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.

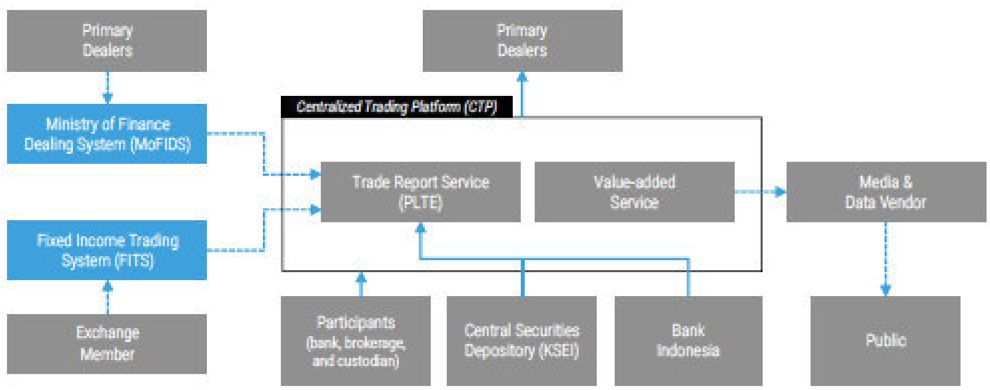
For that purpose, the Indonesian market features the CTP, a reporting and information system for the secondary bond market, which was launched on 1 September 2006.

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]

