VI

Bond Market Costs and Taxation

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

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

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

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

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

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

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

2. Underwriter Fee (Mandatory for Public Offers)

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

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

3. Selling Agent(s) Fee (Optional)

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

4. Security Administrator Fee (Mandatory)

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

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

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

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

6. Registration of Securities at the Indonesia Central Securities Depository

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

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

a. Joining Fee

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

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

B. Listing Fees (Optional)

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

1. Indonesia Stock Exchange

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

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

b. Initial Listing Fee

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

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

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

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

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

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

c. Annual Listing Fee

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

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

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

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

The annual listing fee is payable upon the actual listing of the debt securities on IDX. Subsequently, the annual listing fee is payable on the listing anniversary of the debt securities.

2. Other Listing Places

Due to the regulatory requirement that listed debt securities must be issued through a public offer, the listing of debt securities issued via a private placement in Indonesia will have to be pursued at other listing places, either in the region or further abroad.

The issuer of debt securities may choose to list the instruments at listing places outside Indonesia, either as a profile listing to achieve visibility for the instruments or to cater to a particular investor universe. In such instances, the issuer would have to bear the relevant listing fees charged by the listing place and, potentially, related charges from prescribed intermediaries and service providers.

C. Ongoing Costs for Issuers of Corporate Bonds, Notes, and *Sukuk*

1. Registration of Securities at the Indonesia Central Securities Depository

In addition to a joining fee (see section A.5), KSEI also levies an annual fee for registered securities. The fee is payable by the issuer.

a. Annual Fee

An annual fee of IDR10 million is applied for each line of securities registered with KSEI. For debt securities and Sharia bonds consisting of several series, the annual fee will be calculated per series of such debt securities and/or Sharia bonds registered.

The annual fee is first incurred upon the execution of the Securities Registration Agreement with KSEI and is calculated on a prorated basis for the current calendar year. Subsequently, the annual fee is charged at the beginning of every calendar year for as long as the securities are still registered at KSEI.

2. Security Administrator Fee

The security administrator (the registrar and paying agent) should be expected to levy recurring fees for its services, which depend on the service level and interval of, for example, interest payments and other securities administration efforts (see also section A.3).

KSEI may act as the paying agent for debt securities. If appointed, the paying agent fee stipulated in the official KSEI fee schedule applies.

D. Costs for Deposit and Withdrawal of Debt Securities

While the Indonesian market is generally considered dematerialized, this is only applicable to equity securities. Debt securities, as well as mutual fund units, may be certificated for a fee upon the account holder’s (or beneficial owner’s) request.

1. Deposit Fee

There is no specific fee for the deposit of debt securities certificates into KSEI.

2. Withdrawal Fee

A withdrawal of debt securities is principally possible, but the fee reflects the fact that this is not considered practical in a market that is considered otherwise dematerialized.

The withdrawal from KSEI requires the issuance of a securities certificate—as a jumbo certificate only—for the amount withdrawn. KSEI set the withdrawal fee at 0.1% of the current market value at the time of withdrawal, with a minimum fee of IDR25,000 and a maximum fee of IDR500,000, and the fee is charged to the account holder on a monthly basis until such time that the certificate is redeposited into KSEI.

E. Costs for Safekeeping and Account Maintenance at the Indonesian Central Securities Depository

1. Depository (Safekeeping) Fee

A depository fee is the charge incurred by the account holder for the key service provision of a CSD—that is, the safekeeping of securities, either in physical or book-entry form. KSEI levies a depository fee of 0.005% (0.5 basis points) on the nominal value of debt securities held on a book-entry basis only in the account(s) of its participants. The fee is calculated daily, based on day-end securities positions, and charged monthly.

2. Maintenance Fee

KSEI does not charge a general maintenance fee for securities accounts held with the depository. However, a maintenance fee is charged for sub-accounts that are considered inactive or dormant.

The fee comes to IDR1 million, is charged on a monthly basis to the account holder, and prorated for the period during which the account was inactive in a given month. However, KSEI will need to declare to the account holder that the account is considered inactive before commencing to charge the maintenance fee.

