities is presently not provided for in law or regulations.

### 2. Trading on Indonesia Stock Exchange

The trading of debt securities on IDX is limited, as is typical in bond markets in ASEAN+3. Trades on IDX may only be executed by exchange members who have specifically been appointed for the trading of debt securities, either for their own account or for their customers.

### 3. Buyback of Indonesia Government Securities

While this is not a method of trading debt securities between two securities market counterparties, the buyback of government securities (only for ON) is offered by the MOF as an active alternative for market participants to sell their eligible holdings. The significance lies in that these buybacks occur directly between the securities holder (or their agent) and the MOF, and are booked through the MOF Dealing System for those active market participants also recognized as Primary Dealers, or directly via phone with the dealing room of the MOF Department of Budget Finance and Risk Management. See Chapter IV for additional information.

## K. Bond and Note Pricing

IBPA—owned in equal shares by IDX, KPEI, and KSEI—provides reference pricing of debt securities issued in the Indonesian market, regardless whether these are traded OTC or on the exchange.

IBPA received its mandate subsequent to the issuance of Regulation Number V.C.3 regarding Bond Pricing Agency by Bapepam-LK (the predecessor of OJK) in September 2007. The regulation addressed the requirements on the establishment and obligations of a bond pricing agency as an institution conducting the valuation on debt securities, *sukuk*, and other securities in a way that would be objective, independent, credible, and accountable. At this point in time, IBPA is the only securities pricing agency recognized by OJK.

The pricing information (reference pricing) published by IBPA is referred to as fair market (reference) prices for the purpose of accounting by financial institutions and the daily determination of the net asset value for mutual funds and securities pricing within portfolio management institutions. A number of Bapepam-LK and MOF regulations require other financial market participants, including insurance companies, asset management companies, and pension funds and other financial institutions to utilize official securities prices provided by IBPA for the valuation of their portfolios. The applicable regulations relative to the functions of IBPA are shown in Figure 3.1.

**Figure 3.1: Regulations Governing Securities Pricing Agency Obligations**

| Regulations | Topics | Sectors |
| --- | --- | --- |
| Bapepam-LK Regulation No IV.C.2 | Fair Market Value of Securities in Mutual Fund Portfolios | Mutual Fund |
| Ministry of Finance Regulation No 11/PMK.010/2011 | Financial Health of Sharia Insurance & Reinsurance Companies | Insurance & Re-Insurance |
| Head of Bapepam-LK Regulation No PER-05/BL/2012 | Financial Report Preparation & Investment Appraisal for Pension Fund | Pension Fund |
| Head of Bapepam-LK Decision No KEP-367/BL/2012 | Financial Health of Insurance & Reinsurance Companies | Insurance & Re-Insurance |
| Ministry of Finance Regulation No 55/PMK.010/2012 | Financial Health of Civil Servant Pension Fund Program Institution | Civil Servant Pension Fund Program |
| Financial Services Authority (OJK) Rules No 18/SEOJK.04/2013 | Procedure of Loss Asset Value in Regards to The Use of Investor Protection Fund | Securities Investor Protection Fund |
| Ministry of Finance Regulation No 134/PMK.08/2013 | Primary Dealers | Primary Dealers |

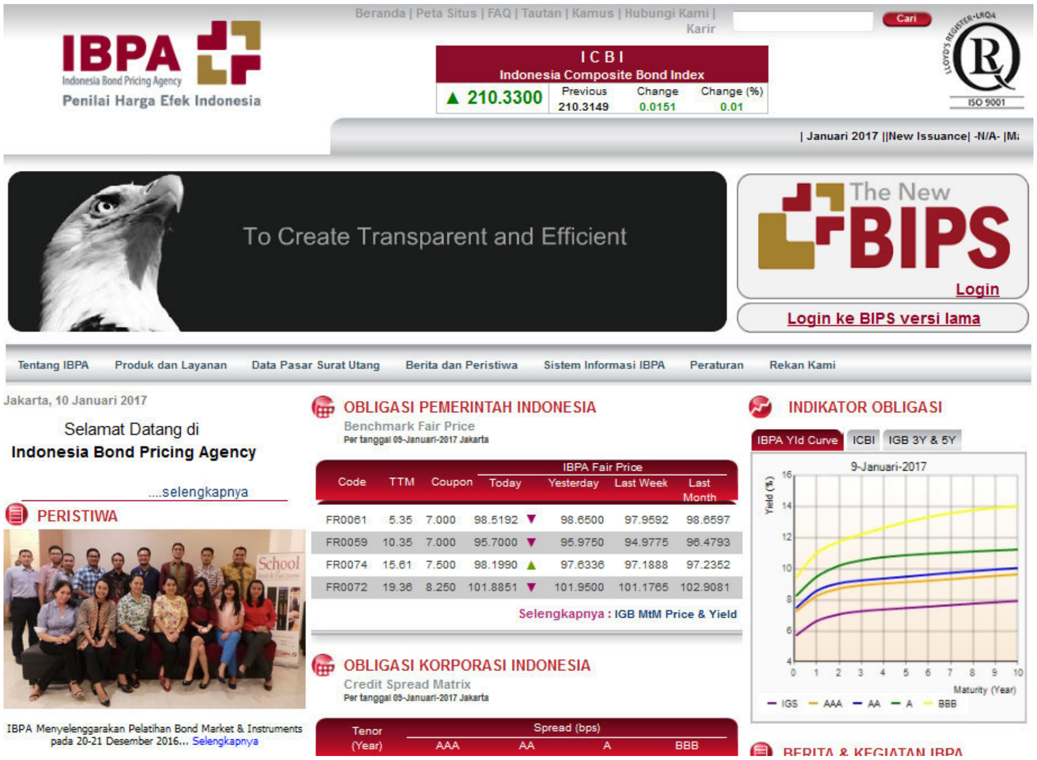
Source: Indonesia Bond Pricing Agency. http://www.ibpa.co.id

IBPA calculates mark-to-market prices daily for government and corporate securities—conventional, *sukuk*, and MTN fair prices—and publishes research reports on debt securities and related topics on a periodic basis. Prices are also available to the general public via the IBPA website (Figure 3.2). IBPA also calculates data such as yield rates, yield curves, groups of indexes, and other data related to its main role.

The IBPA website is still largely maintained in Bahasa Indonesia. While only certain sections of the website are available in English, IBPA maintains a microsite that provides an effective dashboard overview of its pricing information, as well as yields, yield curves, and bond index data.[31] The microsite is also shown in Chapter IV.

[31] See http://www.ibpa.co.id/IBPAMicrosite.aspx

**Figure 3.2: Indonesia Bond Pricing Agency Website**




Source: Indonesia Bond Pricing Agency. http://www.ibpa.co.id

## L. Transfers of Interest in Bonds and Notes

The transfer of interest in, or ownership of, debt securities in the Indonesian market depends on the nature of the debt securities and their underlying depository. Government securities are recorded in BI's Scripless Securities Settlement System (BI-SSSS), the book-entry system for government securities, while corporate debt securities are registered, settled, and safekept in KSEI.

### 1. Government Securities

BI operates BI-SSSS, or 4S, as the central depository for government securities and the debt instruments issued by BI itself. The transfer of securities resulting from auction bids as well as transactions between BI and the constituents of the interbank market are effected in the accounts of Primary Dealers and interbank market participants in BI-SSSS, respectively. Participants need to maintain separate accounts for proprietary and client holdings.

### 2. Other Debt Securities

As the central securities depository for Indonesia, KSEI maintains the records of investor assets in an electronic book-entry system known as C-BEST. Securities issued in the Indonesian market need to be registered with KSEI to be eligible to be settled. KSEI is responsible for the transfer of securities between account holder for corporate debt securities and Sharia bonds, whether those are listed and traded on the exchange or in the OTC market. Securities are maintained in KSEI on a scripless basis, although the withdrawal of physical certificates is principally possible (see Chapter VI).

In C-BEST, securities are registered in the names of the account holders, being brokers or custodian banks, or in their sub-accounts for specific beneficial owners. 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.

### 3. Prohibited Transfers

There are no OJK regulations specifying prohibited transfers. However, KSEI issued regulations for non-exchange transactions in 2015, as Regulation of KSEI Number V-D regarding Free of Payment (FOP) Instruction. Under this regulation, an account holder in KSEI needs to fulfill certain requirements to be able to use FOP instructions, such as stating the purpose of the settlement or giving one of the permitted settlement reasons. KSEI has the authority to examine the participants' documents related to the FOP settlement. Participants who fail to submit those required documents may face enforcement actions, such as being issued with sanctions.

### 4. Custodian Point of View

Custodians—both banks and brokers—participate in KSEI as account holders and are connected to C-BEST via in-house networks or a direct connection to KSEI's infrastructure. Custodians enter instructions for settlement into C-BEST where the instructions are matched and the transfer of securities is effected upon matching.

The securities are held in the name of the account holders or in the sub-accounts of the account holders for individual clients. If an account holder or their clients hold government securities, the transfer of these securities is carried out in KSEI as the sub-registry of BI-SSSS and appears in the books of the account holder accordingly.

## M. Market Participants

### 1. Issuers

The government is the dominant issuer of bonds and *sukuk* in Indonesia. The MOF has the authority to issue Treasury instruments such as government bonds and *sukuk*, while BI has the authority to issue SBI.

The government is also the principal issuer in the debt market through the issuance of Treasury bonds and Treasury bills by the MOF. Government bonds and *sukuk* are listed on IDX, with relevant information found through IDX's market information on its website. BI also issues SBI and SBIS, which are short-term bank certificates.

Corporates have issued conventional bonds and *sukuk*, or issued under a shelf-registration concept and MTN programs for private placements. A list of corporate bond and *sukuk* issuers can be found in the annual *IDX FactBook* or on the IDX website.[32]

[32] See http://www.idx.co.id/en-us/home/marketinformation/listofsecurities/corporatebonds.aspx

## 2. Investors

Foreign investors and domestic financial institutions, including banks and non-bank financial institutions such as insurance companies, dominate the Indonesian debt market, with sizable assets also held by pension funds and mutual funds. The main investor types are briefly reviewed below.

### a. Banks

Banks and other financial institutions still are the key domestic investor type in debt securities in Indonesia, particularly in government securities. Banks may use government securities as part of their capital requirements, in repo transactions with BI, and as collateral for other types of market transactions.

As of the end of September 2016, domestic banks held approximately 21% of the issued government securities, which included Treasury bills and bonds.[33] This compares with about 34% at the end of September 2011.

Banks may also facilitate the investment in debt securities for their clients and hold the resulting assets in their books.

### b. Insurance Companies

Given the prudential nature of their business, insurance companies are another major investor in debt securities, particularly government securities. The insurance sector accounted for approximately 13% of the holdings of outstanding government securities at the end of September 2016.

### c. Retail or General Investors

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, then known as ORI001, to the public through book building.

### d. Mutual Funds

Mutual funds (KIK), which are also referred to in the Indonesian market as collective investment contracts, may invest in debt securities under the Capital Market Law, pursuant to the respective provisions in their mandates.

Since the so-called mutual fund crisis in 2005, when a run on mutual funds holding large amounts of debt securities led to redemptions and a suppression of the debt market, the holdings of government securities by mutual funds have slowly recovered. KIK now comprise just over 4% of total outstanding government securities, compared to about 13% before the mutual fund crisis in 2005 (albeit on the basis of a significantly lower issuance total).

At the end of 2015, OJK reported 69 KIK focused on debt securities, with a total net asset value of IDR19.8 trillion. OJK also issued effective Registration Statements for the public offerings of 19 new fixed-income funds, and 4 Sharia fixed-income funds in 2015.

[33] Bank holdings data are available on *AsianBondsOnline* at https://asianbondsonline.adb.org/indonesia/data/bondmarket.php?code=Investor_CI_HHI

### e. Pension and Provident Funds

Pension and provident funds, owing to their prudential nature, are typical investors in debt securities, particularly government securities. The share of pension and provident funds in total government securities outstanding was 4.6% at the end of September 2016, just slightly more than the holdings of mutual funds.

### f. Indonesia Deposit Insurance Corporation

The Indonesia Deposit Insurance Corporation (LPS), known in Bahasa as Lembaga Penjamin Simpanan, is a significant investor in government securities given its mandate to provide stability to the banking sector in case of bank failures. LPS invests the premiums paid by banks on their deposit balances in quality assets according to its mandate. LPS can submit noncompetitive bids at government securities auctions to buy government securities.

At the end of financial year 2014, LPS assets included holdings in government securities of IDR45.5 trillion, equivalent to about 3.8% of total government issuance outstanding at that time.[34] These holdings represented about 91% of LPS's total assets. Further details on the functions of LPS can be found in section Q in this chapter.

### g. Foreign Institutional Investors

Foreign institutional investors are the largest investor group in the Indonesian bond market, particularly in government securities, representing about 39% of all holdings in government securities at the end of September 2016. This compares to only about 13% at the end of September 2006.

Please also see sections K, L, and M in Chapter II for applicable regulations and limitations for nonresidents.

## 3. Parties Involved in Debt Securities Issuance

The government and corporate parties involved in conventional and Sharia debt securities issuance are briefly reviewed in this section. Credit rating agencies are separately mentioned in Chapter II.N. Some of the terms used for the roles and functions of market participants in this context are specific to the Indonesian market.

### a. Primary Dealers (SUN Auctions) and Auction Participants (Sukuk Negara Auction)

In Indonesia, Primary Dealers and auction participants are commercial banks or securities companies appointed by the MOF, acting as market participants in the primary and secondary markets for government debt securities. See section E in this chapter for details on government debt securities auctions.

As part of the appointment as Primary Dealers, banks and securities companies obtain exclusive rights to bid at government securities auctions in the primary market and to purchase government debt securities. In contrast, auction participants for Sukuk Negara auctions are not subjected to the obligations applied to Primary Dealers.

[34] In Indonesia, the financial year for the government and major market institutions follows the calendar year.

For the purpose of facilitating transactions in the primary market, Primary Dealers maintain accounts in BI-SSSS and the BI real-time gross settlement system.

At the end of November 2016, there were 19 Primary Dealers appointed by the MOF, of which 4 were securities companies. For Sukuk Negara auctions, the MOF had appointed 21 auction participants, of which four were securities companies.

### b. Underwriter(s)

The Capital Market Law does not prescribe the appointment of an underwriter for a public offer. However, the issuer will typically appoint one or more underwriter(s) to support the debt securities issuance (see also Chapter II.F); if more than one is appointed, the issuer will determine a lead underwriter. The (lead) underwriter is expected to support the compilation of the issuance documentation and disclosure information.

Underwriters for debt securities issuance may be securities companies or banks, and will have to be licensed by OJK as Capital Market Institutions or Capital Market Supporting Institutions, respectively (see Chapter II.I for details).

At the end of 2015, 21 active underwriters were able to provide underwriting services for Sharia instruments.

### c. Selling Agents

In addition to underwriters, the issuer may appoint selling agents for the distribution of the planned securities issuance. Selling agents may be securities firms or banks, whose responsibility will be to place the securities allocated to them in the market.

Securities firms may carry out the selling agent functions under the Capital Market Participant license, while banks are not able to act as a selling agent for corporate debt securities. Banks may only act as a selling agent for mutual funds.

### d. Security Administrator

The function of a security administrator, which is the official term adopted by OJK, includes the roles typically inhabited by a registrar and paying agent. A security administrator is considered a Capital Market Supporting Institution and requires a license from OJK to operate.

In Indonesia, security administrators tend to be independent companies that started as registrars in the Indonesian market before securities were dematerialized.

### e. Fiscal Agent (Government Debt Securities and Sukuk Issuance in Foreign Currencies Only)

For the issuance of government debt securities and *sukuk* in international markets, BI will appoint a fiscal agent to carry out the registration of ownership (registry function) and make the interest and SUN and SBSN principal payments in foreign currencies. As such, the role of the fiscal agent is equivalent to a security administrator for domestic debt securities.

### f. Trust Agent (Bond Trustee)

In the context of the bond market, licensed trust agents perform the function of bond trustees. Trust agents are appointed by the issuer but represent the interests of the bond, note, or *sukuk* holders, including versus the issuer if so required.

At the end of 2015, OJK had licensed 11 trust agents, all of whom were banks. Of these, 8 trust agents were able to support corporate Sharia issuances.

For details on the bond trust function in the Indonesian market, please refer to section R in this chapter.

### g. Sharia Capital Market Expert (Sukuk Only)

A Sharia Capital Market Expert is expected to provide a statement of Sharia compliance for the issuer to demonstrate that the proposed instrument is in compliance with Sharia principles and applicable OJK regulations, pursuant to OJK Regulation Number 16/POJK.04/2015.

### h. Custodians

Custodians in the Indonesian market are considered Capital Market Supporting Institutions, are participants of KSEI, and may be banks or securities companies. Commercial banks need to obtain a license from OJK to act as custodian, while securities companies may carry out custodian services as part of their primary license.

At the end of 2016, OJK had licensed 21 custodian banks to provide custody and related services, which comprised a mix of global, regional, and domestic institutions.[35] Eleven custodian banks have been recommended by the DSN-MUI to provide custodian services for Sharia instruments.

### i. Law Firms and Accounting or Audit Firms

Law firms and accounting or audit firms who service Capital Market Participants in Indonesia will need to be registered with OJK under the requirements for Capital Market Supporting Professionals. This also includes notaries public who draw up contracts or supporting documentation in the context of securities issuance and servicing.

In addition, law firms and accounting or audit firms are required to be registered with their own respective industry body to be able to carry out their work. Legal advisors engaged in the capital market must also be members of the Association of Capital Market Legal Consultants, which sets training standards and offers training courses in the context of capital market activities and in conjunction with OJK.

