

No.7/ 1 /DPM

Jakarta, January 3, 2005

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS AND BROKERS

Concerning : Implementation of Fine Tune Operations Transactions In Open Market

Operations

In reference to the stipulation of Bank Indonesia Regulation Number 6/33/PBI/2004 dated December 31, 2004 concerning Second Amendment to Bank Indonesia Regulation concerning Open Market Operation (State Gazette of The Republic of Indonesia Year 2004 Number 169, Supplement to State Gazette of The Republic of Indonesia Number 4463) which is the second amendment to Bank Indonesia Regulation Number 4/9/PBI/2002 dated November 18, 2002 concerning Open Market Operation (State Gazette of The Republic of Indonesia Year 2002 Number 126, Supplement to State Gazette of The Republic of Indonesia Number 4243), it is considered necessary to formulate a regulation concerning the implementation of Fine Tune Operation transactions in relation to Open Market Operation in a Bank Indonesia Circular letter as follows.

I. GENERAL PROVISIONS

The terminology used in this Circular Letter has the following meanings:

1. Bank is a Commercial Bank as defined in Act Number 7 of 1992 concerning Banking, as amended by Act Number 10 of 1998, conducting conventional banking operations.

2. Broker is a rupiah and foreign currency money market brokerage company and securities company appointed by the Finance Minister of the Republic of Indonesia as member in Government Debt Securities auction in the primary market.
3. Open Market Operation hereinafter referred to as OMO is money market transaction activities performed by and between Bank Indonesia with Banks and other parties for the purpose of monetary control.
4. Fine Tune Operation hereinafter referred to as FTO is a transaction in the context of OMO performed ad hoc by Bank Indonesia as necessary to affect banking liquidity in the short term at the transaction time, amount and price set forth by Bank Indonesia.
5. Contractionary Fine Tune hereinafter referred to as FTK is a fine tune transaction for the purpose of absorbing banking liquidity in the short term.
6. Expansionary Fine Tune hereinafter referred to as FTE is a fine tune transaction for the purpose of adding to banking liquidity in the short term.
7. Bank Indonesia-Real Time Gross Settlement System, hereinafter referred to as the BI-RTGS System, is a system for electronic funds transfer among Members in the Rupiah currency with settlement conducted on an individual per transaction basis.
8. Bank Indonesia - Scripless Securities Settlement System, hereinafter referred to as BI-SSSS, is a system for conducting Transactions with Bank Indonesia, including the administration of these transactions and electronic Administration of Securities, that is connected directly to Members, the Operator, and the BI-RTGS System.

9. Securities are Bank Indonesia Certificate and/or Government Debt Securities in Rupiah and administered in the trading account in the BI-SSSS.
10. Bank Indonesia Certificates, hereinafter referred to as SBI, are bearer securities in the Rupiah currency, issued by Bank Indonesia in recognition of short-term debt;
11. Government Debt Securities, hereinafter referred to as SUN, are debt instruments in Rupiah and foreign currency issued by the Government of the Republic of Indonesia as referred to in Act Number 24 of 2002 concerning Government Securities.
12. Buy back Agreement Transaction hereinafter referred to as Repo is a transaction concerning a conditional sale of securities by a Bank with the obligation to buy back according to the price and term mutually agreed on.
13. Repo Securities Price is the price of securities set forth by Bank Indonesia with due consideration to the size of hair cut on the market price of the securities and is stated in a percentage.
14. Hair cut is a margin set forth by Bank Indonesia as as subtracting factor of the market price of securities.
15. Repo SBI Sale Amount is the amount of funds in Rupiah accepted by a Bank selling Repo SBI and is calculated as the multiplication of the Repo quantity won by the the Bank and the SBI Repo Price.
- ~~16.~~ Repo SUN Sale Amount is the amount of funds in Rupiah accepted by a Bank selling Repo SUN and is calculated as the multiplication of the Repo quantity won by the Bank and the Repo SUN Price, and added by the amount of accrued interest calculated since the last coupon payment date until the Repo transaction

date unless if the Repo transaction is done 1 (one) working day before the coupon payment date.