F. Costs Associated with Debt Securities Trading

1. Exchange Transaction Fee (Applicable to Trades on Indonesia Stock Exchange)

Participants in the FITS Bond Trading System (see also Chapter IV) incur a transaction fee for every trade executed in FITS, which follows the official fee schedule published by IDX. The transaction fee, distinct for regular and negotiated transactions, is principally value-based and charged on a tiered basis as shown in Table 6.3.

Table 6.3: Indonesia Stock Exchange—Bond Trading Fees

Transaction Value	Calculation Basis	Regular	Negotiation
Less than IDR500 million	Flat (per trade)	IDR20,000	IDR35,000
To IDR10 billion	Transaction value	0.00500%	0.00750%
More than IDR10 billion	Transaction value	0.00375%	0.00500%

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

2. Brokerage Fee (Unlisted Debt Securities)

Trading fees or charges by intermediaries for trades in debt securities for clients are typically built into the traded price or yield. This practice is referred to as “dirty price.”

G. Costs for Settlement and Transfer of Bonds, Notes, and *Sukuk*

KSEI levies a number of fees and charges for the settlement of exchange trades and the transfer of securities as a result of OTC transactions and publishes its fee schedule on its website.[52] The fees mentioned here apply to debt securities, Sharia bonds (*sukuk*), and ABS. Other fees may apply for additional services.

1. Book-Entry Fee (Exchange Transaction)

KSEI charges book-entry fees for exchange transactions to the account holder, i.e., the participant of IDX. The fee is derived from the total amount of exchange transaction fees payable by the IDX participant to IDX, of which 20% is due to KSEI for the ongoing book-entry service.

IDX participants may charge the book-entry fees incurred, as part of the exchange transaction fees, to clients as out-of-pocket expenses, or subsumed with other transaction charges, pursuant to their fee schedule agreed with the investor.

2. Book-Entry Fee (Non-Exchange Transaction)

In contrast, the book-entry of a transfer of debt securities as a result of a non-exchange (OTC) transaction is charged at a flat fee of IDR20,000 per transaction. Non-exchange transactions can be against payment or free of payment instructions.

The fee is charged to the account holder and payable on a monthly basis.

3. Settlement of Repo Transaction

KSEI charges a repo settlement fee for every instruction received by the account holder for the settlement of a repo and reverse repo transaction, which is considered a free-of-payment transaction. KSEI uses specific transaction codes to identify the individual legs of repo transactions.

The fee is IDR20,000 per transaction and is payable on a monthly basis.

4. Settlement Instruction or Confirmation

An account holder in KSEI may not accept settlement instructions from its clients or send settlement confirmation to them as part of their service provision, or may itself not have the infrastructure to do so. In such cases, KSEI is able to directly accept settlement instructions and send settlement confirmations on behalf of the account holder as a chargeable service.

KSEI charges IDR10,000 per transaction confirmation or settlement instruction, payable by the account holder on a monthly basis.

The account holder is likely to charge this fee to their clients as an out-of-pocket expense.

[52] See http://www.ksei.co.id/files/translation_of_Daftar_Biaya_Layanan_Jasa_KSEI_original_format.pdf

H. Taxation Framework and Requirements

The Directorate General of Taxes of the MOF is responsible for setting and executing policy and regulations on taxation in Indonesia.[53] An overview of the taxation specific or relevant for the Indonesian bond market is shown in Table 6.4, with details explained in the individual sections thereafter.

Table 6.4: Duties and Taxes Related to Debt Securities in Indonesia

Types of Tax	Types of Debt Instrument or Service	Type of Investor or Institution	Tax Rate (% or amount)
Corporation Tax	Not applicable	Not applicable	25[a]
Withholding Tax on Interest Income	Government securities	Domestic bank, approved pension fund	0
		Domestic mutual fund	5[b]
		Other domestic investor	15
		Foreign investor	20
	Government securities denominated in foreign currency	Any investor	Exempt
	Bank Indonesia Certificates	Any investor	20
	Corporate debt securities	Domestic bank, approved pension fund	0
		Domestic mutual fund	5[b]
		Other investor	20
Capital Gains Tax	All debt securities	Domestic investor	25[a]
		Foreign investor	5
Stamp Duty	Nominal value of securities up to IDR1 million	All investors	IDR3,000
	Nominal value of securities above IDR1 million	All investors	IDR6,000
Value-Added Tax	All services in the capital market provided (to residents only)	Issuers, investors, intermediaries	10

[a] Tax incentives available for companies listing their stock on Indonesia Stock Exchange.
[b] Concessionary tax rate for mutual funds until 2020, and 10% thereafter.
Source: Compiled by ADB consultants for SF1 from public domain sources.