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[35] Selected information adapted from Financial Services Authority. *Annual Report 2015*. http://www.ojk.go.id/id/data-dan-statistik/ojk/Documents/Pages/Laporan-Tahunan-OJK-2015,-Memacu-Pertumbuhan-Ekonomi-Melalui-Sektor-Jasa-Keuangan-Yang-Kontributif,-Stabil-dan-Inklusif/OJK%20Annual%20Report%202015.pdf

## N. Definition of Professional Investors

Indonesia presently does not feature a professional investor concept in laws or regulations that may be applicable for the bond market.

At present, only legislation related to closed-ended funds touches on the term professional. OJK has been conducting a study into the need for and possible introduction of a professional investor concept into the Indonesian capital market, which was expected to be finalized by the end of 2016. A conclusion on the subject and possible next steps are expected to be announced by OJK in 2017.

At the same time, the investors in the bond market are generally domestic and foreign banks and non-bank financial institutions such as brokers, insurance companies, mutual funds, and pension and provident funds. These are institutions typically included in the professional investor definitions in other markets, and are licensed or otherwise registered with OJK and, hence, are subject to governance and inspection based on securities market and/or prudential regulations. In addition, most of them are also subject to oversight as well as professional conduct and best practice rules by an SRO such as IDX or KSEI.

As such, for all intents and purposes, the Indonesian bond market is mostly populated with investors typically deemed professional.

## O. Credit Rating Requirements

This section covers the applicable credit rating requirements for bonds and notes issued in the Indonesian bond market. For details on the underlying regulations on credit rating agencies and their business, please refer to Chapter II.N.

Debt securities to be offered through public offering should obtain a rating from a CRA licensed by OJK. 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).

In the context of the bond market, ratings are expected to be done for debt securities, *sukuk*, and ABS that are issued via public offer. Under Bapepam Rule Number IX.C.11, it is mandatory for corporate bonds and *sukuk* to complete a re-rating exercise each year and publish the rating. In case of a rating decline, the rating publication should be accompanied by an explanation of the cause of that decline.

In the absence of underlying regulations for the private placement market in Indonesia, no mandatory requirements on the application of credit ratings presently exist. At the same time, a credit rating for a private placement has become established market practice among institutional investors and issuers.

### 1. Present Requirements

Rating requirements for publicly issued debt securities are governed by Bapepam Rule Number IX.C.11 concerning Rating of Debt Securities (Rule IX.C.11). An issuer who will issue debt securities with a maturity period of 1 year or more through a public offering is required to obtain a rating from a CRA. In order to provide rating services for publicly issued debt securities, a CRA should have a business license from OJK. 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), and the strengths or weaknesses related to the ability of the issuer to fulfil 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.

## P. Financial Guarantee Institution

Indonesia does not have a dedicated financial or credit guarantee institution. As a member of ASEAN, Indonesian issuers may be able to utilize the services of the Credit Guarantee and Investment Fund (CGIF), an ABMI initiative supported by ADB.

CGIF is a trust fund of ADB, established by ASEAN+3 (the People's Republic of China, Japan, and the Republic of Korea) and ADB in 2010 to develop and strengthen ASEAN+3 local currency bond markets and is operationally independent from ADB. CGIF offers credit enhancement backed by its high credit ratings (both in global and local rating scales) to local currency bonds issued in ASEAN+3 bond markets through its irrevocable and unconditional guarantee for non-payment of bond principal and coupon. Guarantees are available for up to 100% of the bond principal, and are available to eligible ASEAN+3 companies. CGIF guarantees and supports project financing, securitization, cross-border transactions, first-time issuers, and tenure extensions, and helps issuers reach regional investors (e.g., in the context of a profile listing or targeting investors who are subject to prudential regulations). To date, CGIF has guaranteed bonds in Indonesia, the Philippines, Singapore, Thailand, and Viet Nam.

In March 2016, CGIF announced that it had issued a guarantee for PT Mitra Pinasthika Mustika Finance, a company co-owned by Indonesian and Japanese corporates, to help the issuer tap the bond market for its financing needs for the first time. The 3-year notes denominated in rupiah and issued under an MTN program were largely supported by Japanese investors attracted by the CGIF credit enhancement.

For the full text of the CGIF announcement, as well as other information on CGIF, please refer to the CGIF website.[36]

## Q. Market Features for Investor Protection

The Indonesian financial and capital markets provide a comprehensive set of measures for investor protection. Those with relevance to the bond market or typical investment activities are explained in the following sections.

### 1. Investor Complaints

The Consumer Education and Protection Board, commonly known as EPK, was established in a bid to protect the interests of consumers and the investing public against the violation of laws and regulations, and the committing of crimes in the financial sector, including securities price manipulation and various kinds of embezzlement in financial services activities. The establishment of EPK was mandated in Article 4 of Law No. 21/2011 on OJK.[37]

EPK is responsible for improving public awareness on financial services institutions as well as all products and services that these institutions offer in the financial industry.

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[36] See https://support.cgif-abmi.org/wp-content/uploads/2016/04/MPMF_TA_CGIF_Closing-Announcement_EN_20160311_F.pdf

[37] Text adopted from the OJK website at http://www.ojk.go.id/en/kanal/edukasi-dan-perlindungan-konsumen/tentang-epk/Pages/Tugas.aspx

One key objective is to improve the public's level of knowledge and understanding of financial products and services in Indonesia. This is expected to increase participation and trust among consumers and public in the financial industry, including the Indonesian bond market and its participants.

According to Article 28 of Law No. 21/2011 on OJK, the agency has the authority to take preventive measures to protect consumers and the investing public through

- education,
- a consumer complaint service, and
- legal advocacy.

Investors may direct their complaints to EPK if the financial institution or market participant against whom the original complaint was brought is unable to rectify the situation to the satisfaction of the investor.

### 2. Retail Investors

While institutional investors dominate the bond market in Indonesia, the regulatory authorities and market institutions have a clear focus on investor information and education programs and services, particularly for retail investors.

For example, IDX provides comprehensive information on the asset classes listed and traded on its markets, including bonds. In addition, IDX is planning to operate an online capital market school, Sekolah Pasar Modal, where investors can learn about the capital market through learning modules. For the time being, the school operates through physical classes on IDX premises.

In addition to EPK, OJK also provides comprehensive information on relevant laws and regulations on its website, in relation to both the conventional and Islamic capital market and its products.

The MOF carries detailed descriptions of government securities and their features on the Bahasa Indonesia version of the website of the Directorate General for Budget Financing and Risk Management.

In turn, BI provides comprehensive information on government securities on its website and features a consumer information and education section, which is provided in Bahasa Indonesia only. The section contains investment calculators and simulation tools, product information, and a glossary of financial terms.

The website of IBPA provides comprehensive information on bonds, notes, and *sukuk* issued in Indonesia, including pricing, yields, and indexes, as well as a glossary of terms. IBPA also makes available research reports via its website.

### 3. Whistle-Blowing System

OJK operates a whistle-blowing system, allowing for anonymous tips on potential violations of laws and regulations, or violations of the OJK Code of Ethics by employees, to be submitted to OJK. Tips may be sent via the OJK website or email, or to a dedicated mail address.

### 4. Indonesia Securities Investor Protection Fund

The Indonesia Securities Investor Protection Fund is an institution that manages investor protection funds in the Indonesian capital market. This institution was established in 2012 by IDX, KPEI, and KSEI, with its permit authorized through Ministry of Justice and Human Rights Decree No. AHU-64709.AH.01.01 of 2012 concerning Company Law (18 December 2012). KPEI holds a 33.3% share in the Indonesia Securities Investor Protection Fund.

### 5. Indonesia Deposit Insurance Corporation

LPS is an independent institution accountable to the President of Indonesia. Originally established pursuant to Law No. 24 of 2004 regarding Indonesia Deposit Insurance Corporation, LPS is now carrying out its functions in the market under Law No. 7 of 2009, which superseded the original legislation and amendments since.

LPS is one of the pillars in the financial safety net besides BI, OJK, and the MOF.

All banks that operate within the territory of Indonesia are obligated to become a member of the deposit insurance system managed by LPS. To run the deposit insurance program, LPS collects premiums from member banks. Each bank is obliged to pay an insurance premium of 0.1% of the average monthly balance of total deposits.

The number of member banks in LPS's insurance program as of 31 December 2014 was 1,919, comprising 119 commercial banks and 1,800 rural banks. Deposits insured by LPS consist of fully insured deposits up to IDR2 billion and partly insured deposits of more than IDR2 billion (the insured part is a maximum of IDR2 billion).[38] Under Article 84 of Law No. 24 of 2004 regarding Indonesia Deposit Insurance Corporation, LPS's mandate is to accumulate and maintain reserves at a targeted 2.5% of total deposits in the banking system.

LPS performs a dual function in the Indonesian market.[39] In addition to its key purpose to safeguard deposits in the banking sector for banking customers, it also serves as the market's recovery institution, or liquidator, for failed financial institutions.

### 6. Foreign Investors

Foreign investors have the same rights as domestic investors. Most institutions and market infrastructure providers in the bond market—or securities market at large—provide information in English in official material and on their websites.

### 7. Trust Agent or Bond Trustee

Market practice in the Indonesian bond market includes the use of a trust agent in the role of a bond trustee or a trustee for the corresponding Sharia bond. The trustee, although appointed by the issuer, will represent the interests of the bond, note, or *sukuk* holders, including against the issuer if so required.

For more details on the bond trustee function, please see section R in this chapter.

### 8. Capital Market Law

The Capital Market Law, promulgated as Law No. 8 of 1995 on the Capital Market, set the foundation of the Indonesian capital market as it is today, including for the bond market. The law prescribed a capital market supervisory agency, regulated licensing of market institutions and participants, introduced mutual funds, and also consolidated the provisions for a fair and orderly capital market safe for general or retail investors.[40]

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[38] Adopted from Indonesia Deposit Insurance Corporation. 2014. *Annual Report 2014*. http://www.lps.go.id/en/web/guest/laporan-tahunan
[39] See www.lps.go.id
[40] The text of the Capital Market Law may be downloaded from the OJK website at http://www.ojk.go.id/en/kanal/pasar-modal/regulasi/undang-undang/Default.aspx

Noteworthy provisions in this context are detailed below.

- Chapter IX (Issuers and Public Companies) stipulates the use of a Registration Statement for OJK approval to ensure that all documentation and issuance information are available to investors. Article 71 requires the acknowledgment of potential investors that they have received all prescribed materials. In turn, Article 78 prohibits false or misleading statements with regard to material information in the issuance documentation. Articles 80 and 81 establish the liability of parties who have provided such false or misleading information under obligations in the law or supplementary regulations, including for consequential losses to investors.

- Chapter X (Reporting and Disclosure Information) establishes an initial and continuous disclosure regime for issuers of securities in the Indonesian capital market, and prescribes periodical reporting requirements by market institutions and participants.

- Chapter XI (Fraud, Market Manipulation, and Insider Trading) prohibits fraudulent activities, such as creating a false market or insider trading, and establishes the basis for censure or prosecution of parties violating these provisions.

- Chapter XII (Formal Investigations) contains the provisions for the investigation of alleged violations of the law, including compelling such parties to provide information or to cease or desist certain activities.

- Chapter XIII (Criminal Investigations) authorizes criminal investigations of alleged fraudulent activities by investigators of the capital market supervisory body (OJK) and gives them the authority to carry out such investigations with powers under the Indonesian Criminal Code. The criminal provisions if convicted under such investigations are referenced in Chapter XV.

- Chapter XIV (Administrative Sanctions) stipulates the right of the capital market supervisory body (OJK) to impose sanctions on parties for violations of the law or implementing regulations, ranging from written admonitions and fines to the revocation of the business license and cancellation of company registration.

- Chapter XVI (Other Provisions) establishes the ability for investors to sue for compensation for losses from parties alleged or convicted of violations of the law and its supplementary regulations.

## R. Bond or Sharia Bond Trustee

Indonesian legislation does not contain a trust law or specific trustee concept as such. However, the concept of a trust agent as a Capital Market Supporting Institution is provided for in Articles 50–54 of the Capital Market Law. In addition, the existence of trusts and the role and functions of trustees are based on regulations originally established by BI and Bapepam, respectively. In the context of the bond market, only the trustee regulations are considered here.

### 1. Trust Agents

The official name for trustees in the Capital Market Law and supplementary regulations, and in OJK nomenclature, is trust agents. Trust agents need to obtain a license from OJK to perform the trustee functions. Trust agents are required to be banks, pursuant to the Capital Market Law and the original Bapepam Rule Number VI.C.2: Registration of a Commercial Bank as a Trust Agent (KEP-36/PM/1996), which was established as a decision of the then Bapepam Chairman in January 1996 and remains in force until superseded. In any case, trust agents must apply for a license (at present) to OJK, are required to fulfill certain eligibility criteria, and will have to separate their trust operation from the rest of the bank.

Trust agents aiming to perform the trustee function for Sharia bonds and other such instruments following Islamic principles will need to obtain further consent from the DSN-MUI. A *sukuk* trust agent will need to confirm that is has an officer in charge and/or an expert in trust agent activities who comprehends any activity that may contradict the Sharia principles as applied in the capital market. Such information is also to be included in the prospectus for public offers of Sharia bonds.

To ensure that a trust agent can perform its function independently, trust agents are prohibited from having an affiliation with the issuer, unless the affiliation is made due to the government's ownership or equity participation. Trust agents are not allowed to enter into a credit relationship with the issuer (where the trust agent is a creditor to the issuer) or be the trust agent for debt securities for which it is a guarantor or collateral provider.[41] This is to avoid a conflict of interest between a trustee, being the debt securities or *sukuk* holder's representative, and the issuer with whom a trustee is affiliated.

### 2. Trust Agents as Bond Trustee or Sharia Bond Trustee

In the context of the bond market, trust agents performing a bond trustee role are appointed by the issuer but represent the interests of bond, note, or *sukuk* holders, including versus the issuer through legal proceedings or in court, if so required. A bond trustee may not represent the interests of both the holders and guarantors of the same debt securities. Trustees do not require special power of attorney to fulfill their role in consideration of the interest of the holders.

Debt securities as well as Sharia bonds issued via a public offering in Indonesia require the appointment of a trustee.

The trustee is required to observe Bapepam Rule Number X.I.2: Documents to Be Maintained by Trust Agents, also issued in January 1996. The regulation prescribes the need to maintain records on the trustee activities; the trust agreement(s); notes and minutes from meetings with the issuer and with bond, note, or *sukuk* holders; and other documents.

The trustee is also subjected to the obligations contained in Bapepam Rule X.I.1 on Trust Agent Reports issued in January 1996 as a decision of the then Bapepam Chairman (Kep-77/PM/1996). The reporting obligations include annual and semiannual activities reports, including information on the debt securities under a trustee's care, and any violations of the provisions in the issuance documentation, among others.

The trustee is obliged to pay compensation to debt securities or *sukuk* holders to cover the loss due to negligence in performing its duty as regulated in law and/or its operational regulation and also in the trusteeship contract.

[41] As stipulated in Bapepam-LK Rule Number VI.C.3: The Credit and Guaranteeing Relationship between Issuers and Trust Agent, pursuant to a Decision of the Chairman of Bapepam-LK (KEP309/BL/2008), which is available at http://www.ojk.go.id/Files/regulation/capital-market/bap-rules/cmsi/3/VIC3.pdf

### 3. Trust Agreement (Trust Agent Contract)

OJK regulations require that the trust agent acting as a bond trustee executes a trust agreement—domestically known as a trust agent contract—with the issuer according to the provisions stipulated in the regulations.

The trust agent contract contains the provisions for the arrangement of meetings of debt securities holders. The obligations for the trust agent contract are stated in Bapepam-LK Rule Number VI.C.4: General Provision and Trustee Contract of Debt Securities, which remains in force, and include

(i) purpose of the meetings;
(ii) parties who may request the meetings;
(iii) procedures to submit request of the meetings;
(iv) 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;
(v) announcement, calling, and organization of the meetings;
(vi) procedure for the general meeting of holders of debt securities;
(vii) quorum and decision-making;
(viii) fees and costs incurred to be borne by the issuer;
(ix) an official report of the meetings that should be notarized; and
(x) issuer, trustee, and the holders of debt securities shall comply with the decisions taken in the meetings.

## S. Bankruptcy and Insolvency Provisions

Law No. 37 of 2004 on bankruptcy and suspension of payment states that a decision to declare bankruptcy must meet the following conditions:

(i) a debtor has two or more creditors and is unable to fulfill its obligations on at least one debt on maturity date and its payables; or
(ii) a 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, securities companies, the stock exchange or clearing and guarantee institution, or the central securities depository, a bankruptcy petition could only be requested by OJK. In contrast, if debtors are insurance companies, reinsurance companies, pension funds, or state-owned enterprises involved in the public interest, only the Minister of Finance can request a bankruptcy petition.

According to Article 85 of the Capital Market Law, the party requesting a bankruptcy petition to the court toward an issuer has to report it to OJK 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 the original Bapepam-LK Rule Number X.K.5: Disclosure of Information regarding Issuers or Public Company with Respect to Bankruptcy, which remains in force, an issuer who fails or is not able to avoid failure to fulfill its obligations toward a nonaffiliated creditor has to submit a report concerning its condition to both OJK 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 been able to avoid failure to fulfill its obligations.

The report has to include details about the outstanding debt, including the amount of principal and interest, loan terms, name of creditors, purpose of the debt incurred, and any 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 OJK 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 that the issuer or public company is subject to the request for a declaration of bankruptcy from the court within the same day the information is received by the stock exchange. Any expense arising from such declaration of bankruptcy, including the appointment of receivers, becomes the responsibility of the issuer.