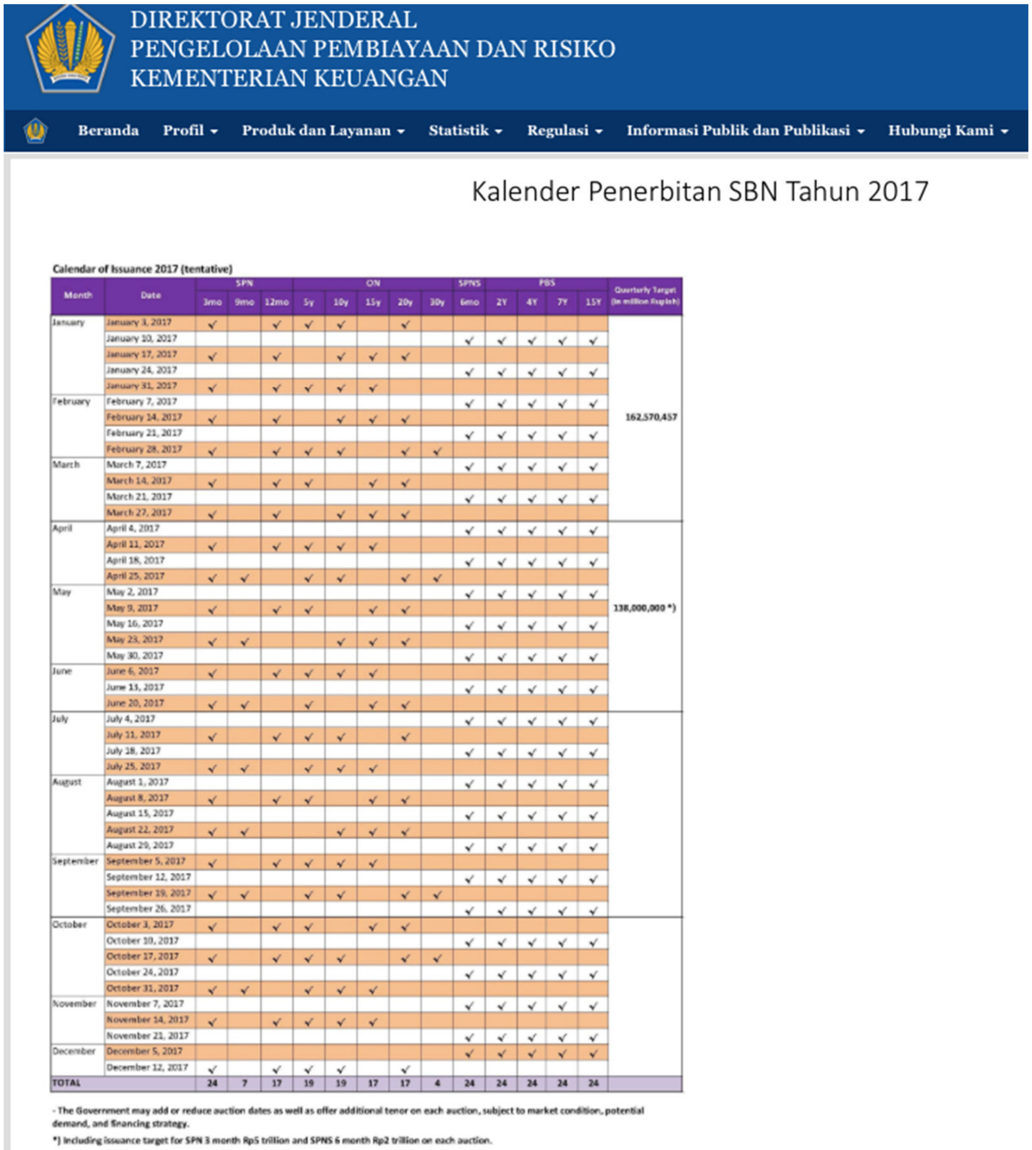
1. Government Securities

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.

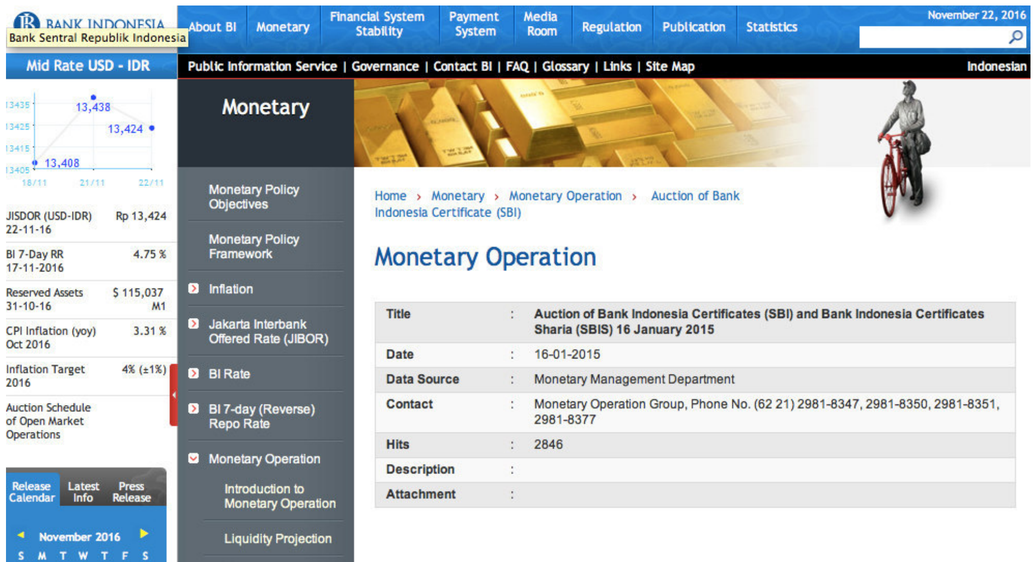
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance. Calendar of Issuance 2017. http://www.djppr.kemenkeu.go.id/#/en/page/produk

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



Auction Date	16 January 2015	
Instrument	SBI	SBIS
Tenor	9 month (273 days)	9 month (273 days)
Settelment Date	16 January 2015	16 January 2015
Due Date	16 October 2015	16 October 2015
Overall Indicative Target	Rp10.000,00	Rp1.000,00
Received Offer	Rp15.527,00	Rp855,00
Range of bid rate	6,87%-7,00%	-
Frequency of Auction	108	7
Absorbed Ammount	Rp10.000,001	Rp855,00
Stop Out Rate (SOR) SBI	6,96% (propo 19,75%)	-
Weighted Average SBI's Auction	6,93347%	-
Return of SBIS	-	6,93347%

