

Recent Developments and Future Direction

A. Recent Major Developments

Recent major developments are considered those that occurred in the Indonesian bond market since the publication of the *ASEAN+3 Bond Market Guide for Indonesia* in August 2017. For easy reference, the developments are reflected in descending chronological order.

1. Publication of Sustainable Development Goals Government Securities Framework and First Bond Issuance (2021) [NEW]

The Government of Indonesia has developed its *SDG Government Securities Framework*, a comprehensive framework that will cover the various aspects of sustainable financing, including green, social, and blue financing. The *SDG Government Securities Framework* will serve as guidance for sovereign issuances of green and blue social and sustainability bonds and *sukuk* that will fund eligible projects delivering environmental and social benefits in line with the Indonesian 2030 development agenda. The framework and its second-party opinion from CICERO and the International Institute for Sustainable Development were published in September 2021.⁴⁴

The Government of Indonesia issued its first Republic of Indonesia SDG Bond on 23 September 2021. Representing another milestone for sovereign bonds, the bond was the first ever EUR-denominated SDG bond in the Securities and Exchange Commission-registered, shelf take-down format. The transaction was also one of the first conventional SDG bond issuances in Asia, reflecting Indonesia's leadership in sustainable financing and a significant step toward achieving the SDGs.⁴⁵

2. Reduction of Withholding Tax Rate for Debt Securities (2021) [NEW]

The Government of Indonesia promulgated the Job Creation Law (formally Law No. 11 of 2020) on 2 November 2020 and subsequently issued implementing regulations on 2 February 2021, which clarified aspects relevant for the bond market.

These aspects include a reduction of withholding tax on bond interest for nonresident bondholders from 20% to 10%, or an applicable tax treaty rate if lower. The bond interest rate reduction became effective on 2 August 2021, which was 6 months after the date of the regulation issuance.

Please also see Chapter VI.H for details on the new law and implementing regulations and the validity of the changes.

⁴⁴ The framework and its second-party opinion can be accessed via the MOF website at <https://www.djppr.kemenkeu.go.id/page/load/3229>.

⁴⁵ More information on the SGD bond may be found in the official press release, which is available at <https://www.djppr.kemenkeu.go.id/page/load/3234>.

3. Launch of the Sustainable Finance Roadmap Phase II (2021–2025) [NEW]

OJK launched the *Sustainable Finance Roadmap Phase II (2021–2025)* on 15 January 2021 to build on the successful implementation of key milestones in Phase I, which ran from 2015 to 2019 and included the promulgation of green bond regulations in 2017, among many other subjects.

The updated *Sustainable Finance Roadmap Phase II (2021–2025)* includes plans for the development of a complete market ecosystem for sustainable finance and the definition of an appropriate taxonomy in conjunction with other institutions. It also hopes to address the limited research into sustainable finance and the lack of human resources dedicated to assessing and verifying green and other sustainable finance projects.

The text of the *Sustainable Finance Roadmap Phase II (2021–2025)* is available in English and can be downloaded from the OJK website.⁴⁶

In 2020, OJK also became a member of the Network for Greening the Financial System.⁴⁷

4. Debt Securities or Sukuk Offering through Crowdfunding Services Based on Information Technology (2020) [NEW]

On 13 December 2020, OJK promulgated Regulation No. 57/POJK.04/2020 Offering of Securities through Crowdfunding Services Based on Information Technology; the regulation was subsequently further updated through OJK Regulation No. 16/POJK.04/2021 promulgated in August 2021. While the regulation of crowdfunding for securities offerings was not new—the original regulation was issued in December 2018 and focused on share offerings—the updated regulations expanded the scope of securities offerings via crowdfunding to include offerings of debt securities or *sukuk*. At the time of the initial introduction, crowdfunding had already been recognized for providing a fast, easy, and affordable alternative source of funding for start-ups and small and medium-sized enterprises that are not yet bankable to develop their business.⁴⁸

The purpose of OJK introducing and expanding these crowdfunding regulations was to establish legal certainty and protection for platform organizers, offerors, and investors, and to ensure the use of reliable technology as well as appropriate information transparency of these activities in the capital market.

The regulation prescribes the licensing requirements for crowdfunding organizers, carries eligibility criteria for platforms and offerors, and sets the obligations of investors. Debt securities or *sukuk* issued via crowdfunding have to adhere to a number of specific requirements. The maximum amount to be raised is limited to IDR10 billion within 12 months, and the offering would need to be completed within that period; the maximum tenor is 2 years.

⁴⁶ OJK. 2021. *Sustainable Finance Roadmap Phase II (2021–2025)*. <https://www.ojk.go.id/id/berita-dan-kegiatan/publikasi/Documents/Pages/Roadmap-Keuangan-Berkelanjutan-Tahap-II-%282021-2025%29/Roadmap%20Keuangan%20Berkelanjutan%20Tahap%20II%20%282021-2025%29.pdf>.