## T. Event of Default and Cross-Default

### 1. Terms of Event of Default

The event of default is a condition under which issuers may be defaulting. Pursuant to original Bapepam-LK Rules that remain in force until amended, OJK requires that such conditions as well as the procedure to declare default be clearly stated in the trustee contract. According to the same regulations, the trustee contract shall contain a list of events of default that include, among others

(i) the issuer does not pay the principal and interest of the debt securities and *sukuk* on its maturity;
(ii) the actual condition about the collateral or the issuer status and its management is different from the information and explanation provided by the issuer;
(iii) 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);
(iv) suspension of payment (moratorium) of the issuer is declared; and
(v) the issuer does not perform other obligations stated in the trustee contract.

### 2. Declaration of Default

The original Bapepam-LK Rule Number. VI.C.4 also requires the trustee contract 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 action, 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 decide to

(i) restructure the debt,
(ii) declare default status to the issuer, or
(iii) set another bondholders’ meeting to decide whether the default will be noticed or not.

### 3. Cross-Default

Provision for the declaration of a cross-default may be included in the issuance documentation and the trustee contract. If so included, the cross-default clause will define the applicable conditions and actions to be taken by participants to eventuate the cross-default.

IV

# Bond and Note Transactions and Trading Market Infrastructure

## A. Trading of Bonds, Notes, and *Sukuk*

Debt instruments issued in the Indonesian market may be listed and traded on IDX or traded in the OTC market. While the listing on IDX of debt instruments issued through a public offer is market practice in Indonesia, the vast majority of trading of these instruments typically occurs in the OTC market. Trading on IDX is typically limited to transactions for retail investors.

Banks and other financial institutions participating in BI's open market operation transact on debt instruments with BI or trade outright among themselves, or use repo agreements or securities lending transactions to maximize the use of debt instruments they hold.

*Sukuk*, which in the Indonesian market are often referred to as Sharia bonds, are traded and treated in the same manner as other debt instruments. The market also includes ABS in the larger category of debt securities. The treatment of ABS is largely the same as for other debt securities.

## B. Trading Platforms

### 1. Interbank Money Market

BI conducts its open market operation in the interbank money market—that is, in and through transactions between BI and its constituents—banks and other financial institutions or between these constituents. BI is mandated to maintain adequate liquidity in the banking system and uses a number of instruments and transaction types to achieve that. Due to the nature of the interbank money market, the debt instruments used in these transactions tend to be short-term instruments.

Participants in the interbank money market typically enter into transactions over the phone and record the trades in their own proprietary or standard international securities trading system providers, as the case may be. These transactions need to be recorded into the CTP (see section B.5 below), and settlement will occur in BI-SSSS.

BI also uses BI-SSSS as the platform for the conduct of auctions of its own debt securities (SBI) and those auctioned on behalf of the government, where BI acts as auction agent.

### 2. Over-the-Counter Market

Trading in the OTC market occurs between counterparties, using phone or bilaterally agreed mechanisms. There is no common trading platform for the secondary (OTC) market. Participants may use established international trading and quoting systems, or in-house systems. However, participants will need to report their trades into CTP (see section C), either through an interface or via remote access.

Primary Dealers participate in this secondary market to sell their holdings of government securities acquired at auction or to perform market-making duties pursuant to their obligations as Primary Dealers.

According to the Directorate General of Budget Financing and Risk Management's website, outstanding tradable SBSN amounted to IDR373.4 trillion, which was equivalent to 14.8% of the total outstanding tradable government securities at the end of 2016.[42]

### 3. The Ministry of Finance Dealing System

The Directorate General of Budget Financing and Risk Management uses the MOF Dealing System established by IDX to buy back government debt securities in the secondary market. This buyback is supported by separate MOF regulations and may be done in the form of specific buyback auctions (e.g., debt switch auctions, pursuant to Regulation Number 209/PMK.08/2009) or through direct transactions between the MOF dealing room and a counterparty (Regulation Number 95/PMK.08/2014 regarding Government Debt Securities Direct Transaction).

The debt switch transaction of government debt securities in the secondary market is conducted with the participation of the Primary Dealers through the MOF Dealing System, and direct transactions can be done using a Bloomberg chat function when connected to the MOF dealing room.

### 4. Trading on Indonesia Stock Exchange

Trading of debt securities on the exchange, which include bonds, notes, *sukuk*, and ABS listed on IDX—is conducted through FITS, a system that is being used by securities companies, which are exchange members, as well as KPEI clearing members.

FITS was established in 2005 by the then Surabaya Stock Exchange and consists of two boards that exchange members may use to execute trades: Regular Outright Market and Negotiated Market.

On the Regular Outright Market, trading of debt securities is conducted on a continuous auction basis, with exchange members entering firm quotations into FITS, which are then evaluated and matched on a price and time priority. Before matching, an exchange member may amend or withdraw a quotation that has already been entered into FITS.

In the Negotiated Market, transactions occur based on deals between two exchange members or one exchange member executing orders for different clients and/or to fulfil its own needs. These transactions are considered put-through—that is, executed once entered. FITS is integrated with KPEI's clearing mechanism and linked to KSEI for settlement of its trades. The settlement of regular trades follows the T+2 market convention, while negotiated trades may be settled between T+1 and T+7, as prescribed by IDX. Debt securities are traded in FITS at the clean price but settled at KSEI using the dirty price, which includes the accrued interest.

FITS allows for the trading of retail bonds, which are traded in relatively small denominations of IDR5 million for regular and IDR1 million for negotiated trades. In

[42] See http://www.djppr.kemenkeu.go.id/page/load/22

contrast, the denomination for institutional trades executed in the OTC market typically is IDR100 million.

Debt securities trading on the two trading boards of FITS occurs in two sessions, a morning session and an afternoon session, which are separated by a lunch break There is also a longer prayer break on Fridays (Table 4.1).

Further details on the trading process and practices of IDX markets, as well as the prescribed trading conventions, may be found on the IDX website.

**Table 4.1: Indonesia Stock Exchange—Debt Securities Trading Hours**

| Day | Session 1 | Session 2 |
|---|---|---|
| Monday–Thursday | 9:30 a.m. – 12 noon | 1:30 p.m. – 4 p.m. |
| Friday | 9:30 a.m. – 11.30 a.m. | 2 p.m. – 4 p.m. |

Note: Times given are for the Western Indonesian time zone in which Jakarta is located.
Source: Indonesia Stock Exchange website. Trading Mechanisms. http://www.idx.co.id/en-us/home/aboutus/tradingmechanism/bond.aspx

IDX members can access FITS via remote access from their offices.

### 5. Centralized Trading Platform

Despite the name, the CTP is not used as an actual trading platform for debt securities in the Indonesian market. Counterparties to debt securities transactions record those in their own trading systems (see sections B.1 and B.2), but must report the transactions into CTP within a stipulated time frame, as prescribed in regulations. More details on CTP can be found in the next section.

The obligation of Primary Dealers to provide continuous two-way price quotations (bid and offer prices) for benchmark series of government securities is facilitated through the Primary Dealers' quotation system infrastructure that is already integrated with CTP.

IDX has recently finalized an ETP for OTC bond transactions. ETP will become an additional module of CTP to facilitate the trading of debt securities in the OTC market to make it more organized. ETP will introduce automation for the activities of order management, matching, and information dissemination in one system. In ETP, which was launched on 6 April 2017, bond transactions will be conducted in a negotiation mode, with the implementation of a periodic auction and then continuous auction to be considered as next steps. As of June 2017, only ORI could be traded through ETP. ETP will be integrated with the reporting and dissemination functions of transactions already carried out in CTP.

## C. Mandatory Trade Reporting

Under present regulations, all trades in OTC-traded bonds are to be reported within 30 minutes of concluding the trade. The participants involved in a trade will need to report the trade within 30 minutes to a central market utility prescribed by OJK. The securities transaction reporting requirement is governed by the original Bapepam-LK Rule Number X.M.3 (Bond Transaction Reporting), which remains in force.

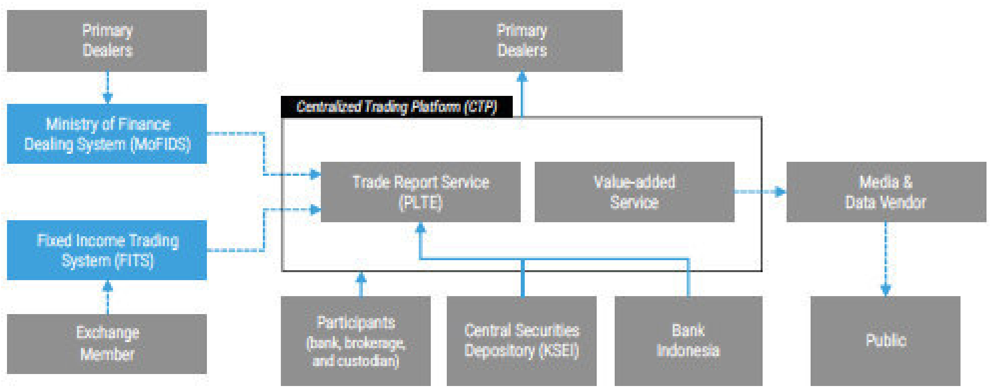
For that purpose, the Indonesian market features the CTP, a reporting and information system for the secondary bond market, which was launched on 1 September 2006.

CTP is divided into a reporting mechanism, referred to as CTP-PLTE, and a data repository.

CTP allows for the reporting of transactions, consolidates trade information, and compiles trading reports from the FITS of IDX, the MOF Dealing System, and BI. CTP is also connected to KSEI and IBPA (Figure 4.1). CTP receives settlement data from KSEI's C-BEST settlement system for the purpose of consolidating reported trade data against settlement data. To enable such consolidation, the KSEI participant is required to include the CTP reference generated by the CTP platform when providing settlement data to C-BEST. CTP is owned by OJK and operated by IDX on behalf of OJK. CTP operates between 9:30 a.m. and 5 p.m. on trading days.

As the operator of CTP as the trading information repository, IDX will then disseminate the reported bond information (e.g., trades, prices, yields, and volumes) to the market at large. In fact, reported transaction prices are relayed to IBPA for bond pricing purposes (see Chapter III.K). Prices of exchange trades are also transmitted to IBPA.

**Figure 4.1: Diagram of Centralized Trading Platform**




Source: Indonesia Stock Exchange. *IDX FactBook 2016*. http://www.idx.co.id/Portals/0/StaticData/Publication/FactBook/FileDownload/20161025_FB-2016.pdf

### 1. Transactions Included in Trade Reporting

All transactions of debt securities and *sukuk* sold through public offerings, government securities issued through auction, and other securities to be determined by OJK, as well as debt securities traded in the secondary market, must be included in the reporting into CTP-PLTE. Reportable transaction type in these securities include

(i) buying and selling (outright);
(ii) grants;
(iii) heritage;
(iv) exchange;
(v) transfer due to court order;
(vi) ownership transfer because of merger, consolidation, or acquisition;
(vii) lending and borrowing;
(viii) repo;
(ix) book-entry securities made by the parties with the same identity; and
(x) buyback.

### 2. Trade Reporting Data

For each of the abovementioned transaction, the following information is to be provided:

(i) name and series of securities;
(ii) name of seller or original owner;
(iii) name of buyer;
(iv) type of account (own account or client accounts);
(v) price of the transaction;
(vi) yield;
(vii) volume of transaction;
(viii) value of the transaction;
(ix) time of the transaction;
(x) reporting time or instruction time to the participant;
(xi) type of transaction; and
(xii) settlement date, among others.

Pursuant to Bapepam-LK Rule Number X.M.3, 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 to the public in real time, to ensure access to fair market pricing for all market participants. This information is also used as a data source by IBPA in determining reference prices of debt securities and *sukuk* (see also Chapter III.K).

## D. Market Monitoring and Surveillance in the Secondary Market

The monitoring of market activities in the Indonesian bond market follows the nature of each of the market segments, and market surveillance is carried out by the institutions who govern each market segment.

### 1. Trading on Indonesia Stock Exchange

Trading activities on the markets of IDX, including the FITS trading system for bonds, are actively monitored by the Department of Market Surveillance and Compliance. The department separately covers member compliance—that is, the performance of member firms according to regulations and the rules of the exchange, as well as market surveillance, which includes the review of trading patterns or suspicious activities.

As an SRO, IDX can take steps against breaches of its rules, as provided for under its rules and in applicable regulations. OJK prescribes a set of parameter alerts to catch any irregular activities or activities that fall under violation of Article 90 of the Capital Market Law. All suspicious activities are to be reported to OJK.

### 2. Over-the-Counter Trading

The OTC market in Indonesia, owing to the nature of the market, does not feature a specific surveillance function. At the same time, OTC market participants are required to report their transactions in CTP (see section C), which makes trade information and pricing data available to OJK and IBPA for further analysis.

To improve the transparency of OTC bond trading in Indonesia, ETP, which is to be launched in 2017 (see section B.5), will contain rules governing membership, trades, and the supervision of trading activities.

### 3. Secondary Bond Market

Transactions in the interbank market are executed between BI and its constituents, as well as between constituents, and can be entered into BI-SSSS to be settled. As such, BI has available trade and price information, both from its own trades as a counterparty as well as those conducted between other counterparties.

Due to the limitations for domestic financial institutions to buy debt instruments issued by nonresident issuers, BI would be monitoring adherence to its issued regulations.

## E. Bond Information Services

Information on bonds, notes, and *sukuk* issued in the Indonesian market is readily available in the public domain. All policy bodies and market institutions for the bond market provide general information on the debt instruments issued, traded, or settled by them, and some also offer specific information on transactions, yields, and indexes.

In addition, substantial information on the Indonesian bond markets, its institutions, and instruments, are available through the *AsianBondsOnline* website.[43]

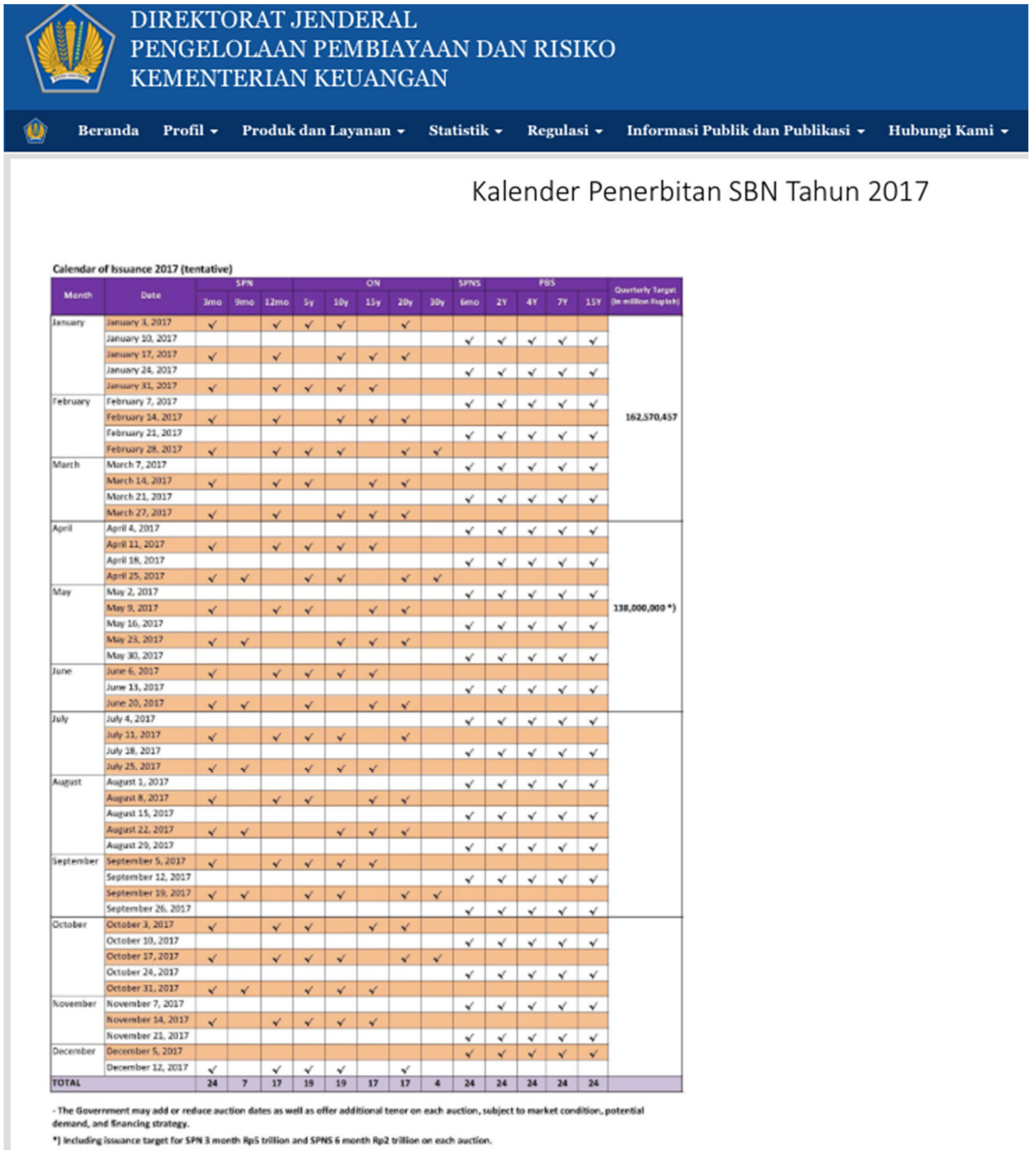
### 1. Government Securities

Though its website, the MOF publishes the auction schedule as well as auction results for government debt securities issuance and buybacks (Figure 4.2).[44] The auction results are downloadable as PDF documents from the MOF website.