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

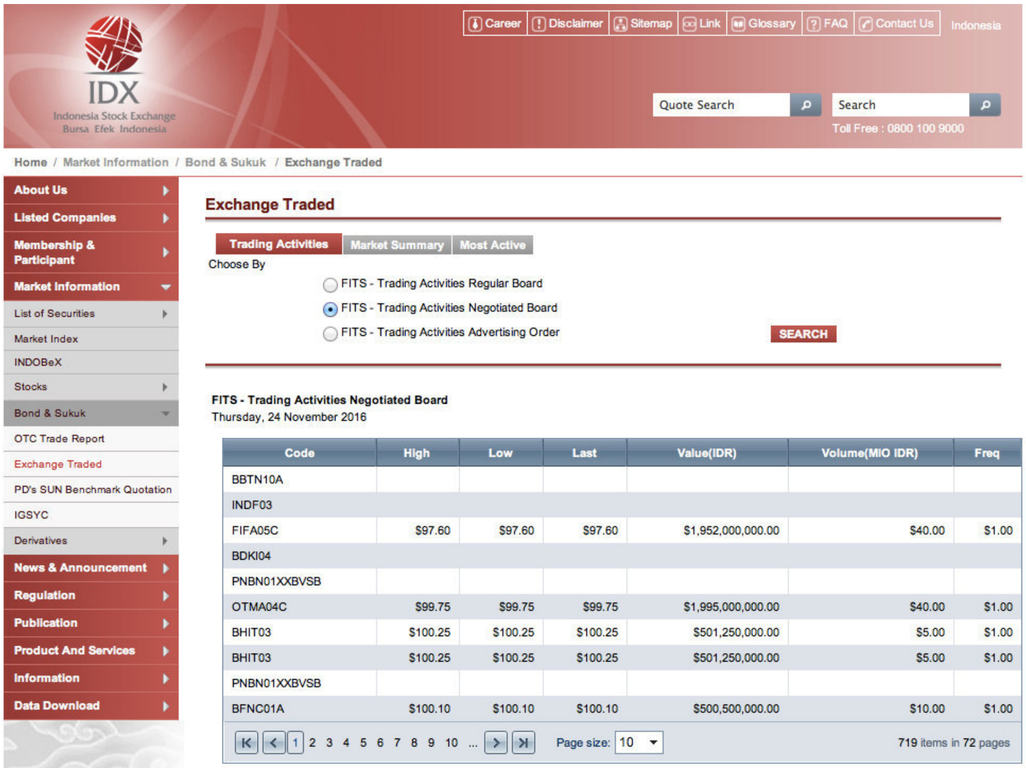
3. Indonesia Stock Exchange

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



Code	High	Low	Last	Value(IDR)	Volume(MIO IDR)	Freq
BBTN10A						
INDF03						
FIFA05C	$97.60	$97.60	$97.60	$1,952,000,000.00	$40.00	$1.00
BDKI04						
PNBN01XXBVSB						
OTMA04C	$99.75	$99.75	$99.75	$1,995,000,000.00	$40.00	$1.00
BHIT03	$100.25	$100.25	$100.25	$501,250,000.00	$5.00	$1.00
BHIT03	$100.25	$100.25	$100.25	$501,250,000.00	$5.00	$1.00
PNBN01XXBVSB						
BFNC01A	$100.10	$100.10	$100.10	$500,500,000.00	$10.00	$1.00

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.