17. Repo SBI Buy back Amount is the amount of funds in Rupiah to be repaid by the Repo SBI selling Bank and calculated as the matured Repo SBI Sale Amount plus Repo interest payable.
18. Repo SUN Buy back Amount is the amount of funds in Rupiah to be repaid by the Repo SUN selling Bank and calculated as the matured SUN Repo Sale Amount plus Repo interest payable minus coupon payments received by Bank Indonesia if there had been coupon payment(s) during the period of Repo transaction.
19. Fine Tune Settlement is the settlement which is categorized as fund settlement and or securities settlement.
20. Fund Settlement is the transfer of funds between Bank Indonesia and a Bank holding a Rupiah current account in Bank Indonesia through the BI-RTGS System.
21. Securities Settlement is the transfer of Securities between Bank Indonesia and a Bank holding a Securities account in the Central Registry through the BI-SSSS.
22. Delivery Versus Payment hereinafter referred to as DVP is a Fine Tune transaction settlement when the Securities Settlement through the BI-SSSS is done simultaneously with the Fund Settlement in Bank Indonesia through the BI-RTGS System.
23. Money Market Information Center hereinafter referred to as PIPU is an automated system of information providing which cover, among others, the Rupiah and foreign currency money market and other information related to the money market for members, subscribers, and Bank Indonesia.

II. GENERAL MECHANISM OF FTO TRANSACTION IMPLEMENTATION

A. FTO Transaction Mechanism

1. Bank Indonesia conducts FTO transactions at any time necessary using auction mechanism through the BI-SSSS.
2. The auction mechanism of FTO transactions is done by the following methods :
 - a. Fixed rate/price

Bank Indonesia sets forth the discount rate or interest rate (repo rate) of the FTO transaction.
 - b. Variable rate/price

Bank and/or Broker submits a bid on the quantity and discount rate or interest rate (repo rate) of the FTO transaction.
3. FTO Transaction period is 1 (one) day to 14 (fourteen) days. If the maturity date of the FTO Transaction fallson a holiday, then the maturity date of the transaction is set at the following working day.

B. FTO Transaction Schedule

1. FTO Transactions may be made between the following times :
 - a. 08.00 Western Indonesian Time (WIB) - 12.00 WIB for morning session FTO Transactions.
 - b. 13.00WIB - 16.00WIB for afternoon session FTO Transactions.

2. In terms of FTO Transactions as referred to in number 1, Bank Indonesia will announce the plan for an FTO Transaction before the FTO transaction time (window time) is opened through the BI-SSSS and PIPU.

C. Transaction Participant

1. Parties allowed to make FTO Transactions hereinafter referred to as Auction Participants are:
 - a. Commercial banks submitting bids for their own interests;
 - b. Brokers submitting bids for the interests of Commercial banks.
2. Brokers referred to in item 1.b. which are eligible for FTO Transactions are:
 - a. Rupiah and foreign currency money market Brokers for all FTO Transactions.
 - b. Securities Companies appointed by the Finance Minister of the Republic of Indonesia as SUN auction participants in the primary market for FTE Transactions.
3. Auction Participants shall not be under sanctions in the form of temporary suspension to participate in OMO activities and/or temporary suspension (suspend) or permanent termination (close) as members of the BI-SSSS.

D. Settlement

1. Bank Indonesia shall complete Fine Tune Settlement immediately after Bank Indonesia announces the result of FTO Transaction auction through the BI-SSSS which is directly connected to the BI-RTGS system on the transaction date (same day settlement) under the DVP principle.

2. Banks submitting FTO Transaction bids are required to have an sufficient balance in their rupiah current account in Bank Indonesia or in the Securities Trading account in the Central Registry up to the stipulated time limit of the Fine Tune Settlement.
3. The Fine Tune Settlement time limit referred to in number 2 is set forth as follows:
 - a. 13.00 WIB for morning session FTO Transactions.
 - b. The cut off warning time of the BI-SSSS or the BI-RTGS for afternoon session FTO Transactions.
4. In the event that the Bank does not have an sufficient balance in its current account or securities trading account up to the time limit referred to in number 3, the Fine Tune Settlement referred to in number 1 shall be cancelled by the system and the Bank will be imposed with an OMO sanction.