The Directorate General of Budget Financing and Risk Management of the MOF provides general information on government debt securities and government Sharia securities (Sukuk Negara) on a dedicated website that is not yet available in English.

[43] See https://asianbondsonline.adb.org/indonesia.php
[44] For the auction schedule, see http://www.djppr.kemenkeu.go.id/page/load/1332

**Figure 4.2: Ministry of Finance—Government Securities Information**




Calendar of Issuance 2017 (tentative)

| Month | Date | SPN | | | ON | | | | | SPNS | PBS | | | | Quarterly Target (in million Rupiah) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 3mo | 9mo | 12mo | 5y | 10y | 15y | 20y | 30y | 6mo | 2Y | 4Y | 7Y | 15Y | |
| January | January 3, 2017 | ✓ | | ✓ | ✓ | ✓ | | ✓ | | | | | | | |
| | January 10, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | January 17, 2017 | ✓ | | ✓ | | ✓ | ✓ | ✓ | | | | | | | |
| | January 24, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | January 31, 2017 | ✓ | | ✓ | ✓ | ✓ | ✓ | | | | | | | | |
| February | February 7, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | February 14, 2017 | ✓ | | ✓ | | ✓ | ✓ | ✓ | | | | | | | 162,570,457 |
| | February 21, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | February 28, 2017 | ✓ | | ✓ | ✓ | ✓ | | ✓ | ✓ | | | | | | |
| March | March 7, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | March 14, 2017 | ✓ | | ✓ | ✓ | | ✓ | ✓ | | | | | | | |
| | March 21, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | March 27, 2017 | ✓ | | ✓ | | ✓ | ✓ | ✓ | | | | | | | |
| April | April 4, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | April 11, 2017 | ✓ | | ✓ | ✓ | ✓ | ✓ | | | | | | | | |
| | April 18, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | April 25, 2017 | ✓ | ✓ | | ✓ | ✓ | | ✓ | ✓ | | | | | | |
| May | May 2, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | May 9, 2017 | ✓ | | ✓ | ✓ | | ✓ | ✓ | | | | | | | 138,000,000 *) |
| | May 16, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | May 23, 2017 | ✓ | ✓ | | | ✓ | ✓ | ✓ | | | | | | | |
| | May 30, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| June | June 6, 2017 | ✓ | | ✓ | ✓ | ✓ | ✓ | | | | | | | | |
| | June 13, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | June 20, 2017 | ✓ | ✓ | | ✓ | | ✓ | ✓ | | | | | | | |
| July | July 4, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | July 11, 2017 | ✓ | | ✓ | ✓ | ✓ | | ✓ | | | | | | | |
| | July 18, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | July 25, 2017 | ✓ | ✓ | | ✓ | ✓ | ✓ | | | | | | | | |
| August | August 1, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | August 8, 2017 | ✓ | | ✓ | ✓ | | ✓ | ✓ | | | | | | | |
| | August 15, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | August 22, 2017 | ✓ | ✓ | | | ✓ | ✓ | ✓ | | | | | | | |
| | August 29, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| September | September 5, 2017 | ✓ | | ✓ | ✓ | ✓ | ✓ | | | | | | | | |
| | September 12, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | September 19, 2017 | ✓ | ✓ | | ✓ | ✓ | | ✓ | ✓ | | | | | | |
| | September 26, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| October | October 3, 2017 | ✓ | | ✓ | ✓ | | ✓ | ✓ | | | | | | | |
| | October 10, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | October 17, 2017 | ✓ | | ✓ | ✓ | ✓ | | ✓ | ✓ | | | | | | |
| | October 24, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | October 31, 2017 | ✓ | ✓ | | ✓ | ✓ | ✓ | | | | | | | | |
| November | November 7, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | November 14, 2017 | ✓ | | ✓ | ✓ | ✓ | ✓ | | | | | | | | |
| | November 21, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| December | December 5, 2017 | | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | December 12, 2017 | ✓ | | ✓ | ✓ | ✓ | | ✓ | | | | | | | |
| TOTAL | | 24 | 7 | 17 | 19 | 19 | 17 | 17 | 4 | 24 | 24 | 24 | 24 | 24 | |

- The Government may add or reduce auction dates as well as offer additional tenor on each auction, subject to market condition, potential demand, and financing strategy.

*) Including issuance target for SPN 3 month Rp5 trillion and SPNS 6 month Rp2 trillion on each auction.

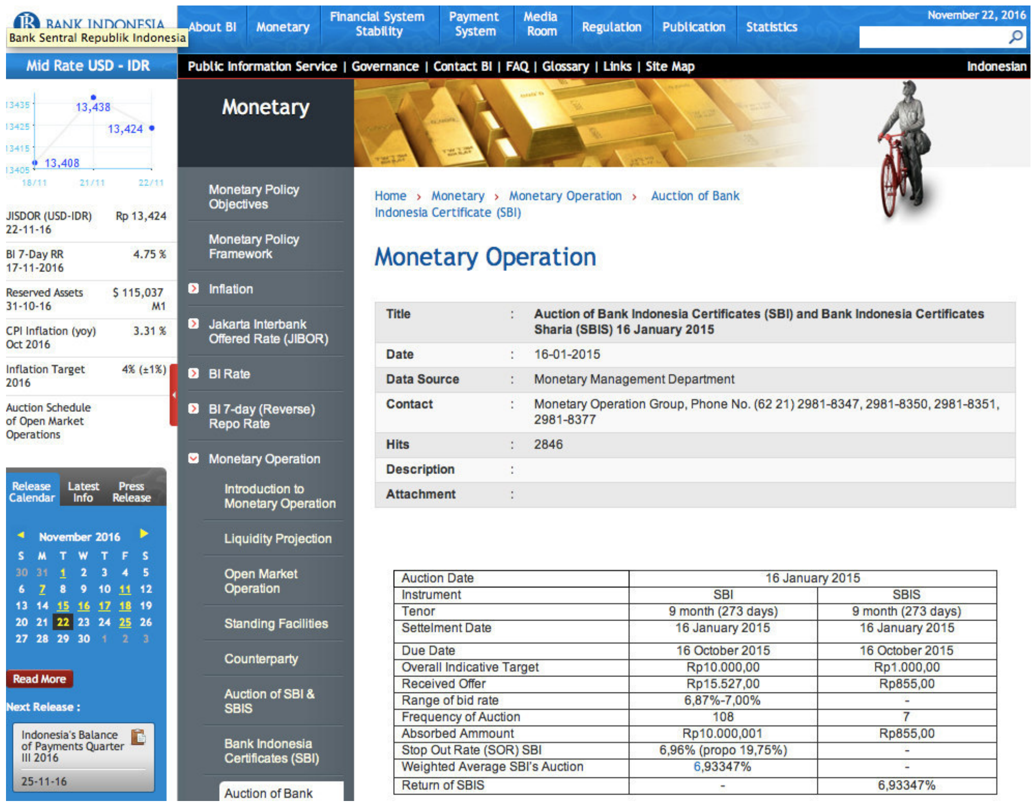
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance. Calendar of Issuance 2017. http://www.djppr.kemenkeu.go.id/#/en/page/produk

## 2. Bank Indonesia

BI publishes the schedule and auction results for the securities it issues on its website (Figure 4.3). The BI website also contains separate sections that explain the open market operation of BI, including the practices for repo and reverse repo, as well as other measures under BI's purview.[45]

[45] See http://www.bi.go.id/en/moneter/operasi/operasi-pasar-terbuka/Contents/Default.aspx

**Figure 4.3: Bank Indonesia—Bank Indonesia Certificates Auction Results Web Page**




Source: Bank Indonesia. Monetary. http://www.bi.go.id/en/moneter/operasi/lelang-sbi/default.aspx

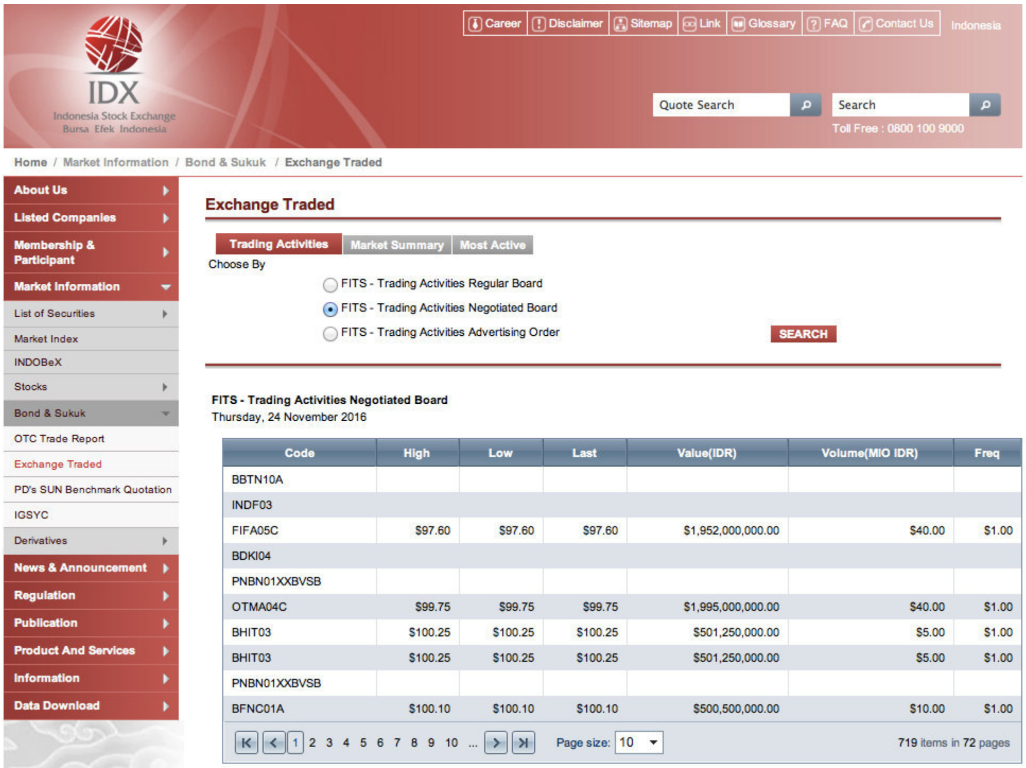
### 3. Indonesia Stock Exchange

IDX provides comprehensive information on the debt securities listed on its markets, in both the *IDX FactBook*, which it publishes annually, and via its website.

The information includes details on the listed debt securities and its issuers, the FITS trading platform and trading mechanism, debt securities trading volume, bond yields, and the Indonesia Bond Index (see next section). Figure 4.4 gives an example of the web page for the FITS Negotiated Market.

On its web pages, IDX does not distinguish between conventional and Sharia bonds. IDX also displays the Primary Dealers' SUN benchmark quotations.

**Figure 4.4: Indonesia Stock Exchange—Debt Securities Web Page**




Source: Indonesia Stock Exchange. Market Information. http://www.idx.co.id/en-us/home/marketinformation/bondandsukuk/exchangetraded.aspx

### 4. Indonesian Capital Market Electronic Library

The Indonesian Capital Market Electronic Library, which is known domestically as I-CaMEL, is an institution (in fact, a separate legal entity) established by IDX, KPEI, and KSEI to provide general information and data, and facilitate education on the Indonesian capital market, including the bond market. I-CaMEL's main role is to collect data and reports from capital market data owners, as well as serving as a data provider for the public, interested parties, and relevant stakeholders. I-CaMEL has a link to CTP, through which it can request specific data on the bond market as and when required. I-CaMEL has been in operation since 2011.

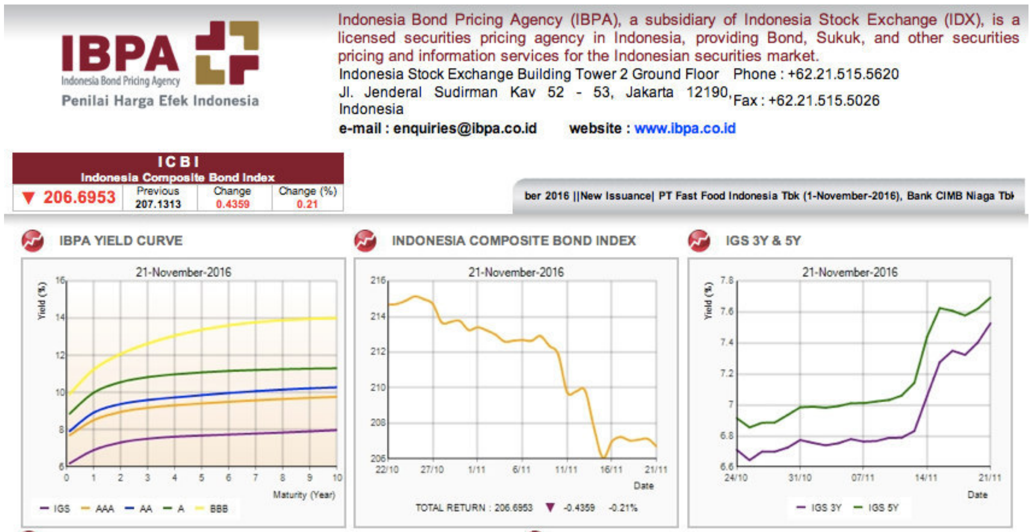
## F. Yields, Yield Curves, and Bond Indices

Information on yields, as well as yield curves for government securities and corporate bonds, notes, and *sukuk* issued in the Indonesian market are available from a number of market institutions, typically through their websites. Similar data are also available from commercial data vendors and securities information services.

### 1. Yields and Yield Curves for Government and Corporate Bonds

IBPA maintains a microsite in English—its main website is only available in Bahasa Indonesia— which serves as a kind of dashboard for all relevant information on bond trading activities (Figure 4.5). The information on the microsite also includes yield-by-tenor tables for both government bonds and corporate bonds, as well as IBPA's own yield curves for Indonesian government securities, and aggregate and individual yield curves by domestic credit rating categories.

**Figure 4.5: Indonesia Bond Pricing Agency Microsite**




**INDONESIA GOVERNMENT BONDS (IGB)**
Yield by Tenor
As at 21-November-2016 Jakarta

| Tenor (Year) | Yield (%) | | | |
|---|---|---|---|---|
| | Today | Yesterday | Last Week | Last Month |
| 0.1 | 6.1944 | 6.0564 | 5.8255 | 5.8048 |
| 1.0 | 6.9182 | 6.7543 | 6.3474 | 6.2498 |
| 2.0 | 7.3274 | 7.1761 | 6.7604 | 6.5528 |
| 3.0 | 7.5287 | 7.4048 | 7.0589 | 6.7392 |
| 4.0 | 7.6317 | 7.5362 | 7.2778 | 6.8577 |
| 5.0 | 7.6949 | 7.6231 | 7.4418 | 6.9386 |
| 6.0 | 7.7469 | 7.6930 | 7.5678 | 7.0003 |
| 7.0 | 7.8000 | 7.7587 | 7.6677 | 7.0531 |
| 8.0 | 7.8578 | 7.8249 | 7.7495 | 7.1027 |
| 9.0 | 7.9198 | 7.8923 | 7.8185 | 7.1516 |
| 10.0 | 7.9838 | 7.9598 | 7.8783 | 7.2006 |

**INDONESIA CORPORATE BONDS (ICB)**
Yield by Tenor
As at 21-November-2016 Jakarta

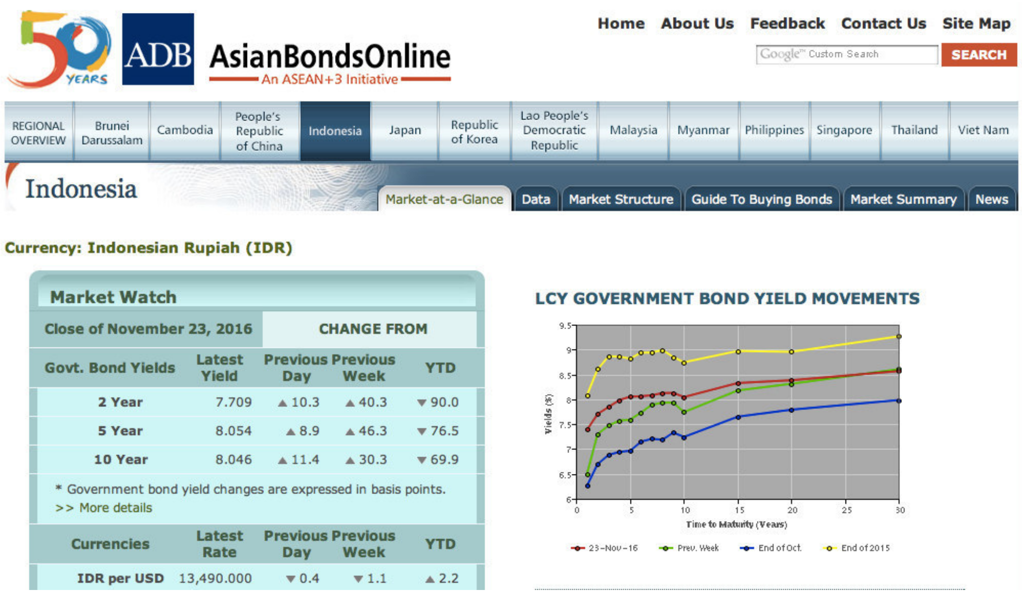
| Tenor (Year) | Yield (%) | | | |
|---|---|---|---|---|
| | AAA | AA | A | BBB |
| 0.1 | 7.7101 | 7.9308 | 8.8732 | 9.9292 |
| 1.0 | 8.5287 | 8.9390 | 10.0144 | 11.2651 |
| 2.0 | 8.9704 | 9.3953 | 10.5771 | 12.0896 |
| 3.0 | 9.1923 | 9.6077 | 10.8446 | 12.6536 |
| 4.0 | 9.3253 | 9.7494 | 10.9965 | 13.0794 |
| 5.0 | 9.4248 | 9.8721 | 11.0979 | 13.4004 |
| 6.0 | 9.5111 | 9.9847 | 11.1717 | 13.6341 |
| 7.0 | 9.5899 | 10.0849 | 11.2268 | 13.7979 |
| 8.0 | 9.6615 | 10.1700 | 11.2674 | 13.9087 |
| 9.0 | 9.7248 | 10.2389 | 11.2968 | 13.9814 |
| 10.0 | 9.7793 | 10.2926 | 11.3175 | 14.0280 |

**MOST ACTIVE BONDS**
As at 21-November-2016, Jakarta

Source: Indonesia Bond Pricing Agency. http://www.ibpa.co.id/IBPAMicrosite.aspx

Indonesian government bond yields and yield curves, as well as many other pertinent details on the Indonesian bond market, are also available from the *AsianBondsOnline* website (Figure 4.6).

