

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)	<ul style="list-style-type: none"> • Law No. 21 of 2011 on Otoritas Jasa Keuangan • Law No. 6 of 2009 on Bank Indonesia • Law No. 21 of 2008 on Sharia (Islamic) Banking • Law No. 8 of 1995 on Capital Market
Regulations	<ul style="list-style-type: none"> • Government Regulation Number 45/1995 on Management of Activities in Capital Market • OJK Regulation concerning Guideline of Repurchase Agreement Transaction for Financial Services Institution (POJK Nomor 9/POJK.04/2015) • OJK Regulation concerning Shelf Registration (POJK Nomor 36/POJK.04/2014) • OJK Regulation concerning Securities Exchange Transaction Settlement Guarantee (POJK Nomor 26/POJK.04/2014) • OJK Regulation concerning Licensing of Underwriter Representative and Broker–Dealer Representatives (POJK Nomor 27/POJK.04/2014) • OJK Regulation concerning Securities Broker–Dealer Agent (POJK Nomor 24/POJK.4/2016) • OJK Regulation concerning Document of Registration Statement for Equity and Debt/Sukuk Securities Public Offering (POJK Nomor 7/POJK.04/2017) • 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)	<ul style="list-style-type: none"> • OJK Circular Letter concerning Procedures for Electric Reporting by the Issuers or Public Company (SEOJK Nomor 6/SEOJK.04/2014) • OJK Circular Letter concerning Global Master Repurchase Agreement Indonesia (SEOJK Nomor 33/SEOJK/.04/2015)
SRO regulations	<ul style="list-style-type: none"> • IDX Decree SK-024/LGL/BES/XI/2004-I.F.1: Debt Security Listing (for Listing Bonds and Sukuk) • 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 Keuangan (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 Scrippless 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 *sukuk* 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.

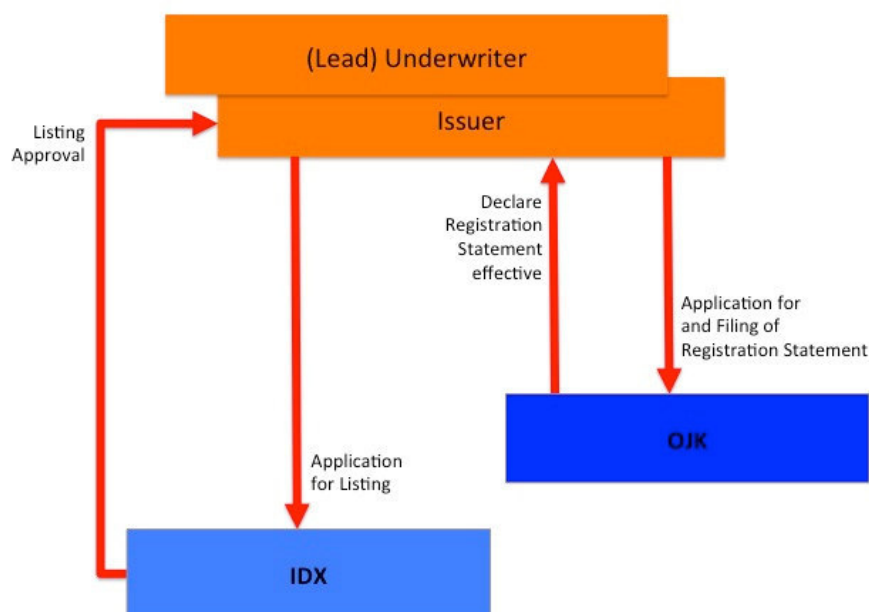
At present, the issuance of securities via private placement is not covered by regulations.

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).

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 *sukuk*, 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 than 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 facilitates 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

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](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>