III. TYPES OF FTO TRANSACTIONS

A. Contractionary Fine Tune (FTK) Transactions

1. Transacted under discount system where the number of days shall be calculated using calendar days.
2. Cash value of the transaction is calculated using the following formula :

$$\text{Cash value} = \frac{\text{Quantity of FTK Transaction} \times 360 \text{ days}}{[360 \text{ days} + (\text{discount rate} \times \text{time period})]}$$

B. Fine Tune Expansionary (FTE) Transactions

1. FTE is performed through Repo SBI or SUN trading transaction based on Securities sell and buy back principle under the following provisions:
 - a. The ownership registration of securities owned by a Bank that is sold by way of Repo (first leg) will be transferred to Bank Indonesia Securities trading account (transfer of ownership).
 - b. On the maturity date of the Repo transaction (second leg), the Bank as referred to in letter a is required to buy back the Securities repo-ed to Bank Indonesia.
 - c. In the event that a Bank fails to buy back the Securities as referred to in letter b, the transaction settlement shall be made as follows :
 - 1) in the event that the type of Securities referred to in letter b is SBI, the SBI that fails to be bought back by the Bank must be settled before the maturity date (early redemption);
 - 2) in the event that the type of Securities referred to in letter b is SUN, the SUN that fails to be bought back by the Bank must be treated as an outright sale transaction from the Repo selling Bank to Bank Indonesia.
 - 3) transaction settlement referred to in points 1) and 2) shall not reduce the obligation of a Bank to pay the repo rate of the FTE Transaction.
2. Transacted with simple interest method where the number of days are calculated based on calendars days.
3. The use of SBI in a FTE Transaction must comply with the following conditions:

- a. Bank Indonesia shall announce the price and series of the SBI which could be Repo-ed through the BI-SSSS concurrently with its transaction announcement.
- b. On the maturity date of the Repo transaction (second leg), SBI shall still have a remaining time period of 2 (two) working days.
- c. Repo SBI Price is stipulated in the amount of SBI price deducted with Hair Cut stipulated in the amount of 0% (zero percent).
- d. SBI Price referred to in point c. is calculated using the following formula:

$$\text{SBI Price} = \frac{\text{Smallest Nominal unit} \times 360 \text{ days}}{[360 + (\text{WA} \times \text{SBI remaining time period})]} \times 100\%$$

where:

- SBI smallest nominal unit is Rp1.000.000,- (one million Rupiah);
 - WA is the weighted average discount rate (in percentage) at the issuance of the SBI series;
 - SBI remaining time period is calculated as of the date of the Repo transaction submission until the SBI maturity date.
- e. The buy back price of matured Repo SBI is stipulated as equivalent to the price of Repo SBI.
 - f. Fine Tune Settlement at the time of sale of SBI by way of Repo (first leg) consists of:
 - 1) Fund Settlement in the amount of Repo SBI Sale Amount.

- 2) Securities Settlement in the amount of Repo SBI nominal value won by the Bank.
- g. Fine Tune Settlement at the time of buy back of SBI (second leg) consists of:
 - 1) Fund Settlement in the amount of Repo SBI Buy back Amount.
 - 2) Securities Settlement in the amount of Repo SBI nominal value.
4. The use of SUN in FTE Transactions must comply with the following conditions:
 - a. Bank Indonesia shall announce the price and SUN series which could be Repo-ed through the BI-SSSS concurrently with the transaction announcement.
 - b. On the maturity date of the Repo transaction (second leg), SUN shall still have a remaining time period of 10 (ten) working days.
 - c. The price of Repo SUN is stipulated by taking into account the data on SUN trading prices in the secondary market deducted with certain Hair Cut. Sample calculation of Hair Cut in determining Repo price could be seen in Attachment-1.
 - d. Data on SUN trading prices used in the calculation of Repo price as referred to in point c is the data on SUN trading prices within a time period of 1 (one) to 3 (three) months as available in PIPU, Bloomberg and or other facilities.
 - e. Fine Tune Settlement upon the sale of SUN by way of Repo (first leg) consists of:

- 1) Fund Settlement in the amount of Repo SUN Sale Amount.
 - 2) Securities Settlement in the amount of Repo SUN nominal value won by Bank.
- f. Fine Tune Settlement upon the buy back of SUN (second leg) consists of:
- 1) Fund Settlement in the amount of Repo SUN Buy back Amount.
 - 2) Securities Settlement in the amount of Repo SUN nominal value.
- g. Insofar there had been coupon payment(s) during the time SUN was repo-ed, the right for such coupon payment shall be vested in Bank Indonesia.