**Figure 4.6: Indonesian Government Bond Yields on *AsianBondsOnline***




Source: AsianBondsOnline. Indonesia. https://asianbondsonline.adb.org/indonesia.php

## 2. Bond Indexes in Indonesia

The Indonesia Bond Indexes were launched on 21 November 2014, following an initiative by OJK, in conjunction with IDX and IBPA, to provide the Indonesian capital market with guidance on the performance of the bond market and its instruments.[46]

Indonesia Bond Indexes represent a family of 15 bond indexes that measure the movement of Indonesian bond prices and yields. These indexes can be used as a benchmark to illustrate general bond market movements and trends. The index family calculates such indicators for three groups of bonds:

- government bonds and *sukuk*,
- corporate bonds and *sukuk*, and
- government and corporate bonds and *sukuk* (composite).

The composite index is displayed on the IBPA microsite in English (Figure 4.5).

For each group, IBPA calculates five subindexes. These methodologies cover three approaches to calculate price indexes and two approaches to calculate yield indexes, in the following manner:

Price Index
- Total Return Index
- Clean Price Index
- Gross Price Index

Yield Index
- Effective Yield Index
- Gross Redemption Yield Index

[46] Text adapted from Indonesia Stock Exchange. *IDX FactBook 2016*. http://www.idx.co.id/Portals/0/StaticData/Publication/FactBook/FileDownload/20161025_FB-2016.pdf

The base value for the indexes (100) was set as 10 August 2009. The composition of the bonds that are included in each index is reviewed and rebalanced at the end of the last business day of every month, ensuring that only liquid bonds and *sukuk* influence the calculation.

### 3. Inclusion of Indonesian Government Securities in Bond Indexes

Indonesian government securities are also included in the calculation of a number of other regional bond indexes.

The Markit iBoxx ABF Index Family is a series of indices that serve as benchmarks under the second phase of the Asian Bond Fund. Local currency bond indices are constructed covering eight ASEAN+3 markets along with two Pan-Asia indexes; Indonesia is one of those ASEAN+3 markets. The International Index Company and the Executives' Meeting of East Asia Pacific Central Banks developed the indices.[47]

Since 2002, the HSBC Asian Local Bond Index has been tracking the total return performance of liquid bonds, denominated in local currencies, of the People's Republic of China; Hong Kong, China; India; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Taipei,China; and Thailand.[48] For Indonesia, only government securities were included in the calculation of the local currency index. Effective January 2016, the ALBI family of indexes were transferred to Markit, and subsequently subsumed into the Markit iBoxx Asian Local Bond Index, which is known as the iBoxx ALBI™.

## G. Repo Market

### 1. Repo Market Overview

Traditionally, the repo market in Indonesia has been jointly managed by BI, the Indonesian Securities Inter-Dealer Association, and the Indonesian Fixed-Income Dealer Association. As a basis, BI had established provisions for secondary market trading of SBI under repo agreements.

In 2005, the government launched a Master Repurchase Agreement, which became the benchmark for repo transactions that were subsequently covered by Indonesian Securities Inter-Dealer Association rules as the market operator for government bond trading. In the intervening years, market participants made significant efforts to further standardize the repo agreement and related practices, in line with international markets and for the acceptance of nonresident intermediaries and asset owners. In 2010, Bapepam-LK, BI, and the Directorate General of Budget Financing and Risk Management of the MOF took the lead on introducing policy initiatives to create an Indonesian Annex to the GMRA and act as facilitators for market players in developing it. This eventually led to the publication of what is now referred to as GMRA Indonesia, which follows the international standard established in 2000.

In 2015, OJK issued specific regulations for the bond repo market, which came into effect in January 2016, superseding all previous regulations. This OJK Regulation Number 9/POJK.04/2015 on Guidelines for Repo Transactions binds all financial market participants to the use of the GMRA Indonesia, which was introduced to the market with OJK Circular No. 33/SEOJK.04/2015 on Indonesia Global Master

[47] Information on and display of iBoxx ABF Index Family is available from *AsianBondsOnline* at https://asianbondsonline.adb.org/indonesia/data/bondmarket.php?code=IBoxx_ABF_Index
[48] Text adapted from HSBC. *Factsheet: Asian Local Bond Index.* https://www.hsbcnet.com/gbm/attachments/asian-indices/asian-local-bond-index-factsheet.pdf

Repurchase Agreement. GMRA Indonesia and its related regulations were formulated as part of the work of the Bond Market Development Team launched in 2014 (see also Chapter I.C.). The ceremonial launch of GMRA Indonesia saw four national banks (Bank Mandiri, BNI, BRI, and BCA) sign the agreements as a signal to the market.

As of 30 December 2016, the volume of repo transactions had increased to IDR272.2 trillion from IDR144.1 trillion a year earlier, an increase of 88.8%. These repo transactions comprise interbank repo transactions as well as repo transactions between banking institutions and BI. The volume of interbank repo transactions alone was IDR84.7 trillion in 2016, a decrease of 20.0% from the 2015 volume, which stood at IDR105.9 trillion. In contrast, the volume of repo transactions between banking institutions and BI increased 326.9% from IDR35.6 trillion in 2015 to IDR150.9 trillion in 2016. However, the repo transactions that are conducted with BI as part of its open market operation need not observe all the provisions in the OJK regulation mentioned earlier.

### 2. Acceptance of Standards

The use of and practices for repo transactions by financial institutions were regulated by OJK in 2015 through OJK Regulation Number 9/POJK.04/2015 concerning Guideline of Repurchase Agreement Transactions for Financial Services Institutions in conjunction with the creation of the official country annex for Indonesia to the GMRA administered by the International Capital Market Association.[49] The OJK regulation became effective on 1 January 2016.

Financial services institutions conducting a repo transaction are obliged to comply with the provisions of this OJK regulation. In the context of the bond market in Indonesia, the regulation applies to repo transactions in all debt securities registered and settled at BI and KSEI.

According to the OJK regulations, a repo transaction is required to be based on a written agreement between counterparties to the transaction and should have minimum contents, including provisions for the confirmation of repo transactions as well as for events of default. In fact, in the regulation, OJK references the GMRA with the Indonesia Annex and other supplementary annexes (referred to in totality as GMRA Indonesia), or any other such agreement that OJK may stipulate in future. Counterparties to an agreement may agree on amendments to the agreement as long as those amendments do not contravene the OJK regulations. The governing law of the agreement has to be Indonesian law.

At the same time, for repo transaction with BI, financial services institutions need not adhere to GMRA Indonesia (Article 5 [4] of the OJK Regulation).

### 3. Specific Repo Practices

This section provides an overview of the market practices specific to the repo market in Indonesia.[50]

[49] See http://www.ojk.go.id/en/kanal/pasar-modal/regulasi/peraturan-ojk/Pages/OJK-Regulation-Concerning-Guideline-of-Repurchase-Agreement-Transaction-for-Financial-Services-Institution.aspx
[50] Adapted by ADB Consultants for SF1 from a 2016 ASEAN+3 SRO Working Group case study on repo markets, with the kind permission of the author.

### a. Type of Repo

Repo transactions in the OTC market are considered as an outright sale and repurchase of debt securities, and represent a change in ownership of the debt securities as prescribed in the OJK regulation on repo (see above). Securities provided as collateral and during margining of collateral requirements are also considered as changing ownership.

### b. Size and Tenor

Repo transactions in the OTC market have tenors ranging from a minimum 3 days to a maximum of 3 years, with an average tenor of 1 month. Information on the number and size of repo transactions is not easily available. Despite the reporting requirement of repo transactions into CTP (see also section C), counterparties often report repo transactions as individual sell-and-purchase transactions, and also because the nature of repo in Indonesia considers repo transactions in that manner.

As part of its open market operation, BI favors tenors of 7 days. With effect from 20 August 2016, the BI 7-day reverse repo rate has become the benchmark interest rate in the Indonesian money market (monetary policy rate) because it is most reflective of the interest level market participants are willing to pay and the most common transaction type and tenor for short-term funding.

### c. Eligible Debt Securities as Collateral

BI has not issued specific rules on specific debt securities eligible as collateral for repo transactions with BI. This follows the provisions in Article 3 Clause (10) of OJK Regulation on Guidelines for Repo Transactions, which states: “With the transfer of ownership, Securities traded is not a collateral in the transaction so it is not subject to re-characterization. The transfer of ownership of securities sold under repo is followed by transfer of the rights attached to such Securities as dividends, coupons, voting rights, and the Preemptive Rights. Beneficiary of such rights adheres the agreement between parties as agreed in the Repo Transactions contract.”

The only qualification attached to the debt securities utilized in repo transactions is expressed in Article 4 Clause (2) of the OJK Regulation on Guidelines for Repo Transactions, in that any repo agreement shall contain the obligation to undertake fair market valuation (mark-to-market) of the respective collateral in the transaction.

At present, government bonds are used as collateral for repo transactions with BI and in the interbank market.

### d. Accounting and Tax Treatment

There are no specific tax rules for repo transactions. Instead, tax on repo transactions is applied as if for a normal debt securities sale. Capital gains and accrued interest are calculated on a transaction basis but are part of the normal corporate tax calculation at financial year-end for resident institutions. Capital gains or accrued interest for foreigners (as the asset owners in a repo transaction facilitated by resident intermediaries) are taxed at the applicable rates for capital gains tax and withholding tax, respectively, or at treaty rates. Please see Chapter VI.G for more details on taxation.

### e. Market Participants

Repo market participants, as agents or for their own account, are banks for transactions with BI or in the interbank money market. Brokers or banks may also engage in repo transactions in the OTC market. Participating institutions must be registered entities in Indonesia, and can include the branches or subsidiaries of foreign financial institutions.

Pension funds are allowed to engage in repo transactions based on OJK Regulation Number 3/POJK.05/2015 dated 31 March 2015 (effective date 16 April 2015), while OJK Regulation Number 71/POJK.05/2016 allows insurance companies to invest in repo transactions.

In contrast, mutual funds continue to be prohibited from engaging in repo transactions based on OJK Regulation Number 23/POJK.4/2016 concerning the Collective Investment Contracts Mutual Funds.

BI is the main liquidity provider for financial institutions, as part of its open market operation, pursuant to its mandated function in Indonesia.

### f. Market Access to Foreign Participants

At the time of the compilation of the Indonesia Bond Market Guide, foreign (nonresident) institutions were unable to directly access the repo market, either for OTC transactions or for transactions with BI. Instead, nonresident institutions will have to use the services of a bank or broker to participate in the repo market. Alternatively, if the nonresident institution has a presence in the market, such as a branch or subsidiary, the institution may access the repo market through such entity.

## H. Securities Borrowing and Lending

In support of KSEI’s settlement function, KPEI is offering a securities lending facility to avoid failed trades in KSEI. This facility is presently only utilized for equity trades since most debt securities and Sharia bond trades occur in the OTC market.

Market participants are principally able to utilize securities borrowing and lending transactions to support trading activities or improve the return on their portfolios. However, based on Article 61 of the Capital Market Law, mutual funds are prohibited from engaging in securities borrowing and lending transactions.

## I. Interest Rate and Fixed-Income Futures

At present, the Indonesian market does not feature exchange-traded derivatives in support of the bond market.

IDX is in the phase of developing exchange-traded, fixed-income derivatives, which are to be called Indonesia Government Bond Futures. IDX will use single benchmark bonds based on announcements from the MOF as the underlying securities. The objective is to provide a hedging instrument for investors and Primary Dealers. IDX will use a hybrid-order and introduce a liquidity provider mechanism for this product to enhance liquidity in the market.

V

# Description of the Securities Settlement System

This chapter, as included in the original ASEAN+3 Bond Market Guide published in 2012, has been discontinued in favor of a more comprehensive and updated description in the Phase 2 Report of ABMF Sub-Forum 2 (SF2), Information on Transaction Flows and Settlement Infrastructures, dated 13 June 2014. The SF2 Phase 2 report contains information on the post-trade features of the Indonesian bond market, its market infrastructure and settlement systems, interest payment and redemption practices, as well as market and message standards (pp. 121–133). In addition, the SF2 Phase 2 report contains detailed infrastructure and transaction flow diagrams for Indonesia (pp. 398–422).

The SF2 report is available at www.asianbondsonline.adb.org as well as through a number of mirror sites.[51]

[51] See http://www.adb.org/publications/asean3-information-transaction-flows-and-settlement-infrastructures

VI

# Bond Market Costs and Taxation

This chapter details the typical costs incurred by issuers and investors in the Indonesian bond market.

For ease of reference, the descriptions of the types of costs are given in the context of the actions taken by issuers or investors (as explained in this document) and follow the life cycle of a bond, note, or *sukuk* in the Indonesian bond market.

## A. Costs Associated with Bond, Note, and *Sukuk* Issuance

These costs refer to those charges incurred as a result of debt securities issuance, as charged by regulatory authorities, market institutions, and Capital Market Supporting Institutions. Other costs will or may be incurred by the issuer through services obtained from Capital Market Supporting Professionals, such as law firms or notaries public, as well as accounting or audit firms.

### 1. Submission of Registration Statement (Approval) to the Financial Services Authority (Public Offers Only)

All public offers of securities require the submission of a Registration Statement, and the subsequent approval of OJK. The issuer will need to pay the requisite fee to OJK at the time of the submission of the application of the Registration Statement. Please see Chapter II.F for details on the regulatory process.

The fee payable follows OJK Regulation Number 3/POJK.02/2014.

### 2. Underwriter Fee (Mandatory for Public Offers)

The appointment of an underwriter is mandatory for an offer of debt securities to the public. The issuer may appoint more than one underwriter if the placement of the securities so requires; in such case, a lead underwriter will have to be appointed.

Underwriters are remunerated on the basis of their commitment in the context of debt securities issuance and fees are expected to follow established market practice.

### 3. Selling Agent(s) Fee (Optional)

The issuer may choose to appoint a number of selling agents to place the debt securities to be issued in a wider market. The selling agents are remunerated on the basis of their selling performance, typically on a commission basis. The commission is determined based on market practice and a selling agent’s track record.

### 4. Security Administrator Fee (Mandatory)

The issuer is required to appoint a security administrator for each of its debt securities. The security administrator acts as registrar and paying agent for the debt securities, and is remunerated based on the service level expected or provided according to established market practice.

The security administrator will need to be appointed prior to the registration of the securities with KSEI (see section 5).

### 5. Sharia Capital Market Expert (*Sukuk* Only)

In the event of a *sukuk* issuance, the issuer will need to utilize the services of a Sharia Capital Market Expert for a fee, pursuant to OJK Regulation Number 16/POJK.04/2015. The Sharia Capital Market Expert will provide a statement of Sharia compliance to the issuer.

### 6. Registration of Securities at the Indonesia Central Securities Depository

For bonds, notes, or *sukuk* to be able to be traded and settled in the Indonesian market, regardless whether OTC or on exchange, the issuer will have to register said securities with KSEI.

KSEI levies two types of fees, with the joining fee payable at the time of a first registration of an instrument issued by a specific issuer and an annual fee payable each calendar year during the life cycle of individual instrument(s).

#### a. Joining Fee

The joining fee is a one-time fee of IDR15 million, payable at the time when a new issuer registers securities with KSEI, for those securities to be traded and settled in the market and/or listed on IDX. This requires the execution of a Securities Registration Agreement between the security administrator (on behalf of the issuer) and KSEI.

The same issuer will not be charged further joining fees if it registers additional securities with KSEI, regardless whether they are the same or a different type.

## B. Listing Fees (Optional)

The listing of debt securities and *sukuk* is not mandatory in Indonesia, but market practice suggests that debt securities offered to the public are subsequently listed on IDX. Issuers may also choose to list their debt securities at other listing places, both in the region and further abroad, to achieve a profile listing of said securities. Trading of debt securities typically occurs in the OTC market regardless.

### 1. Indonesia Stock Exchange

Securities to be listed on IDX must be issued through an offer to the public. For a complete description of the listing process on IDX, please refer to Chapter III.I.

IDX charges two types of fees to the issuer for the listing of debt securities—an initial listing fee and an annual listing fee—as detailed below. While the initial fee and annual fee levels currently are identical, they are subject to revision and may be different from one another in the future.

### b. Initial Listing Fee

The initial listing fee is based on the nominal value of the total issue size of the debt securities to be listed. The fee amount follows a tiered schedule, with a minimum and a maximum amount (Table 6.1).

