

CIRCULAR LETTER

To

ALL SHARIA COMMERCIAL BANKS AND SHARIA DIVISIONS

Subject : Procedures of the Issuance of Bank Indonesia Sharia
Certificate through Auction

Following the enactment of Bank Indonesia Regulation Number 10/11/PBI/2008 dated March, 31 2008, concerning Bank Indonesia Sharia Certificate (State Gazette of the Republic of Indonesia Number 50 of 2008, Supplement to the State Gazette of the Republic of Indonesia Number 4835), it is necessary to enact provisions concerning the Procedures of the Issuance of Bank Indonesia Sharia Certificate through Auction in a Bank Indonesia Circular Letter as follows.

I. GENERAL PROVISIONS

Terminologies used in this Bank Indonesia Circular Letter are defined as follows.

1. Sharia Commercial Bank, hereinafter to be referred to as BUS, is a Commercial Bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 conducting business based on sharia principles
2. Sharia Division, hereinafter to be referred to as UUS, is :
 - a. a business unit in a conventional bank head office performing functions as the parent office of sharia branch offices and/or sharia units; or

b. a business ...

- b. a business unit in a conventional bank branch office located overseas performing functions as the parent office of sharia sub-branch offices and/or sharia units.
3. Sharia Principles are sharia principles as referred to in Article 1 number 13 Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998.
4. Bank Indonesia Sharia Certificate, hereinafter to be referred to as SBIS, is a short-term securities denominated in the rupiah issued by Bank Indonesia based on Sharia Principles.
5. Bank Indonesia - Real Time Gross Settlement, hereinafter to be referred to as BI-RTGS System, is a system for electronic fund transfer among BI-RTGS System members in the rupiah with settlement in real time and on individual per transaction basis.
6. Bank Indonesia - Scripless Securities Settlement System, hereinafter to be referred to as BI-SSSS, is a system that facilitates transaction with Bank Indonesia including its administration and electronic securities administration, seamlessly interconnected among participants, the Operator, and the BI-RTGS System.
7. Commercial Bank Daily Report, hereinafter to be referred to as LHBU, is a report prepared and submitted by BUS or UUS to Bank Indonesia on daily basis.
8. Demand Deposit Account is a rupiah account with Bank Indonesia owned by BUS or UUS.
9. Securities Account is an account with the BI-SSSS owned by BUS or UUS which is used for the registration of SBIS ownership.
10. Securities Settlement is an activity in debiting and crediting on Securities Account through the BI-SSSS in order to administer transactions with Bank Indonesia and to administer SBIS.

11. Fund Settlement is an activity in debiting and crediting on Demand Deposit Account and/or other accounts with Bank Indonesia through the BI-RTGS System in order to administer transactions with Bank Indonesia and administer SBIS.
12. Rupiah and Foreign Exchange Money Market Brokerage Company, hereinafter to be referred to as Broker, is a company established to conduct brokerage services for its customers' activities in rupiah and foreign exchange money market by obtaining rights for its services.
13. Financing to Deposit Ratio, hereinafter to be referred to as FDR, is a ratio of financing extended to third party in the rupiah and foreign exchange, excluding financing to other bank, to third party's funds covering demand deposits, savings deposits, time deposits denominated in the rupiah and foreign exchange, excluding interbank transaction.
14. Repurchase Agreement SBIS Transaction, hereinafter to be referred to as Repo SBIS, is a transaction of loan extended by Bank Indonesia to BUS or UUS with SBIS as collateral (collateralized borrowing).
15. SBIS Transaction is a SBIS purchasing and/or Repo.

II. SBIS CHARACTERISTICS

SBIS has characteristics as follows.

1. in unit price of Rp1,000,000.00 (one million rupiah).
2. with a minimum tenor of 1 (one) month and a maximum tenor of 12 (twelve) months which is stated in number of calendar days and counted 1 (one) day after transaction settlement date up to maturity date.
(An example of the calculation of SBIS maturity is presented in Appendix 1).
3. issued without paper (scripless).
4. may be collateralized to Bank Indonesia.
5. non-tradable in secondary markets.