IV. PROCEDURES FOR CONTRACTIONARY FINE TUNE (FTK) TRANSACTION

A. Submission of FTK Auction Bid

1. Bank Indonesia through its Money Market Operation Division - Directorate of Monetart Management (OPU-DPM) shall announce the FTK Transaction plan with or without an indicative target of transaction quantity to Auction Participants no later than at the opening of FTK Transaction window time through the BI-SSSS and PIPU facilities.
2. Announcement of an FTK Transaction plan, among others, shall cover the following:
 - a. Auction window time;
 - b. FTK time period;
 - c. FTK discount rate (when transacted with fixed rate auction method);
 - d. Time limit for Fine Tune Settlement.

3. In the stipulated window time, Auction participant shall submit the FTK Transaction bid through the BI-SSSS facility which, among others, shall cover the FTK transaction quantity and discount rate.
4. The submission of bid quantity from each Bank, either directly or through a Broker, must be at least in the amount of Rp1.000.000.000,00 (one billion Rupiah) and the remaining must be in the multiplication of Rp100.000.000,00 (one hundred million Rupiah) which is valid for 1 (one) time period and discount rate of FTK submitted by the Bank.
5. In the event that the FTK Transaction uses the variable rate auction method, the multiplication of discount rates for each bid and time period of FTK shall be in the amount of 0.01% (one-ten thousandth).

B. Determination of FTK Auction Winners

1. After the closing of the auction period, Bank Indonesia shall announce the FTK auction result individually to auction winners through the BI-SSSS facility and the entire result through the BI-SSSS and PIPU facilities.
2. In the event that the FTK auction mechanism is using the fixed rate auction method, the determination of FTK Transaction quantity won by the Bank could be calculated as follows :
 - a. FTK bid submitted by the Bank is accepted in full; or
 - b. Proportional calculation by rounding the smallest nominal in the amount of Rp 1.000.000,00 (one million Rupiah).

3. In the event that the FTK auction mechanism is using the variable rate auction method, the stipulation of FTK Transaction quantity won by the Bank is performed as follows:
 - a. Bank Indonesia shall stipulate the highest FTK discount rate that is acceptable.
 - b. Determination of FTK Transaction quantity won by the Bank is calculated as follows :
 - 1) In the event the bid discount rate is lower than the stipulated FTK level as referred to in point a, the Bank concerned shall obtain the entire FTK bid submitted;
 - 2) In the event the bid discount rate is equivalent to the stipulated FTK discount rate as referred to in point a, the Bank concerned may obtain the entire FTK bid submitted or a part of the FTK bid submitted in an amount calculated proportionally.
4. Sample application of FTK auction and settlement calculation of FTK Transaction based on fixed rate and variable rate auction methods could be seen in Attachment-2 and Attachment-3.
5. Bank Indonesia may cancel all quantity bids of an FTK Transaction if the entire FTK discount rate bids resulting from the auction are beyond Bank Indonesia's proper limit.

C. Transaction Settlement and FTK Redemption

1. Bank Indonesia through its Money Market Transaction Settlement Division – Directorate of Monetary Management (PTPU-DPM) shall complete Fine Tune Settlement through the BI-SSSS that is connected with the BI-RTGS System by debiting the Bank’s Rupiah current account at Bank Indonesia in the amount of FTK Transaction cash value.
2. FTK Settlement as referred to in point 1 is shall employ gross to net mechanism.
3. The Bank is required to provide funds for the purpose of debiting its current account as referred to in point 1 until the following time limits :
 - a. 13.00 Western Indonesia Time (WIB) for FTK Transaction won by the Bank in the morning session.
 - b. The cut off warning of the BI-RTGS System for FTK Transaction won by the Bank in the afternoon session.
4. In the event that the Bank does not have sufficient balance in its Rupiah current account until the Fund Settlement time limit as referred to in point 3, the system will automatically cancel all of the FTK Transaction won by the Bank in 1 (one) window time of the fine tune transaction.
5. For the cancellation of FTK Transaction as referred to in point 4, the Bank will be imposed with an OMO sanction.
6. FTK Transactions with successful Fund Settlement will be administered by the BI-SSSS on the administration of Bank Indonesia Deposit Facility (FASBI).