**Table 6.1: Indonesia Stock Exchange—Initial Listing Fee (Debt Securities)**

| From Nominal Value | To Nominal Value | Fee Level (%) | Minimum or Maximum |
|---|---|---|---|
| | Up to IDR200 billion | 0.025 | Minimum IDR10 million |
| IDR200 billion | IDR400 billion | 0.024 | |
| IDR400 billion | IDR600 billion | 0.023 | |
| IDR600 billion | More than IDR600 billion | 0.022 | Maximum IDR150 million |

Source: Indonesia Stock Exchange. *IDX FactBook 2014*. http://www.idx.co.id/Portals/0/StaticData/Publication/FactBook/FileDownload/20140911_FB-2014.pdf

The initial listing fee must be paid before listing approval upon the issuance of the invoice by IDX.

Issuers who issue more than one type of debt securities in one issuance shall pay the Initial Listing Fee and the Annual Listing Fee for each type of debt securities.

### c. Annual Listing Fee

IDX also charges an annual listing fee for debt securities, again based on the total issue size. A minimum fee applies for smaller issue sizes and the fee is capped at a fixed amount (Table 6.2).

**Table 6.2: Indonesia Stock Exchange—Annual Listing Fee (Debt Securities)**

| From Nominal Value | To Nominal Value | Fee Level (%) | Minimum or Maximum |
|---|---|---|---|
| | Up to IDR200 billion | 0.025 | Minimum IDR10 million |
| IDR200 billion | IDR400 billion | 0.024 | |
| IDR400 billion | IDR600 billion | 0.023 | |
| IDR600 billion | More than IDR600 billion | 0.022 | Maximum IDR150 million |

Source: Indonesia Stock Exchange. *IDX FactBook 2014* *http://www.idx.co.id/Portals/0/StaticData/Publication/FactBook/FileDownload/20140911_FB-2014.pdf*

The annual listing fee is payable upon the actual listing of the debt securities on IDX. Subsequently, the annual listing fee is payable on the listing anniversary of the debt securities.

### 2. Other Listing Places

Due to the regulatory requirement that listed debt securities must be issued through a public offer, the listing of debt securities issued via a private placement in Indonesia will have to be pursued at other listing places, either in the region or further abroad.

The issuer of debt securities may choose to list the instruments at listing places outside Indonesia, either as a profile listing to achieve visibility for the instruments or to cater to a particular investor universe. In such instances, the issuer would have to bear the relevant listing fees charged by the listing place and, potentially, related charges from prescribed intermediaries and service providers.

## C. Ongoing Costs for Issuers of Corporate Bonds, Notes, and *Sukuk*

### 1. Registration of Securities at the Indonesia Central Securities Depository

In addition to a joining fee (see section A.5), KSEI also levies an annual fee for registered securities. The fee is payable by the issuer.

#### a. Annual Fee

An annual fee of IDR10 million is applied for each line of securities registered with KSEI. For debt securities and Sharia bonds consisting of several series, the annual fee will be calculated per series of such debt securities and/or Sharia bonds registered.

The annual fee is first incurred upon the execution of the Securities Registration Agreement with KSEI and is calculated on a prorated basis for the current calendar year. Subsequently, the annual fee is charged at the beginning of every calendar year for as long as the securities are still registered at KSEI.

### 2. Security Administrator Fee

The security administrator (the registrar and paying agent) should be expected to levy recurring fees for its services, which depend on the service level and interval of, for example, interest payments and other securities administration efforts (see also section A.3).

KSEI may act as the paying agent for debt securities. If appointed, the paying agent fee stipulated in the official KSEI fee schedule applies.

## D. Costs for Deposit and Withdrawal of Debt Securities

While the Indonesian market is generally considered dematerialized, this is only applicable to equity securities. Debt securities, as well as mutual fund units, may be certificated for a fee upon the account holder’s (or beneficial owner’s) request.

### 1. Deposit Fee

There is no specific fee for the deposit of debt securities certificates into KSEI.

### 2. Withdrawal Fee

A withdrawal of debt securities is principally possible, but the fee reflects the fact that this is not considered practical in a market that is considered otherwise dematerialized.

The withdrawal from KSEI requires the issuance of a securities certificate—as a jumbo certificate only—for the amount withdrawn. KSEI set the withdrawal fee at 0.1% of the current market value at the time of withdrawal, with a minimum fee of IDR25,000 and a maximum fee of IDR500,000, and the fee is charged to the account holder on a monthly basis until such time that the certificate is redeposited into KSEI.

## E. Costs for Safekeeping and Account Maintenance at the Indonesian Central Securities Depository

### 1. Depository (Safekeeping) Fee

A depository fee is the charge incurred by the account holder for the key service provision of a CSD—that is, the safekeeping of securities, either in physical or book-entry form. KSEI levies a depository fee of 0.005% (0.5 basis points) on the nominal value of debt securities held on a book-entry basis only in the account(s) of its participants. The fee is calculated daily, based on day-end securities positions, and charged monthly.

### 2. Maintenance Fee

KSEI does not charge a general maintenance fee for securities accounts held with the depository. However, a maintenance fee is charged for sub-accounts that are considered inactive or dormant.

The fee comes to IDR1 million, is charged on a monthly basis to the account holder, and prorated for the period during which the account was inactive in a given month. However, KSEI will need to declare to the account holder that the account is considered inactive before commencing to charge the maintenance fee.

## F. Costs Associated with Debt Securities Trading

### 1. Exchange Transaction Fee (Applicable to Trades on Indonesia Stock Exchange)

Participants in the FITS Bond Trading System (see also Chapter IV) incur a transaction fee for every trade executed in FITS, which follows the official fee schedule published by IDX. The transaction fee, distinct for regular and negotiated transactions, is principally value-based and charged on a tiered basis as shown in Table 6.3.

**Table 6.3: Indonesia Stock Exchange—Bond Trading Fees**

| Transaction Value | Calculation Basis | Regular | Negotiation |
|---|---|---|---|
| Less than IDR500 million | Flat (per trade) | IDR20,000 | IDR35,000 |
| To IDR10 billion | Transaction value | 0.00500% | 0.00750% |
| More than IDR10 billion | Transaction value | 0.00375% | 0.00500% |

Source: Indonesia Stock Exchange. *IDX FactBook 2014*.
http://www.idx.co.id/Portals/0/StaticData/Publication/FactBook/FileDownload/20140911_FB-2014.pdf

### 2. Brokerage Fee (Unlisted Debt Securities)

Trading fees or charges by intermediaries for trades in debt securities for clients are typically built into the traded price or yield. This practice is referred to as “dirty price.”

## G. Costs for Settlement and Transfer of Bonds, Notes, and *Sukuk*

KSEI levies a number of fees and charges for the settlement of exchange trades and the transfer of securities as a result of OTC transactions and publishes its fee schedule on its website.[52] The fees mentioned here apply to debt securities, Sharia bonds (*sukuk*), and ABS. Other fees may apply for additional services.

### 1. Book-Entry Fee (Exchange Transaction)

KSEI charges book-entry fees for exchange transactions to the account holder, i.e., the participant of IDX. The fee is derived from the total amount of exchange transaction fees payable by the IDX participant to IDX, of which 20% is due to KSEI for the ongoing book-entry service.

IDX participants may charge the book-entry fees incurred, as part of the exchange transaction fees, to clients as out-of-pocket expenses, or subsumed with other transaction charges, pursuant to their fee schedule agreed with the investor.

### 2. Book-Entry Fee (Non-Exchange Transaction)

In contrast, the book-entry of a transfer of debt securities as a result of a non-exchange (OTC) transaction is charged at a flat fee of IDR20,000 per transaction. Non-exchange transactions can be against payment or free of payment instructions.

The fee is charged to the account holder and payable on a monthly basis.

### 3. Settlement of Repo Transaction

KSEI charges a repo settlement fee for every instruction received by the account holder for the settlement of a repo and reverse repo transaction, which is considered a free-of-payment transaction. KSEI uses specific transaction codes to identify the individual legs of repo transactions.

The fee is IDR20,000 per transaction and is payable on a monthly basis.

### 4. Settlement Instruction or Confirmation

An account holder in KSEI may not accept settlement instructions from its clients or send settlement confirmation to them as part of their service provision, or may itself not have the infrastructure to do so. In such cases, KSEI is able to directly accept settlement instructions and send settlement confirmations on behalf of the account holder as a chargeable service.

KSEI charges IDR10,000 per transaction confirmation or settlement instruction, payable by the account holder on a monthly basis.

The account holder is likely to charge this fee to their clients as an out-of-pocket expense.

[52] See http://www.ksei.co.id/files/translation_of_Daftar_Biaya_Layanan_Jasa_KSEI_original_format.pdf

## H. Taxation Framework and Requirements

The Directorate General of Taxes of the MOF is responsible for setting and executing policy and regulations on taxation in Indonesia.[53] An overview of the taxation specific or relevant for the Indonesian bond market is shown in Table 6.4, with details explained in the individual sections thereafter.

**Table 6.4: Duties and Taxes Related to Debt Securities in Indonesia**

| Types of Tax | Types of Debt Instrument or Service | Type of Investor or Institution | Tax Rate (% or amount) |
|---|---|---|---|
| Corporation Tax | Not applicable | Not applicable | 25[a] |
| Withholding Tax on Interest Income | Government securities | Domestic bank, approved pension fund | 0 |
| | | Domestic mutual fund | 5[b] |
| | | Other domestic investor | 15 |
| | | Foreign investor | 20 |
| | Government securities denominated in foreign currency | Any investor | Exempt |
| | Bank Indonesia Certificates | Any investor | 20 |
| | Corporate debt securities | Domestic bank, approved pension fund | 0 |
| | | Domestic mutual fund | 5[b] |
| | | Other investor | 20 |
| Capital Gains Tax | All debt securities | Domestic investor | 25[a] |
| | | Foreign investor | 5 |
| Stamp Duty | Nominal value of securities up to IDR1 million | All investors | IDR3,000 |
| | Nominal value of securities above IDR1 million | All investors | IDR6,000 |
| Value-Added Tax | All services in the capital market provided (to residents only) | Issuers, investors, intermediaries | 10 |

[a] Tax incentives available for companies listing their stock on Indonesia Stock Exchange.
[b] Concessionary tax rate for mutual funds until 2020, and 10% thereafter.
Source: Compiled by ADB consultants for SF1 from public domain sources.

### 1. Corporation Tax

Companies and legal entities incorporated in Indonesia, as well as foreign companies with a permanent establishment in Indonesia, are subject to a corporation tax of 25%.

[53] The website of the Directorate General of Tax is presently only available in Bahasa Indonesia at http://www.pajak.go.id

Companies issuing securities have access to a concessionary corporation tax rate related to the listing of their stock on IDX, provided that the issued securities amount to at least 40% of the company's paid-in capital. The concession is 5% off the normal rate for corporation tax, bringing the tax rate to 20% for large issuers.

### 2. Withholding Tax

The standard withholding tax on interest from conventional debt securities issued in Indonesia is set at 15% for domestic investors and 20% for nonresidents, which may be further reduced to treaty rates under applicable double taxation agreements (DTAs) for foreign investors (see section 6), upon proof of residence status.

Among domestic investors, the type of debt securities influences the effective withholding tax rate applicable to interest received by those investors. Domestic mutual funds approved by OJK enjoy a concessionary withholding tax rate of 5% on income, with this concession in force until 2020; thereafter, the concessionary tax rate will be 10%. In addition, domestic banks and pension funds approved by the government are subject to a zero-rated withholding tax.

In addition, all payments of principal and interest for conventional and Islamic foreign currency-denominated government debt securities are made free and clear of withholding taxes of Indonesia. This policy—referred to officially as Tax Borne by the Government for Global Bond Issuance—has existed since the beginning of the Global Bond Issuance, is stipulated in the Budget Law, and published by the MOF as part of the implementing regulations of the Budget Law every year. The concession is valid from 1 January to 31 December. For example, the MOF announcement in June 2016 on Tax Borne by the Government for Global Bond Issuance was applicable retroactively from January 2016 and valid until 31 December 2016.

### 3. Capital Gains Tax

Presidential Decree No. 100/2013 on Income Tax on Interest and Bonds Income regulates the taxation provisions on capital gains and bond interest.

Capital gains tax is applicable to nonresidents and charged at a rate of 5% of the gain upon the sale of debt securities issued in Indonesia. Capital gains incurred by domestic investors are taxed as part of the normal income and, hence, are taxable at 25% for corporates and institutions, or any applicable such tax rate (see also section 1).

The capital gains tax is charged on a transaction basis and follows the tax lot principle, i.e. the original purchase price or yield of the debt securities sold for each of the individual lots is to be compared against the sell price or yield of the debt securities sold. An average purchase price cannot be used.

### 4. Stamp Duty

Stamp duty is payable on all documents bearing a sum of money, including promissory notes and securities of all types. The amount is payable based on the nominal value of the instrument depends on the value (Table 6.4). In the context of a typical bond trade, the amount of stamp duty payable is negligible.

Stamp duty is not applicable to repo transactions.

### 5. Value-Added Tax

At the time of the compilation of the Indonesia Bond Market Guide, the VAT in Indonesia was set at 10%. The invoicing of services to nonresident investors is not required to include VAT.

### 6. Double Taxation Agreements

Indonesia had executed DTAs with 65 countries at the time the Indonesia Bond Market Guide was compiled. For information on applicable DTAs and any qualifying comments, it is recommended to contact a professional tax advisor to address individual tax situations and avoid any possible misinterpretation of the present taxation regime in Indonesia in relation to the country of residence of the investor.

### 7. Tax Concessions or Exemptions for Nonresident Investors

In principle, the Indonesia taxation system has no specific tax exemptions or concessions for nonresident investors in the context of the bond market. However, the MOF introduced a tax incentive for investment in conventional and Islamic government bonds denominated in a foreign currency (global bond). The incentive is a zero-rated withholding tax on principal and interest payments, is reaffirmed in each financial year’s Budget Law, and is accessible for all investors, including nonresidents (see also under section 2 in this chapter).

VII

# Market Size and Statistics

The original ASEAN+3 Bond Market Guide was published in April 2012 and included several pages of Indonesian bond market statistics, including historical data such as bond holdings, bondholder distribution, outstanding amounts, and trading volumes. Not surprisingly, this data became stale soon after publication.

Since the ASEAN+3 Bond Market Guide is most likely to be updated only on a biennial basis, it is not the best channel for the dissemination of market statistics. Hence, a chapter comprising bond market statistics has been discontinued and replaced with a list of recommended sources for detailed, accurate, and current information sources on the Indonesian bond market. These sources are listed below in alphabetical order.

- *AsianBondsOnline* (an ASEAN+3 initiative led by ADB)
  https://asianbondsonline.adb.org/indonesia.php
  - Market-at-a-Glance
  - Data (market size, yields, indicators, ratings, including historical data)
  - Market structure
  - Market summary
  - News (latest statistics)

- Bank Indonesia
  http://www.bi.go.id/en/moneter/Contents/Default.aspx
  - Government bonds
  - Auction of SBI
  - Auction of Bank Indonesia FX bills
  - Repo rates

- Indonesian Bond Pricing Agency
  http://www.ibpa.co.id
  - Bond prices
  - Yield curves
  - Government and corporate bonds

- Indonesia Stock Exchange
  http://www.idx.co.id/en-us/home/marketinformation/bondsukuk/otctradereport.aspx
  - Latest OTC trade report
  - Trade report summary
  - Most active securities
  - Government and corporate bonds

# VIII

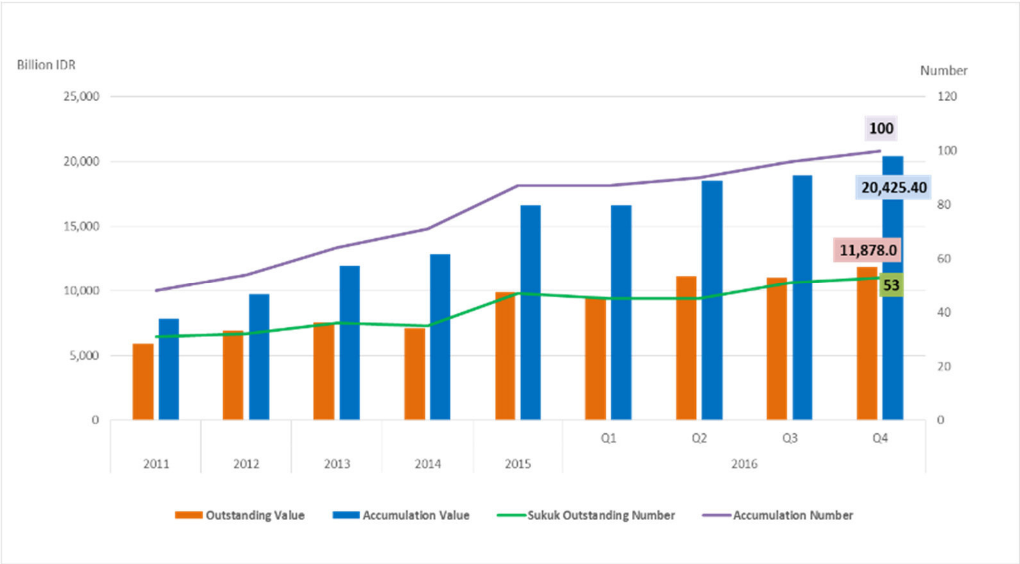
# The Indonesian Islamic Bond Market

## A. Introduction

The Indonesian Islamic bond market is the second biggest such market in ASEAN+3, behind only Malaysia. According to an International Islamic Financial Market report published in March 2016, Indonesia is home to the fourth-biggest Islamic finance market in the world.[54]

Overall, the Indonesian Islamic financial market shows an incredible variety of Sharia financial institutions, products, and services, with nearly all conventional financial institutions, products, and services offering a Sharia format. This is also mirrored in the Islamic bond market, where both government and corporate issuances have a Sharia equivalent for almost every conventional debt instrument.[55]

**Figure 8.1: Corporate *Sukuk* Issuance Volume and Outstanding Value Development, 2011–2016**




Source: Otoritas Jasa Keungan (Financial Services Authority).