III. SBIS ...

III. SBIS RIGHTS

1. Bank Indonesia shall pay rights on SBIS held by BUS or UUS upon maturity.
2. The rate of return to be paid shall refer to the discount rate resulting from the auction of Certificate of Bank Indonesia (SBI) with the same maturity that is issued simultaneously with the issuance of the SBIS under the following provisions.
 - a. If the SBI auction applies a fixed rate tender method, the SBIS rights shall be stipulated the same as the discount rate of the SBI auction results.
 - b. If the SBI auction applies a variable rate tender method, the SBIS rights shall be stipulated the same as the weighted average of discount rate resulting from the SBI auction.
3. In the event of any absence of SBI auction on the same day, the rate of return to be paid as referred to in number 2 shall refer to the most up to date data between those of the SBIS rights and the discount rate of SBI of the same maturity.
4. The SBIS rights shall be computed with the following formula.

$$\text{SBIS Rights} = \text{SBIS Nominal Value} \times (\text{SBIS Maturity} / 360) \\ \times \text{Rate of SBIS Rights}$$

IV. PROVISIONS AND REQUIREMENTS OF SBIS AUCTION

1. Any BUS or UUS shall bid for SBIS to Bank Indonesia.
2. The BUS or UUS bidding for SBIS as referred to in number 1 is required to hold an FDR of no less than 80% (eighty percent) based on Bank Indonesia's calculation and is not being imposed a sanction of temporary termination to participate in SBIS auction.
3. SBIS auction participants comprise :

a. Direct ...

- a. Direct participants, namely BUS, UUS, or Brokers which conduct SBIS auction transaction directly with Bank Indonesia.
 - b. Indirect participants, namely BUS or UUS which bid through Brokers.
4. Any BUS or UUS may bid only for SBIS for its own behalf.
5. Any Broker is prohibited to bid for SBIS for its own behalf.
6. Bank Indonesia shall receive bids for SBIS only from direct participants and use the data of bids for SBIS made by the direct participants.
7. The direct participants may not cancel the bids for SBIS they have entered.
8. The SBIS auction participants shall be accountable for the validity of data of bids for SBIS they have entered.
9. Bank Indonesia shall open SBIS auction window every Wednesday with a window time from 10.00 a.m. up to 12.00 p.m. (western Indonesia standard time) or on another working day with a window time to be stipulated further by Bank Indonesia.
10. Bank Indonesia shall conduct Fund Settlement and Securities Settlement of SBIS auction results on the same working day with the SBIS auction (same day settlement). If necessary, Bank Indonesia may stipulate settlement date on another working day.
11. SBIS maturity date shall be stipulated every Wednesday or the following working day if the Wednesday is a holiday. If necessary, Bank Indonesia may stipulate maturity date on another working day.
12. Bank Indonesia shall announce the changes of :
 - a. Auction day and/or window time as referred to in number 9;
 - b. Fund Settlement and Securities Settlement dates as referred to in number 10; and/or
 - c. SBIS maturity date as referred to in number 11through the BI-SSSS, LHBUS System, and/or other facilities stipulated by

Bank Indonesia.

13. Any BUS or UUS, acting either as a direct participant or an indirect participant, is required to provide funds amounting to the value of bids for SBIS it won up to the BI-RTGS System cut-off warning.

V. ANNOUNCEMENT OF SBIS AUCTION PLAN

1. Bank Indonesia shall announce SBIS auction plan including the tenor, rate of return, transaction date, and settlement date, no later than 1 (one) working day prior to the SBIS auction through the BI-SSSS, LHBU System, and/or other facilities as stipulated by Bank Indonesia.
2. Bank Indonesia shall announce BUS or UUS which may participate in SBIS auction together with announcement on the SBIS auction plan as referred to in number 1.

VI. BIDDING FOR SBIS

1. On the day of SBIS auction direct participants shall bid for SBIS to Bank Indonesia, c.q. Directorate of Monetary Management - Monetary Operation Bureau (DPM-BOpM), through the BI-SSSS or other facilities stipulated by Bank Indonesia.
2. The bids for SBIS as referred to in number 1 shall be bids for quantity by tenor of issued SBIS.
3. The bids for quantity made by each auction participant shall be no less than 1,000 (one thousand) units or Rp1,000,000,000.00 (one billion rupiah) and the remaining shall be with a multiple of 100 (one hundred) units or Rp100,000,000.00 (one hundred million rupiah)
4. The bidding for SBIS through the BI-SSSS shall refer to regulatory provisions concerning BI-SSSS.

VII. DETERMINATION ...

VII. DETERMINATION OF SBIS AUCTION WINNER

1. Bank Indonesia shall determine quantity of SBIS auction winner based on the number of bids for quantity received or based on calculation of quantity on proportional basis.
2. If the SBIS auction quantity won by auction participant is calculated on proportional basis, it shall apply a rounding off of SBIS smallest nominal value amounting to Rp1,000,000.00 (one million rupiah).
3. Bank Indonesia shall announce SBIS auction results after the SBIS window time of auction closes, individually to auction winners through the BI-SSSS and as a whole through the BI-SSSS and the LHBU System.
4. Bank Indonesia may cancel SBIS auction results, among other things, if the incoming bids are considered far beyond the normal liquidity estimation.
5. The cancellation of SBIS auction results as referred to in number 4 shall be announced by Bank Indonesia after the window time of SBIS auction closes, individually to auction participants through the BI-SSSS and as a whole through the BI-SSSS and the LHBU System.