7. On the maturity date of the FTK, Bank Indonesia shall perform FTK Transaction redemption automatically through the BI-SSSS facility in the amount of FTK Transaction nominal value.

V. PROCEDURES FOR EXPANSIONARY FINE TUNE (FTE) TRANSACTION THROUGH SBI OR SUN REPO TRADING.

A. Submission of FTE Auction Bid

1. Bank Indonesia through its OPU-DPM Division announces FTE Transaction plan with or without an indicative target of transaction quantity to Auction participants no later than at the opening of window time for FTE Transaction through the BI-SSSS and PIPU facilities.
2. The announcement of FTE Transaction plan, among others, shall cover the following:
 - a. Repo time period;
 - b. Auction window time;
 - c. Series and price of Repo Securities (maximum 10 series of Securities);
 - d. FTE repo rate when transacted under fixed rate auction method;
 - e. Time limit for Fine Tune Settlement.
3. In the stipulated window time, an Auction participant shall submit the FTE Transaction bid through the BI-SSSS facility which shall cover, among others, the transaction quantity, repo rate and type/series of the Repo-ed Securities.
4. Submission of FTE Transaction quantity bid from each Bank must be at least in the amount of Rp 1.000.000.000,00 (one billion Rupiah) and the remaining must

be in the multiplication of Rp100.000.000,00 (one hundred million Rupiah), which is valid for 1 (one) time period of transaction and repo rate submitted by the Bank.

5. In the event the FTE Transaction uses the variable rate auction method, the multiplication of the repo rate for each Repo bid and time period shall be in the amount of 0.01% (one-ten thousandth).

B. Determination of FTE Auction Winners

1. After the closing of the auction period, Bank Indonesia announces FTE Transaction result individually to auction winners through the BI-SSSS facility and the entire result through the BI-SSSS and PIPU facilities.
2. In the event that the FTE Transaction mechanism uses the fixed rate auction method, the determination of quantity won by the Bank could be calculated as follows :
 - a. FTE Transaction bid submitted by Bank is accepted in full; or
 - b. Proportional calculation by rounding the nominal based on the smallest unit of securities in the amount of Rp 1.000.000,00 (one million Rupiah).
3. In the event that the FTE Transaction mechanism uses the variable rate auction method, the determination of Repo transaction quantity is performed as follows:
 - a. Bank Indonesia stipulates the lowest FTE repo rate that is acceptable.
 - b. Determination of FTE Transaction quantity won by the Bank is calculated as follows :

- 1) In the event that the FTE repo rate bid is higher than the stipulated repo rate as referred to in point a, the Bank concerned obtains the entire FTK bid submitted;
 - 2) In the event that the FTE repo rate is equivalent to the stipulated repo rate as referred to in point a, the Bank concerned may obtain the entire repo bid submitted or a part of the repo bid in the amount of proportional calculation result.
4. Sample application and settlement calculation of FTE Transaction using SBI and SUN respectively based on fixed rate and variable rate auction methods could be seen in Attachment-4 to Attachment-7.
 5. Bank Indonesia may cancel all of the repo transaction quantity bids if the entire repo rate bids resulting from the auction are beyond a proper limit.

C. Transaction Settlement and FTE Transaction Repayment

1. Settlement of Securities Sales (first leg)
 - a. Bank Indonesia through its PTPU-DPM Division shall complete Fine Tune Settlement through the BI-SSSS which is connected with BI-RTGS System as follows :
 - i. debiting the Bank's securities trading account at the Central Registry in the amount of Repo Securities nominal value; and
 - ii. crediting the Bank's Rupiah current account at Bank Indonesia in the Sale Amount of Repo SBI or SUN.