[54] For details, please refer to International Islamic Financial Market. *Sukuk Report: A Comprehensive Study of the Global Sukuk Market, Fifth Edition*. http://www.iifm.net/system/files/private/en/IIFM%20Sukuk%20Report%20%285th%20Edition%29%20A%20Comprehensive%20study%20of%20the%20Global%20Sukuk%20Market_0.pdf

[55] The text of this chapter was adopted by ADB Consultants for SF1 largely from information and references to the Sharia capital market in Indonesia on the OJK website and in its *Annual Report 2015*, plus selected information from the public domain.

Conventional banks, brokers, and investment managers may buy Sharia instruments in addition to conventional products, whereas Islamic financial institutions, including Islamic banks and mutual funds, may only invest in Sharia products.

The issuance of Sharia instruments has recorded strong growth in recent years, particularly corporate issuances (Figure 8.1). At the same time, the value of Sharia instruments, such as *sukuk* and Sharia investment funds, has remained below 5% of the total corporate market. This, however, is also a reflection of the strong growth of the conventional bond market in Indonesia over the same period (see Chapter I for information on bond market growth).

To ensure that the Islamic financial industry keeps pace with overall growth and development of the Indonesian capital market, OJK launched a Sharia financial services sector strategic plan in 2015 as a road map for the Sharia banking industry, capital market, and non-bank financial industry. The road map is a reference for the industry and all relevant stakeholders when developing the Sharia financial industry for 2015–2019.

In Indonesia, the Sharia capital market is neither a market on its own nor separate from the capital market overall; it may best be described as a market segment. Sharia instruments are issued and traded in the same manner as conventional instruments, and are transacted, cleared, settled, held, and reported using the same market infrastructure (see Chapter IV). The promulgation of separate regulations for Sharia instruments is solely driven by the need to establish the observance of the Islamic principles underlying these instruments.

Sharia principles and applicable definitions, and the elements of the Sharia capital and bond markets, are further explained in the following sections of this chapter.

## B. The Islamic or Sharia Capital Market

The Sharia capital market in Indonesia can be defined as the sum of all activities in the capital market that do not conflict with Islamic, or Sharia, principles.

In general, Sharia capital market activities are no different from conventional capital market activities, but do show some special characteristics in relation to Sharia capital market products in that the transaction mechanisms do not conflict with Sharia principles. For all intents and purposes, such potential distinctions may not be apparent much when observing capital market activities in Indonesia.

Sharia capital market products include Sharia shares, Sharia bonds, and Sharia investment funds, which in turn may specialize in the investment in one or more of the above instruments. Market participants in the Sharia capital market typically comprise the same Capital Market Participants and Capital Market Supporting Institutions and Professionals that are licensed by or registered with OJK for the overall capital market. As an added qualification to conduct or support activities in the Sharia capital market, these institutions are required to confirm their capacity to understand and observe Sharia principles when carrying out their activities.

One significant addition to the Sharia capital market is the Sharia Capital Market Expert, which is regulated by OJK Regulation Number 16/POJK.04/2015. It is a person or a business entity having the capacity and experience in the field of Sharia-compliant finance. The Sharia Capital Market Expert provides advice, oversees the implementation of Sharia aspects in the capital market activities of a company's business, and provides a statement of Sharia compliance for products and services in the Sharia capital market.

The other additional institution of significance for the Sharia capital market is the DSN-MUI, the country's top Muslim clerical body which sets standards for Sharia instruments to adhere to Islamic principles and issues *fatwa* (legal opinions or interpretations of Islamic faith) for the way these instruments are structured and handled in the Indonesian market.

The market institutions for the Indonesian capital market—BI, IDX, KPEI, KSEI, and IBPA—all process and administer Sharia instruments through their respective infrastructure and processes.

## C. Instruments in the Sharia Capital and Bond Market

The Capital Market Law defines securities as promissory notes, commercial paper, shares, bonds, evidences of indebtedness, participation units of collective investment contracts, futures contracts related to securities, and all derivatives of securities.

In turn, OJK Regulation Number 15/POJK.04/2015 concerning Implementation of Sharia Principle in the Capital Market states that Sharia securities are securities as defined in the Capital Market Law and its implementing regulations under which the Sharia instrument's underlying contract, business activities, and operations fulfil Sharia principles. Until now, Sharia securities that have been issued are Sharia stocks, *sukuk*, and Sharia mutual funds.

### 1. Nature of *Sukuk*

*Sukuk* is the plural form of the Arabic word *sakk.* According to OJK Regulation Number 18/POJK.04/2015 concerning Issuance and Requirements for Sukuk, *sukuk* are Sharia securities in the form of a certificate or proof of ownership that have the same value and represent a participation unit that is not separate from, or consist of, (with the applicable Islamic principle stated)

(i) ownership of particular tangible assets;
(ii) beneficial value or services of a particular project's assets or particular investment activities; the ownership of a particular project's assets or particular investment activities;
(iii) *al khadamat* (services) that have already existed or will exist;
(iv) *maujudat masyru 'mu'ayyan* (particular project assets); and/or
(v) *nasyath ististmarin khashah* (investment activities) that have already been determined.

In Indonesia, *sukuk* are often referred to as Sharia bonds, including in official IDX and OJK publications.

### 2. Types of *Sukuk*

*Sukuk* may come in a number of different types, each representing a different underlying Islamic principle, or a combination of these principles. Before a *sukuk* may be issued, it should get an opinion of Sharia compliance from a Sharia Capital Market Expert (see under section B). Principally, the types of *sukuk* in existence are based on the Sharia Standard No. (17) on Investment Sukuk, issued by the Accounting and Auditing Organization for Islamic Financial Institutions, which is widely regarded as authoritative and can be categorized as follows:[56]

[56] For detailed information, please see http://aaoifi.com/standards-under-review-4/?lang=en

(i) Ownership Certificate on leased asset;
(ii) Ownership Certificate on benefit, which consist of: ownership certificate on existing asset, ownership certificate on future asset, ownership certificate on party of services, ownership certificate on future services;
(iii) Salam Certificate;
(iv) Istishna Certificate;
(v) Murabahah Certificate;
(vi) Musyarakah Certificate;
(vii) Muzara'a Certificate;
(viii) Musaqa Certificate; and
(ix) Mugharasa Certificate.

*Sukuk ijarah* is the predominant type of *sukuk* being issued in the Indonesian market. Of 53 corporate *sukuk* outstanding at the time of the compilation of the Indonesia Bond Market Guide, 35, or 68%, use an *Ijarah aqd* (Islamic contract).

## D. Regulatory Framework for the Sharia Bond Market

In principle, the regulatory framework in the Indonesian market applies to both conventional and Sharia instruments. All securities intended to be issued via an offer to the public are subject to the submission of a Registration Statement and supporting documentation, and its approval by OJK.

Issuers of Sharia instruments are required to observe BI regulations with regard to FX and the stability of the Indonesian rupiah (see also Chapter II.M). Shariah instruments to be listed are subject to the same listing approval and disclosure requirements as conventional instruments, with certain additions prescribed in OJK Regulation Number 18/POJK.04/2015 concerning Issuance and Requirements for Sukuk.

At the same time, the nature of Sharia instruments has necessitated the issuance of regulations to ensure the compliance of these instruments with the underlying Islamic principles and to institute the certification of the instruments by an appropriate expert body to address the needs for investors that need to ensure Sharia compliance. In addition, Sharia instruments required an interpretation of the instruments and their underlying structures in the context of the general regulatory framework, including their treatment for the purpose of taxation.

As such, OJK issued Regulation Number 15/POJK.04/2015 concerning Implementation of Sharia Principles in the Capital Market, which contains the following statements with regards to Islamic principles, Sharia contracts, and Sharia securities:

1. General Provisions

1) Sharia Contract is an agreement/written contract between parties which contains certain rights and obligations of each party and does not contradict the Sharia principles in the capital market.

2) Sharia Principles in Capital Market is the Principles of Islamic Law in capital market activities based on the *fatwas* of the DSN-MUI, as long as the *fatwas* do not contradict this rule and/or the Regulations of OJK which are based on the *fatwas* of DSN-MUI.

3) Sharia Securities is Securities as defined in Capital Market Law and its implementing regulation in which its issuance underlying contract, mechanism, and business activities do not contradict the Sharia Principles in Capital Market.

The regulation goes further to stipulate the need for market participants involved in the issuance or servicing of Sharia instruments to ensure that business management and business activities are in compliance with Sharia principles at all times.

The rule also set out activities that were not considered in compliance with Islamic principles, as guidance for market participants and to satisfy investors that are only able to invest in instrument under Islamic principles.

The original Bapepam-LK Rules took into consideration the *fatwas* of the DSN-MUI on the compliance of specific Sharia bond types with Islamic principles, which form the basis for the acceptance of such Sharia bonds in the market (Table 8.1).

In turn, Law No. 19 of 2008 on Sharia Sovereign Bonds was published in May 2008 to enable the government to issue Sharia bonds in the domestic market. These were supplemented by regulations for the issuance of Sharia bonds in international markets a year later.

**Table 8.1: DSN-MUI *Fatwas* for the Sharia Capital Market**

| Title of Fatwa | Date of Issue |
|---|---|
| 20/DSN-MUI/IV/2001 concerning Investment Guidelines for Sharia Mutual Fund | 18 April 2001 |
| 32/DSN-MUI/IX/2002 concerning Sharia Bond | 14 September 2002 |
| 33/DSN-MUI/IX/2002 concerning Mudharabah Sharia Bond | 14 September 2002 |
| 40/DSN-MUI/IX/2002 concerning Capital Markets and General Guidelines for the Implementation of Sharia Principle in Capital Market | 23 October 2002 |
| 41/DSN-MUI/III/2004 concerning Ijarah Sharia Bond | 4 March 2004 |
| 59/DSN-MUI/V/2007 concerning Convertible Mudharabah Sharia Bond | 30 May 2007 |
| 65/DSN-MUI/III/2008 concerning Sharia Rights | 6 March 2008 |
| 66/DSN-MUI/III/2008 concerning Sharia warrant | 6 March 2008 |
| 80/DSN-MUI/III/2011 concerning Implementation of Sharia Principle in the Trading Mechanism of Equity Based Securities on Regular Market | 8 March 2011 |

Source: Otoritas Jasa Keuangan (Financial Services Authority).

At present, OJK Regulations on the Sharia capital market are only available in Bahasa Indonesia.[57] OJK is working toward a complete translation of the relevant regulations into English, which are expected to be available on the OJK website by 2018. For ease of reference, the titles of the OJK issued regulations for the Sharia capital market are provided in Table 8.2.

[57] Please refer to the Bahasa Indonesia version of the OJK website at http://www.ojk.go.id/id/kanal/syariah/regulasi/peraturan-pasar-modal-syariah/Default.aspx

**Table 8.2: Financial Services Authority Regulations for the Sharia Capital Market**

| OJK Regulations | Date of Issue |
|---|---|
| 15/POJK.04/2015 concerning Implementation of Sharia Principle in Capital Market Replacing Bapepam-LK Rule Number IX.A.13 | 10 November 2015 |
| 16/POJK.04/2015 concerning Sharia Capital Market Expert | 10 November 2015 |
| 17/POJK.04/2015 concerning Issuance and Requirement of Sharia Stock by Sharia Issuers and Sharia Public Companies | 10 November 2015 |
| 18/POJK.04/2015 concerning Issuance and Requirement for Sukuk | 10 November 2015 |
| 19/POJK.04/2015 concerning Issuance and Requirement for Sharia Mutual Fund | 10 November 2015 |
| 20/POJK.04/2015 concerning Issuance and Requirement for Sharia Asset Backed Securities | 10 November 2015 |
| 53/POJK.04/2015 concerning Aqd in Issuance of Sharia Securities in Capital Market Replacing Bapepam-LK Rule Number IX.A.14 | 29 December 2015 |
| 30/POJK.04/2016 concerning Collective Investment Scheme Sharia Real Estate Investment Trust | 29 July 2016 |
| 61/POJK.04/2016 concerning Implementation of Sharia Principle in Capital Market for Sharia Investment Manager | 27 December 2016 |
| Bapepam-LK Rule Number II.K.1 concerning Criteria and Issuance of Sharia Securities List (capital market authority before OJK) | 24 April 2012 |

Source: Otoritas Jasa Keuangan (Financial Services Authority).

## E. Infrastructure for the Sharia Bond Market

The present infrastructure in the Indonesian bond market is able to cater to both conventional and Sharia securities. Government Sharia bonds are issued through BI-SSSS, as are the Sharia instruments issued by BI.

Both government and corporate Sharia bonds are listed on IDX and their retail varieties continue to be traded on its market. KPEI effect clearing of exchange-traded Sharia instruments, while KSRI settles Sharia instruments registered in its books. Buyback transactions of government Sharia bonds are conducted with the MOF in the same manner for all other instruments. Transactions in all instruments are reported into CTP, with the only distinction being the need to identify the instrument for statistical purposes.

## F. History of the Sharia Capital Market

The Islamic capital market in Indonesia began with the issuance of Islamic mutual funds by PT Danareksa Investment Management on 3 July 1997. IDX subsequently launched, in cooperation with PT Danareksa Investment Management, the Jakarta Islamic Index on 3 July 2000, which aimed to guide investors who wanted to invest in Sharia instruments available at the time. The Jakarta Islamic Index has since provided investors with a benchmark for shares that are in accordance with Islamic principles.

On 18 April 2001, the DSN-MUI issued Fatwa No. 20/DSN-MUI/IV/2001 on Guidelines for Implementation of Sharia Mutual Fund, which represented the first time the body issued a *fatwa* directly related to the capital market. This was followed by the issuance of the first Islamic bonds in September 2002, by PT Indosat using the *mudharabah* covenant and offering investors a new Islamic investment instrument type.

At the same time, the history of the Islamic capital market can also be traced from institutional developments driven by the capital market regulatory authorities. Such developments started with the memorandum of understanding between Bapepam-LK and the DSN-MUI on 14 March 2003 to develop a Sharia-based capital market in Indonesia.

This development of an Islamic capital market supported by Bapepam-LK was characterized by the establishment of the Islamic Capital Market Development Team in 2003 and the inclusion of an Islamic capital market unit in the organizational structure of Bapepam-LK in 2004. That unit was an Echelon IV-level unit that specifically had the duty and function of developing an Islamic capital market. In line with the development of existing industries, the existing Echelon IV unit was upgraded to Echelon III-level unit in 2006.

On 23 November 2006, Bapepam-LK issued a rules package related to the Sharia capital market. The rules package contained Bapepam-LK Rule Number IX.A.13 concerning The Issuance of Sharia Securities, which formed the basis for securities issuance under Islamic principles, as well as Bapepam-LK Rule Number IX.A.14 concerning Covenants Used in the Issuance of Islamic Securities in the Capital Market. Bapepam-LK and followed up with the issuance of Rule Number II.K.1 regarding Criteria and the Issuance of Sharia Securities List on 31 August 2007, to establish a complete regulatory framework for Sharia securities.[58] The first such Sharia Securities List was issued by Bapepam-LK on 12 September 2007.

The development of the Islamic capital market reached a new milestone with the enactment on 7 May 2008 of Law No. 19 of 2008 on Sharia Sovereign Bonds (SBSN). This law was needed as the legal basis for the issuance of Islamic government securities or sovereign *sukuk*. The Government of Indonesia issued SBSN for the first time on 26 August 2008 and has since published additional and supplementary regulations on the issuance of government Sharia bonds in international markets and related processes.

In 2015, Bapepam-LK converted Bapepam-LK Rule Number IX.A.13 concerning the Issuance of Sharia Securities as well as Bapepam-LK Rule Number IX.A.14 concerning Aqd Used In Issuance of Islamic Securities in the Capital Market into a number of distinct OJK Regulations; the resulting regulations are listed in Table 8.2.

## G. Development of Sharia Investment in the Sharia Capital Market

OJK and the Indonesian market institutions and SROs continue to direct efforts towards further developing the Sharia capital market, its products, and investor interests.

In the course of 2015, IDX undertook various measures directed at attracting Sharia investment into the Indonesian capital market, including a combination of extensive educational activities and support and improvements for infrastructure for Sharia investment in the Indonesian capital market. IDX also conducted activities under special cooperation with the Sharia Economic Society, the Forum on Islamic Economic

[58] See http://www.ojk.go.id/en/kanal/pasar-modal/regulasi/klasifikasi-bapepam/peraturan-lainnya/Documents/02TerjemahanPeraturanIXA13_1420162942.pdf

Studies, academics, exchange members, and other market participants. This included measures such as organizing focus group discussions on Sharia capital market development in cooperation with DSN-MUI, and a Sharia investor workshop.

IDX also seeks to better educate investors through a website offering information related to the Sharia Securities List (see Section F), other related regulations and fatwa of DSN-MUI, and a list of constituent stocks included in the Indonesia Sharia Stocks Index. The information can be downloaded directly from the sub-menu Sharia Capital Market on the IDX website.

At the same time, the Sharia capital market in Indonesia continued to experience significant growth through 2016. Up to November 2016, the number of Sharia investors had increased by 115% year-to-date to 10,259 investors. In addition, 12 exchange members obtained access to the Sharia Online Trading System of IDX and a corresponding certification from the DSN-MUI.

With increasing educational activities and further development of investment in the Sharia capital market continuing, it is expected that IDX will make a significant and positive contribution to the overall development of the Indonesian capital market.