VIII. SBIS AUCTION RESULT SETTLEMENT AND REDEMPTION

A. SBIS Auction Result Settlement

1. Bank Indonesia, c.q. Directorate of Monetary Management – Monetary Management Transaction Settlement Division (DPM-PTPM), shall settle SBIS auction results by :
 - a. debiting Demand Deposit Account of auction winner in Fund Settlement; and
 - b. crediting Securities Account of auction winner in Securities Settlement;respectively amounting to nominal value of won SBIS.

2. If ...

2. If a BUS or UUS winning the auction does not hold an adequate balance in its Demand Deposit Account to cover the whole liabilities of the Fund Settlement as referred to in point 1.a up to the cut-off warning of the BI-RTGS System, the SBIS auction results won by the BUS or UUS shall be declared cancelled.
3. The cancellation of auction results as referred to in number 2 shall be in effect only for SBIS auction results which may not be fully settled. (An example of the cancellation of auction results is presented in Appendix 2).

B. SBIS Redemption

1. SBIS redemption shall be conducted by Bank Indonesia upon SBIS maturity date.
2. The SBIS redemption as referred to in number 1 shall be based on SBIS ownership registered in the BI-SSSS on 1 (one) working day prior to SBIS maturity date.
3. The SBIS redemption as referred to in number 1 shall be conducted by :
 - a. crediting Demand Deposit Account at the amount of SBIS nominal value added with rights in Fund Settlement; and
 - b. debiting Securities Account amounting to nominal value of matured SBIS in Securities Settlement.(An example of the calculation of rights is presented in Appendix 3).
4. If the SBIS maturity date is a holiday, the SBIS redemption as referred to in number 3 shall be conducted on the following working day or another working day as stipulated by Bank Indonesia.
5. The mechanism of SBIS auction result settlement and redemption through the BI-SSSS shall refer to Bank Indonesia regulatory provisions concerning BI-SSSS.

IX. SANCTIONS

1. In the event of a cancellation of SBIS auction results as referred to in point VIII.A. 2, any BUS or UUS shall be liable to sanctions in the form of :
 - a. Written warning, with a copy to :
 - 1) Directorate of Sharia Banking (DPbS), if the sanction is imposed on a BUS or UUS which head office is located in the working area of Bank Indonesia Head Office; or
 - 2) Bank Supervision Team of local Bank Indonesia Regional Office, if the sanction is imposed on a BUS or UUS which head office located in the working area of Bank Indonesia Regional Office; and
 - b. Financial penalty of 1‰ (one per thousand) of the nominal value of the cancelled SBIS with a maximum amount of Rp1,000,000,000.00 (one billion rupiah) for each cancellation; and
 - c. Temporary termination to participate in SBIS auction up to following week auction and prohibition of proposition for Repo SBIS for 5 (five) consecutive working days if the BUS or UUS has been imposed written warning as referred to in point 1.a for the third time within 6 (six) months.
2. The counting of 3 (three) time written warning as referred to in point 1.c shall also count Repo SBIS by the BUS or UUS which is declared cancelled.
3. The written warning as referred to in point 1.a and notification on sanction as referred to in point 1.c shall be submitted on 1 (one) working day after the cancellation of transaction.
4. The sanction in the form of financial penalty as referred to in point 1.b shall be imposed by debiting Demand Deposit Account of BUS or UUS

on 1 (one) working day after the cancellation of SBIS auction results as referred to in point VIII.A.2 through the BI-SSSS.

(An example of the imposition of sanctions as referred to in number 1 is presented in Appendix 2).

X. CONCLUDING PROVISIONS

By the enactment of this Circular Letter, Bank Indonesia Circular Letter Number 7/37/DPM dated August 8, 2005 concerning Procedure of Implementation and Settlement of Bank Indonesia *Wadiah* Certificate shall be revoked and declared no longer valid.

Provisions in this Bank Indonesia Circular Letter shall come into force as of March 31, 2008.

For the public to be informed, it is ordered that this Bank Indonesia Circular Letter be promulgated in the Official Government Gazette of the Republic of Indonesia.

Kindly be informed accordingly.

BANK INDONESIA,

EDDY SULAEMAN YUSUF

DIRECTOR OF MONETARY MANAGEMENT