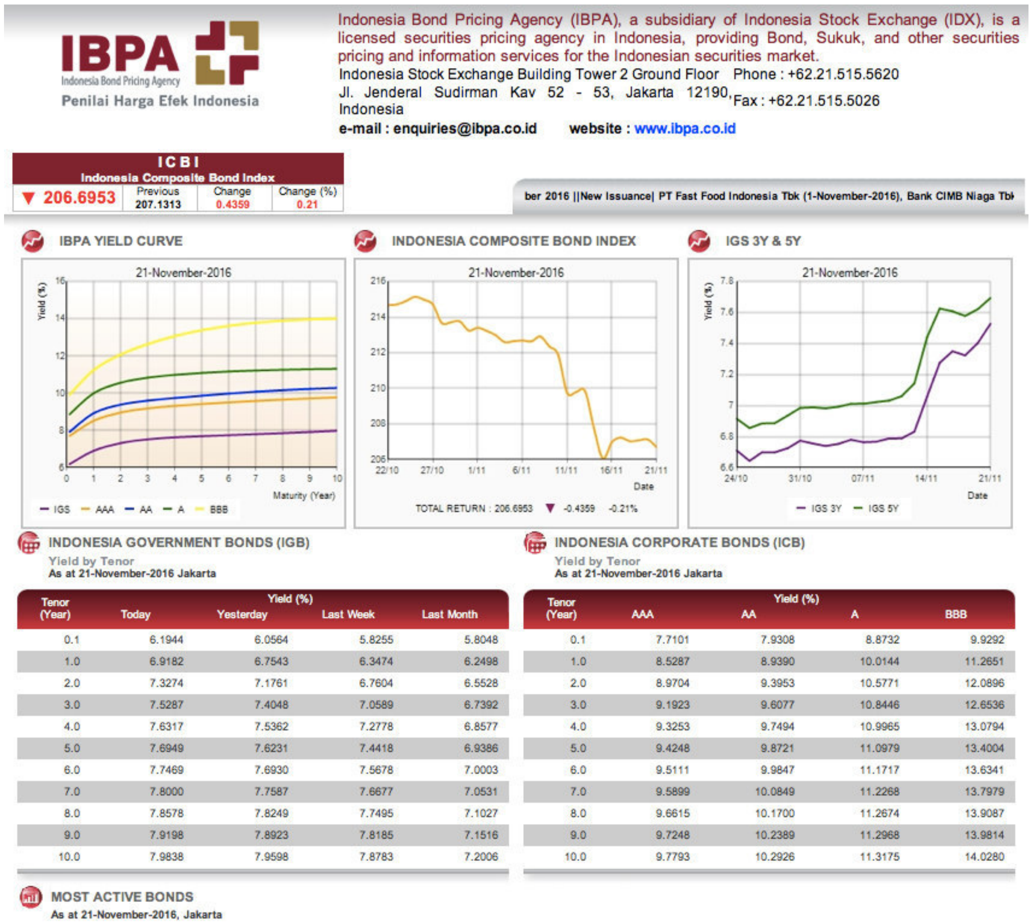
F. Yields, Yield Curves, and Bond Indices

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)

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

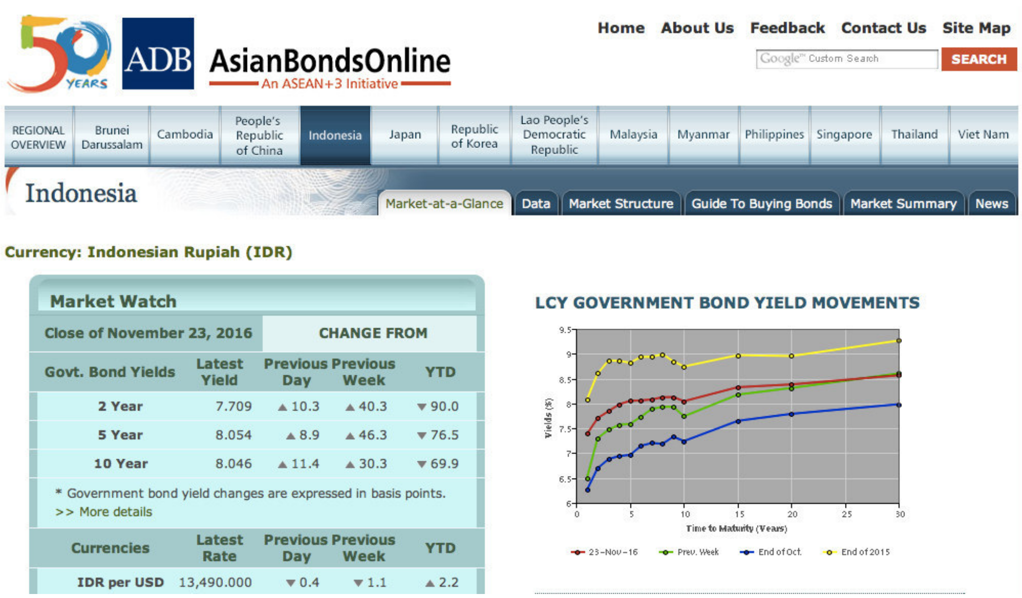
Indonesia Corporate Bonds (ICB)

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

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

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[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.