Among the initiatives driven by OJK for the Sharia capital market are the relaxation of regulation and related legal certainty of Islamic securities, which would provide a level playing field with conventional securities. This initiative has been implemented with the issuance of nine regulations related to the Islamic capital market in 2015 and 2016. The regulations also introduced new product variants such as *sukuk* based Sharia mutual funds and foreign-based Sharia mutual funds. The first variant allows mutual funds to invest in one *sukuk* and the latter allows mutual funds to invest in foreign Sharia securities.

In the framework of accelerating the growth of Sharia financial services development, OJK stipulated strategic initiative 6, or IS-6, an agreement between the OJK Chief Executive for the Capital Market and the Deputy Commissioners of OJK with the following scope:

(i) formulation of a Sharia financial services industry development roadmap;
(ii) formulation of Sharia financial services regulations that accelerate the growth of its market;
(iii) implementation of a national program to encourage the use of Sharia financial services products;
(iv) coordination with key stakeholders to support the growth of the Sharia financial services industry; and
(v) review of integrated organizational design in terms of regulatory functions, licensing, and supervision of the Sharia financial services sector.

IX

# Indonesian Bond Market Challenges and Opportunities

This chapter discusses some of the real and perceived challenges facing the bond market in Indonesia and its participants. This chapter also aims to describe the possible mitigating factors or market developments that could address these challenges in an appropriate manner.

## A. Challenges in the Indonesian Bond Market

### 1. Listing Only for Publicly Offered Debt Securities

The Capital Market Law stipulates that a listing of securities is only possible for those issuances, which have been or are being offered to the public. This precipitates that listed debt securities are typically aimed at the general investor universe. Thus, the ability to take advantage of a domestic profile listing mechanism is not available for issuers of debt securities in Indonesia who aim their issuances at a professional investor universe.

Instead, such issuance, typically via private placements (see section 3 in this chapter), tend to be listed on other regional listing places such as the Singapore Exchange. Since the prescriptions regarding the listing of securities are anchored in the law, any change to applicable provision would have to undergo the full legislative process, which may take several years.

### 2. Absence of a Professional Investor Concept

Indonesia presently does not have a professional investor concept embedded in law or regulations. This prevents the market from setting up a defined professional bond market segment or participating in regional initiatives that have such professional market segment as a prerequisite.

At the same time, the current private placement market is populated by investors who are for all intents and purpose described as professional and regarded as such under the professional investor concepts in other markets (e.g., banks, securities firms, insurance companies, and asset managers). Yet, since the private placement market in Indonesia is not yet included in the regulatory framework of OJK, an effective ring fencing of the private placement market as a professional market, and the protection of general investors, may not be guaranteed in all instances.

To address this matter, OJK is conducting a study on the use and possible implementation of a professional investor concept for the securities market overall, with the conclusions from the study expected to be published in the course of 2017 and leading to draft regulation. The actual implementation of any such concept and regulation is envisaged to take another 2 years.

### 3. Regulatory Framework for Private Placements

At the time of the compilation of the Indonesia Bond Market Guide, the issuance of debt securities in the form of a private placement did not fall under the regulatory coverage of OJK due to an absence of specific provisions in the Capital Market Law and supplementary regulations. While this lack of formality of such an issuance form popular with professional investors may not appear to be a significant issue, and since the Indonesian market does witness private placement activities, it may deter the participation of institutions—as either issuers or investors—that are held to certain investment principles by their mandates or prudential regulations and, hence, would not be able to participate in an unregulated market segment.

In response to market feedback in recent years, OJK was in the process of conducting a study on a potential regulatory framework for private placements at the time of the compilation of the Indonesia Bond Market Guide. Conclusions from the study and potential next steps are expected to be published to the market in the course of 2017.

### 4. Language of Issuance Documentation

Under prescriptions in the so-called Language Law (see also Chapter III.H), contracts, agreements, and other official documents are required to be in Bahasa Indonesia in addition to those that are also in a foreign language such as English. These prescriptions have also been applied to the submission of securities issuance related documentation in the context of a Registration Statement to OJK.

In consequence, an issuer with existing, standard debt securities issuance documentation in English—for example, for the purpose of a note issuance program in other regional markets—would not be able to rely on the existing set of documents but also need to have any document to be submitted translated into Bahasa Indonesia. This practice results in additional time to market and extra cost to the issuer. The impact of this practice is also more significant since Indonesia presently does not offer an official private placement market for professional investors where the acceptance of issuance documentation in English is prescribed. At the same time, since issuances in the private placement market in Indonesia are presently done via business-to-business agreements, English documentation and supporting documents may be acceptable if the issuer and investors so agree.

### 5. Lack of Standardization of Tax Documentation

One of the principal feedback items among foreign investors in Indonesia is the lack of standardization of the documentation to be submitted in the context of taxation of income or capital gains arising from debt securities. Foreign investors are typically required to submit a certificate of residence or similar document to substantiate the ability to claim tax relief under a DTA between the investment market and their country of residence (see also Chapter VI.G). While such a certificate is often valid only for a number of years, it may still be applied for taxation relief since the residence status of the investor is not likely to change. In most markets, the certificate of residence is accepted as presented, though it need to be translated into English (or the local language) if the original is in a foreign language.

In Indonesia, market practice allows each issuer of debt securities to individually set the documentation requirements, and forms and formats for additional information the issuer may require. This because the issuer is responsible towards the Directorate General of Taxation of the MOF for the correct application and payment of withholding tax at the time of interest payment. There is no standard (set of) tax documentation. This means that both investor and custodian or broker have to issue, accept, and maintain a multitude of forms and formats, despite the fact that they all are serving the same purpose.

In response to the continuous feedback from nonresident investors, ABMF has commenced efforts to document, understand, and compare taxation payment and tax documentation practices in the ASEAN+3 markets to arrive at potential recommendations for policy bodies to improve or adjust market practices for the benefits of all stakeholders.

## B. Opportunities in the Indonesian Bond Market

### 1. Private Placement Market Already Existing

The fact that private placements in Indonesia are presently not regulated by OJK is described in section A.3. At the same time, both nonresident issuers and investors continue to have the perception that, as a result, there would be no active private placement market, or no such market at all.

In fact, the private placement market segment in Indonesia is very active, with participants fulfilling the expectations of professional investor types, despite the absence of a formal professional investor concept in the market. Private placements are issued by a variety of corporate issuers, often large Listed Companies with an investment grade rating or better. Investors include banks, securities firms, asset managers, and insurance companies. The market uses a standard information memorandum—locally known as infomemo—which is, however, in Bahasa Indonesia. At the same time, issuance documentation may be in English if issuers, intermediaries, and targeted investors so agree. Other market practices in the private placement segment are in line with international standards.

As such, the private placement segment of the Indonesian bond market could present opportunities for both nonresident issuers and investors to issue debt securities, including note issuance programs such as MTN with a defined expectation toward issuance documentation and fast time to market in the absence of regulatory approval requirements.

### 2. ASEAN+3 Multi-Currency Bond Issuance Framework

The discussion around an implementation of the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) could serve as a conduit for the recognition or formal definition of a professional investor concept and a professional bond market segment (see also Chapter X). As a national member for Indonesia in ABMF, OJK has been studying the possibility of adopting some of the key elements of AMBIF in its market, including the possibility of introducing a professional investor concept at a later stage (see also Chapter III.N).

For more detailed information on AMBIF, please also refer to section B in Chapter X.

# X

# Recent Developments and Future Direction

## A. Recent Major Developments

Recent major developments are considered those that occurred or have been announced in the Indonesian market since the first publication of the ASEAN+3 Bond Market Guide for selected economies in April 2012.

### 1. Financial Services Authority Established as Single Market Regulator

OJK assumed the role as the single regulatory authority for the financial and capital markets in Indonesia, taking over the remit of the previous Bapepam-LK for the capital market in 2013 and the banking supervisor function from BI in 2015. For further details on this change, please refer to Chapter I.B.

### 2. Bank Indonesia Upgraded Scripless Securities Settlement System

BI concluded the implementation of the second generation of its key market infrastructure in July 2016.

According the press release of BI, the implementation of the second-generation BI-SSSS, along with real-time gross settlement and ETP platforms, was based on five important considerations: (i) improve efficiency and risk mitigation in line with best practices; (ii) extend domestic and cross-border interoperability; (iii) accommodate global and domestic market and financial system dynamics, including BI and government policy amendments as required; (iv) accommodate a growing transaction volume; and (v) update existing technology that had been in place for more than a decade.[59]

### 3. Tax Incentives for Government Securities Denominated in Foreign Currency

The June 2016 announcement of the MOF on tax incentives to investors in conventional and Islamic foreign-currency-denominated government bonds once again highlighted existing tax concessions available to investors. While possibly not widely known, this MOF policy officially known as Tax Borne by the Government for Global Bond Issuance renews the tax concessions on an annual basis as part of the implementing regulations of the Budget Law for a given year. The policy stipulates the removal of withholding tax on principal and interest payments and is available to residents and nonresidents alike. It is valid retroactively from 1 January of a budget year. Further information is available in Chapter VI.G.2.

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[59] The full press release is available at http://www.bi.go.id/en/ruang-media/siaran-pers/Pages/sp_178215.aspx

### 4. Shelf Registration Concept for Public Offering of Debt Securities and/or *Sukuk*

In December 2014, OJK introduced the Regulation concerning Shelf-Registration to improve access to funding for issuers or public companies in the capital market so that the capital market could become an alternative source of funding for businesses. Please see Chapter III.E for further details.

### 5. Financial Services Authority Introduced Repurchase Agreement Regulation

With effect from 1 January 2016, OJK introduced the Regulation concerning Guidelines on Repurchase Agreement Transactions for Financial Services Institutions, together with the OJK Circular No. 33/SEOJK.04/2015 on Indonesia Global Master Repurchase Agreement in support of the official Indonesia Annex of the GMRA (afterwards known as GMRA Indonesia), which became binding for use by all financial market participants (see Chapter IV.G for details).

With the regulations, repo transactions in Indonesia follow international standards for repo, while allowing for specific features in the domestic bond market, including the choice of eligible collateral.

### 6. Banks May No Longer Invest in Debt Securities Issuances by Nonresidents

As part of its continuing remit for the stability of the Indonesian rupiah and the management of FX, BI prescribed in September 2014 that banks may no longer purchase for their own account debt instruments in Indonesian rupiah issued by nonresidents. Banks may, however, purchase and hold such instrument for and on behalf of their clients. This regulation remains in force and details are provided in Chapter II.M.3.

### 7. Cooperation among Bond Pricing Agencies

In 2013, IBPA signed a cooperation agreement with bond pricing agencies from Malaysia (Bond Pricing Agency Malaysia) and Thailand (Thai Bond Market Association) to reference bond pricing data and information on the respective partner markets on each other's websites.

As a result, IBPA's website carries a section on partner institutions, which contains a link to a landing page with a dashboard display of key Malaysian bonds, notes, and *sukuk*, as well as yields and yield curves, and the Thomson Reuters BPA Malaysia Bond Index family calculated by BPAM. Visitors to the landing page can use a link to the main website of BPAM at their discretion.

## B. Future Direction

Market participants in the Indonesian bond market are looking forward to a number of policy initiatives and proposed market developments in the near future. This section is intended to provide an overview of these initiatives or developments already announced.

### 1. Review of Issuance Documentation and Practices

At the time of the compilation of the Indonesia Bond Market Guide, OJK was in the process of conducting a study on how to simplify the securities issuance process and related documentation, with the aim of defining an easier and more streamlined issuance approval process, leading to a faster time to market for issuers. One focal point of the review was the simplification of issuance related documentation. The study was expected to be completed by the end of 2016 or in early 2017, with conclusions to be published by OJK soon thereafter.

### 2. ASEAN+3 Multi-Currency Bond Issuance Framework

The introduction of AMBIF in regional markets in the course of 2015 signaled another potential opportunity for bond or note issuance activities in markets other than the original adopters (Hong Kong, China; Japan; Malaysia; the Philippines; Singapore; and Thailand).

Potential issuers have identified Indonesia as one of the markets of particular interest, largely due to the increased focus on decentralized funding for the support of domestic business operations by ASEAN+3-based corporates.

Aimed particularly at the issuance of bonds, notes, or *sukuk* to professional investors in participating markets, AMBIF encourages domestic and regional issuers to take advantage of streamlined issuance approval processes across the region. For additional information on AMBIF, kindly refer to Chapter IX.5.

The key advantage of AMBIF for Indonesia lies in the ability of regional issuers to tap multiple markets in addition to Indonesia while using the same or similar approval processes. This is seen as offering an alternative for corporate issuers to issue bonds, notes, or *sukuk* across markets instead of (or in addition to) relying on other forms of funding.

# Appendix 1
# Group of Thirty Compliance

The Group of Thirty recommendations were originally conceived as the group's Standards on Securities Settlement Systems in 1989, detailing in a first-of-its-kind report nine recommendations for efficient and effective securities markets 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, and through the efforts of a joint task force of the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions. Compliance with the Group of Thirty recommendations in individual markets is often an integral part in securities industry participants' and intermediaries' due diligence process.

**Table A1: Group of Thirty Recommendations—Compliance for Indonesia**

| 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 finals, simultaneous transfer and availability of assets. | Yes |

| Recommendation | | Implemented |
|---|---|---|
| 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: Group of Thirty. *Global Clearing and Settlement–A Plan of Action*. http://newsite.group30.org/publications/detail/123

# Appendix 2
# Practical References

For easy access to further information about the market features described in the Indonesia Bond Market Guide—including information on the policy bodies, regulatory authorities, and securities market-related institutions—interested parties are encouraged to utilize the following links (most web pages available in English):

*AsianBondsOnline* (Asian Development Bank)
https://asianbondsonline.adb.org/indonesia.php

Bank Indonesia
http://www.bi.go.id/en/Default.aspx

Bank Indonesia—Scripless Securities Settlement System
http://www.bi.go.id/en/sistem-pembayaran/sistem-setelmen/bi-ssss/bi-ssss/Contents/Default.aspx

Financial Services Authority (Otoritas Jasa Keuangan)
http://www.ojk.go.id/en/Default.aspx

Indonesia Bond Pricing Agency (Penilai Harga Efek Indonesia)
http://www.ibpa.co.id

Indonesia Bond Pricing Agency—Microsite (Bond Overview)
http://www.ibpa.co.id/IBPAMicrosite.aspx

Indonesian Central Securities Depository (Kustodian Sentral Efek Indonesia)
http://www.ksei.co.id/?setLocale=en-US

Indonesia Deposit Insurance Corporation (Lembaga Penjamin Simpanan)
http://www.lps.go.id

Indonesian Securities Clearing House (Kliring Penjaminan Efek Indonesia)
http://www.kpei.co.id

Indonesia Stock Exchange (Bursa Efek Indonesia)
http://www.idx.co.id/index-En.html

Indonesia Stock Exchange—*IDX FactBook*
http://www.idx.co.id/en-us/home/publication/factbook.aspx

# Appendix 3
# Glossary of Technical Terms

| | |
|---|---|
| Aqd | Islamic law term for contract |
| Bahasa | Typical shortening of Bahasa Indonesia, the national language |
| Bahasa Indonesia | The national language of Indonesia |
| Bapepam | Badan Pengawas Pasar Modal (Capital Market Supervisory Agency) (original name until 2005) |
| Bapepam-LK | Badan Pengawas Pasar Modal dan Lembaga Keuangan (Capital Market Supervisory Agency) (predecessor agency of OJK from 2005 until 2012) |
| Capital Market Participant | Official term for entities licensed by OJK to participate in the capital market, such as securities companies |
| Capital Market Supporting Institution | Official term for entities licensed by or registered with OJK to act as intermediaries in the capital market, such as custodians, security administrators, or trustees |
| Capital Market Supporting Profession | Official name for professional firms or individuals registered with OJK to be able to service issuers or other entities participating in the capital market, such as accountants, auditors, legal counsels, or notaries public |
| filing | Action of submitting documentation |
| infomemo | Market term for information memorandum used in private placements |
| Investor Area | Service provided by KSEI for its members to provide account information directly to asset owners, using their Single Investor Identification |
| Offering Memorandum | Synonymous with Information Memorandum; term typically used for key documentation for a private placement mainly to professional investors |
| over-the-counter | Organized market for the trading of debt securities, with transactions for both listed and unlisted debt securities |
| preliminary prospectus | Version of the key disclosure document for publicly offered debt securities in Indonesia, which is used as an offer document in a book building exercise |
| prospectus | Key disclosure document for publicly offered debt securities in Indonesia |
| registration | Refers to the registration of securities to be issued with OJK for the purpose of obtaining approval for said issuance |

| | |
|---|---|
| registration | Refers to the registration of securities with KSEI to be eligible for settlement and safekeeping in the Indonesian market |
| Registration Statement | Document to be submitted to OJK for the approval of securities issuance |
| Sharia bond | Term for *sukuk* in the Indonesian market |
| Single Investor Identification | Investor number allocated by KSEI for the purposes of investor convenience and regulatory supervision |
| sub-registry | Refers to the function of an agent of BI for the purpose of settling government securities and BI issued instruments |
| summary prospectus | Version of the key disclosure document for publicly offered debt securities in Indonesia, which is used specifically for the prescribed mass media publication preceding a public offer |

Source: ADB consultants for SF1.

## ASEAN+3 Bond Market Guide 2017 Indonesia

ASEAN+3 Bond Market Guide is a comprehensive explanation of the region's bond markets. It provides information such as the history, legal and regulatory framework, specific characteristics of the market, trading and transaction (including settlement systems), and other relevant information. The Bond Market Guide 2017 for Indonesia is an outcome of the support and contributions of ASEAN+3 Bond Market Forum members and experts, particularly from Indonesia.

### About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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