1. Corporation Tax

Companies and legal entities incorporated in Indonesia, as well as foreign companies with a permanent establishment in Indonesia, are subject to a corporation tax of 25%.

[53] The website of the Directorate General of Tax is presently only available in Bahasa Indonesia at http://www.pajak.go.id

Companies issuing securities have access to a concessionary corporation tax rate related to the listing of their stock on IDX, provided that the issued securities amount to at least 40% of the company's paid-in capital. The concession is 5% off the normal rate for corporation tax, bringing the tax rate to 20% for large issuers.

2. Withholding Tax

The standard withholding tax on interest from conventional debt securities issued in Indonesia is set at 15% for domestic investors and 20% for nonresidents, which may be further reduced to treaty rates under applicable double taxation agreements (DTAs) for foreign investors (see section 6), upon proof of residence status.

Among domestic investors, the type of debt securities influences the effective withholding tax rate applicable to interest received by those investors. Domestic mutual funds approved by OJK enjoy a concessionary withholding tax rate of 5% on income, with this concession in force until 2020; thereafter, the concessionary tax rate will be 10%. In addition, domestic banks and pension funds approved by the government are subject to a zero-rated withholding tax.

In addition, all payments of principal and interest for conventional and Islamic foreign currency-denominated government debt securities are made free and clear of withholding taxes of Indonesia. This policy—referred to officially as Tax Borne by the Government for Global Bond Issuance—has existed since the beginning of the Global Bond Issuance, is stipulated in the Budget Law, and published by the MOF as part of the implementing regulations of the Budget Law every year. The concession is valid from 1 January to 31 December. For example, the MOF announcement in June 2016 on Tax Borne by the Government for Global Bond Issuance was applicable retroactively from January 2016 and valid until 31 December 2016.

3. Capital Gains Tax

Presidential Decree No. 100/2013 on Income Tax on Interest and Bonds Income regulates the taxation provisions on capital gains and bond interest.

Capital gains tax is applicable to nonresidents and charged at a rate of 5% of the gain upon the sale of debt securities issued in Indonesia. Capital gains incurred by domestic investors are taxed as part of the normal income and, hence, are taxable at 25% for corporates and institutions, or any applicable such tax rate (see also section 1).

The capital gains tax is charged on a transaction basis and follows the tax lot principle, i.e. the original purchase price or yield of the debt securities sold for each of the individual lots is to be compared against the sell price or yield of the debt securities sold. An average purchase price cannot be used.

4. Stamp Duty

Stamp duty is payable on all documents bearing a sum of money, including promissory notes and securities of all types. The amount is payable based on the nominal value of the instrument depends on the value (Table 6.4). In the context of a typical bond trade, the amount of stamp duty payable is negligible.

Stamp duty is not applicable to repo transactions.

5. Value-Added Tax

At the time of the compilation of the Indonesia Bond Market Guide, the VAT in Indonesia was set at 10%. The invoicing of services to nonresident investors is not required to include VAT.

6. Double Taxation Agreements

Indonesia had executed DTAs with 65 countries at the time the Indonesia Bond Market Guide was compiled. For information on applicable DTAs and any qualifying comments, it is recommended to contact a professional tax advisor to address individual tax situations and avoid any possible misinterpretation of the present taxation regime in Indonesia in relation to the country of residence of the investor.

7. Tax Concessions or Exemptions for Nonresident Investors

In principle, the Indonesia taxation system has no specific tax exemptions or concessions for nonresident investors in the context of the bond market. However, the MOF introduced a tax incentive for investment in conventional and Islamic government bonds denominated in a foreign currency (global bond). The incentive is a zero-rated withholding tax on principal and interest payments, is reaffirmed in each financial year's Budget Law, and is accessible for all investors, including nonresidents (see also under section 2 in this chapter).