⁴⁷ The Network for Greening the Financial System's purpose is to help strengthen the global response required to meet the goals of the Paris Agreement and to enhance the role of the financial system to manage risks and mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development. To this end, the network defines and promotes best practices to be implemented within and outside of the membership of the network, and it conducts or commissions analytical work on green finance. For further information, please see <https://www.ngfs.net/en>.

⁴⁸ Information provided by KSEI and adapted from reports in the public domain.

KSEI has been working with crowdfunding organizers to establish connectivity and procedures for the registration of the issued debt securities or *sukuk* and their ownership once the issuance is complete.

Please see Chapter III.E for a detailed description of debt securities issuance via crowdfunding platforms.

5. Indonesia Stock Exchange Launched Alternative Trading Platform (2020) [NEW]

On 7 November 2020, IDX launched SPPA as an OTC trading platform for bonds and *sukuk* in the secondary market. SPPA was the result of further developing ETP (see Chapter IV.B.5 in the *ASEAN+3 Bond Market Guide for Indonesia*), but it represents an entirely new system.

OJK had issued the underlying OJK Regulation No. 8/POJK.04/2019 Concerning Alternative Market Organizers (which are referred to as PPA) in 2019 and had previously licensed IDX as an entity qualified to operate a PPA. IDX operates SPPA as a platform distinct from its exchange market. Details on SPPA can be found in Chapter IV.B.6 in this update note.

6. Launch and Expansion of eASY.KSEI Application (2020) [NEW]

On 20 April 2020, KSEI launched its facility to support general meetings of shareholders of public limited liability companies with shares deposited at KSEI. The application, referred to as eASY.KSEI, will be implemented in two phases: (i) the e-proxy module, which will electronically facilitate and integrate the granting of authority by shareholders to an authorized representative, and (ii) the e-voting module to electronically facilitate the attendance and voting process during a general meeting so shareholders can participate in the meeting without the need for physical attendance.

The launch had been under preparation for some time and was eventually brought forward to support the Government of Indonesia's response to the COVID-19 pandemic.

KSEI's annual general meeting of shareholders on 28 June 2021 was the first general meeting to utilize both the e-proxy and e-voting modules in the eASY.KSEI application. The application is also complimented with a general meeting broadcast module that provides viewing through a Zoom webinar format via the AKSes facility on the KSEI website.⁴⁹

The development is mentioned here because the platform is intended to also be used for bondholder meetings in the future. Please see section B for information on the future expansion of the eASY.KSEI application.

7. Introduction of Sustainability Bonds (2019) [NEW]

BRI issued the first sustainability bond by a financial services institution in Indonesia (and in Southeast Asia) in March 2019. Proceeds from the 5-year bond were allocated toward a combination of green and social projects including housing subsidies; micro-, small-, and medium-sized enterprise empowerment; green buildings; and low-carbon transportation in Indonesia.

Please see Chapter III.B.4 for details on BRI's sustainability bond and similar instrument types in the Indonesian market and their underlying frameworks.

⁴⁹ The KSEI announcement in relation to its 2021 general meeting of shareholders is available for download at https://www.ksei.co.id/Announcemen/Files/128657_ksei_4012_dir_0521_202106032030.pdf.

8. Introduction of Private Placement Regulation (2019) [NEW]

OJK issued OJK Regulation No. 30/POJK.04/2019 Concerning Issuance of Debt Securities and/or Sukuk Not Through a Public Offering (private placement regulation) on 29 November 2019. The regulation brought the issuance of debt securities or *sukuk* via private placement under the purview of OJK. It contains eligibility criteria for entities wishing to issue a private placement as well as other prescriptions for the debt securities or *sukuk* and the issuance process. The regulation came into effect on 1 June 2020.

In contrast to public offerings of debt securities or *sukuk*, private placements do not require registration with and approval of OJK. The regulation was not intended to change existing market practices but to bring the existing private placement market segment under the regulatory coverage of OJK, provide issuing entities and investors with legal certainty, and tighten eligibility and investor protection practices.

Private placement as a method of issuance in the Indonesian bond market is described in Chapter III.E. For detailed information on the issuance process of private placements under the new regulation, please see Chapter II.F.5.

9. Use of Central Bank Money for Settlement of Securities Transactions (2019) [NEW]

Since 22 July 2019, cash settlement of securities transactions to be settled at KSEI has been carried out using central bank money. This achievement is generally referred to in the Indonesian market as “Full CeBM.”

Before Full CeBM was implemented, KSEI account holders—custodian banks and securities companies—had to conduct cash settlement for securities transactions through commercial banks appointed by KSEI as payment banks.