- b. FTE Settlement as referred to in point a is performed under gross to gross transaction mechanism.
 - c. The bank is required to provide sufficient securities for the purpose of debiting its securities trading account as referred to in point a.i. until the following time limits:
 - i. 13.00 WIB for FTE Transaction won by Bank in the morning session.
 - ii. The cut off warning time of the BI-SSSS System for FTE Transaction won by Bank in the afternoon session.
 - d. In the event the Bank does not have sufficient securities series until the time limit as referred to in point c, the system will automatically cancel the sale transaction of the securities without a sufficient nominal value.
 - e. For the sale cancellation as referred to in point d, Bank will be imposed with OMO sanction.
2. Securities Buy Back Settlement (second leg)
- a. On the maturity date of the Repo transaction, the BI-SSSS facility will automatically complete the settlement of securities buy back by the Bank as follows :
 - i. debiting the Bank's Rupiah current account at Bank Indonesia in the buy back amount of the Repo SBI or SUN; and
 - ii. crediting the Bank's securities trading account at the Central Registry in the amount of the nominal value of the securities repo-ed at first leg.

- b. The bank is required to provide a sufficient balance in its current account for the purpose of debiting the current account as referred to point a.i. until the cut off warning time of the BI-RTGS System.
- c. In the event the Bank does not have sufficient balance in its Rupiah current account until the settlement time limit as referred to in point b, the system will automatically cancel the buy back of Repo SBI or SUN.
- d. For the cancellation of the securities buy back as referred to in point c, the Bank will be imposed with an OMO sanction.
- e. In the event that the type of securities as referred to in point c is SBI, the BI-SSSS will automatically perform the settlement of SBI series before the maturity date (early redemption) on the maturity date of Repo in the amount of the nominal value of the Repo-ed SBI referred to in point a.ii.
- f. In the event that the type of Securities as referred to in point c is SUN, the BI-SSSS will automatically change the transaction for the SUN series which fails to be bought back into an outright selling transaction in the amount of the nominal value of the Repo-ed SUN referred to in point a.ii.
- g. For the cancellation of Repo SBI or SUN buy back transaction as referred to in point c, Bank Indonesia will redebit the current account of the Bank concerned at Bank Indonesia in the amount of the Repo interest payable by the Bank through the BI-RTGS System.

VI. MECHANISM FOR SANCTION IMPOSITION

1. In the event that there is a cancellation of FTK Transaction as referred to in point IV.C.4. and cancellation of FTE Transaction which may occur upon the sale of Securities by way of Repo (first leg) or the buy back of Securities by way of Repo (second leg) as referred to in points V.C.1.d. and V.C.2.c., the Bank concerned shall be imposed with an OMO sanction in the form of:
 - a. written warning with copies to:
 - 1) Relevant Bank Supervision Directorate, in the event that the sanction is imposed on Bank whose registered office is in the working area of Bank Indonesia Head Office (KPBI); or
 - 2) Bank Supervision Team – Regional Bank Indonesia Office (KBI), in the event that the sanction is imposed on Bank whose registered office is in the working area of a KBI, and
 - b. payment obligation in the amount of $1^{0}/_{00}$ (one-one thousandth) of the nominal of the cancelled FTK or FTE Transaction or in the maximum amount of Rp 1.000.000.000,00 (one billion Rupiah); and
 - c. temporary suspension from participating in OMO activities for 5 (five) working days in the event that a Bank is imposed with a written warning for the third time within a time period of 6 (six) months due to transaction cancellations of OMO activities.
2. The delivery of a written warning as referred to in point 1.a. and notification of a sanction in the form of temporary suspension from participating in OMO activities as referred to in point 1.c is performed in 1 (one) working day after the transaction cancellation.

3. The BI-SSSS System will automatically calculate the amount of sanction in the form of payment obligation as referred to in point 1.b. and charge it on the Bank's Rupiah current account at Bank Indonesia through the BI-RTGS System 1 (one) working day after the transaction cancellation.

Provisions in this Circular letter shall come into force as of January 3, 2005.

For the public to be informed, it is ordered that this Circular letter be promulgated by placing it in the State Gazette of the Republic of Indonesia.

Kindly be informed.

BANK INDONESIA,

Signed

BUDI MULYA
DIRECTOR OF MONETARY MANAGEMENT