The implementation of Full CeBM is in accordance with the Principles of Financial Market Infrastructures issued by the Committee on Payment and Market Infrastructures and the International Organization of Securities Commissions.⁵⁰

10. Introduction of the Professional Investors Concept (2018) [NEW]

With the promulgation of the Public Offering to Professional Investors Regulation (OJK Regulation No. 11/POJK.04/2018) on 1 August 2018, with effect that same day, OJK introduced to the Indonesian capital market a formal definition for professional investors.

Kindly refer to Chapter III.N in this update note for a complete description of the professional investors concept, eligibility criteria, and setting of selling and transfer restrictions.

11. Introduction of T+2 Settlement for Exchange Transactions (2018) [NEW]

The Indonesian capital market successfully implemented T+2 settlement for transactions executed on IDX with effect from 23 November 2018. This includes fixed-income transactions executed on IDX.

From 2016 to 2018, IDX conducted studies, distributed questionnaires, conducted focus group discussions, organized self-assessments, and held meetings with IDX members, custodian banks, payment banks, and system application providers—as

⁵⁰ Adapted from KSEI. 2019. *Annual Report 2019*. <https://www.ksei.co.id/annual-reports>.

well as local, foreign, retail, and institutional customers—in preparation for the shortening from the original T+3 settlement cycle.

In addition to benefiting the Indonesian capital market in terms of competitiveness and credibility, the change was aimed at harmonizing settlement cycles among exchanges globally. The change itself was made possible by the increasing integration of information technology systems, including the use of a SID and a customer funds account, which allows for a faster allocation and settlement process.

12. Issuance of First-Ever Sovereign Green Sukuk (2018) [NEW]

The Government of Indonesia issued its first green *sukuk* in February 2018, following the adoption of the ICMA Green Bond Principles and the publication of its *Green Bond and Green Sukuk Framework*. The green *sukuk* was widely recognized as the first sovereign green *sukuk* globally.

The inclusion of green *sukuk* in the mix of sovereign debt instruments, and the recognition of eligible underlying green projects, is aimed at supporting the Government of Indonesia's greenhouse gas emissions reduction goal.⁵¹

Please see Chapter III.B and Chapter VIII of this update note for details on green bond and green *sukuk* types, respectively, as well as their characteristics. More information on the ICMA Green Bond Principles are available from the ICMA website.⁵²

13. Indonesia Stock Exchange Joined Climate Bonds Initiative Partner Program (2018) [NEW]

In February 2018, IDX became the first exchange in Southeast Asia to join the Climate Bonds Initiative Partner Program.

IDX was the sixth exchange to partner with the Climate Bonds Initiative in a diverse grouping that includes the London Stock Exchange, the Luxembourg Green Exchange, Deutsche Börse, Bolsa Mexicana, and Nasdaq Nordics. Participating exchanges are committed to playing a greater role in the development of global and national green finance, with a particular focus on green bonds.⁵³

In July, IDX listed the first corporate green bond (see Chapter III.B for details).

B. Future Direction

1. Future Development of SPRINT Platform [NEW]

SPRINT is envisaged to enter the next stage of development to enable the electronic submission of issuance documents for public offerings of bonds and *sukuk* through shelf registration (from the second tranche onward), issuance documents for public offerings of bonds and *sukuk* to professional investors, and issuance documents for private placements of bonds and *sukuk* (including medium-term notes).

⁵¹ Statement adapted from *Indonesia's Green Bond and Green Sukuk Initiative* and prepared by the United Nations Development Programme Indonesia.

⁵² <https://www.undp.org/content/dam/LECB/docs/pubs-reports/undp-ndcsp-green-sukuk-share.pdf>.

⁵³ International Capital Market Association. 2018. *The Green Bond Principles*.

<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

⁵³ Information adapted from Climate Bonds Initiative press release available at <https://www.climatebonds.net/2018/02/indonesia-idx-new-partnership-cbi-meanwhile-eba-pina-sign-new-mou-cbi-join-forces-green>.

2. Expansion of e-IPO Service **[NEW]**

Following the launch of Electronic Indonesia Public Offering for equity securities, known as e-IPO, OJK and the market institutions IDX, IDClear, and KSEI are planning to expand e-IPO to public offerings of bonds and *sukuk*. An in-depth study will be carried out as a first step toward realizing this objective.

3. Expansion of eASY.KSEI Platform to Include Bondholder Meetings **[NEW]**

Following the implementation of e-voting and live streaming of shareholder meetings in 2021, KSEI is hoping to expand its eASY.KSEI platform further by including functionality for bondholder meetings. Discussions with regulatory authorities and market stakeholders are ongoing.