NATIONAL STRATEGY FOR FINANCIAL MARKET DEVELOPMENT 2018-2024

KEMENTERIAN KEUANGAN
REPUBLIK INDONESIA

BANK INDONESIA
BANK SENTRAL REPUBLIK INDONESIA

OTORITAS JASA KEUANGAN

NATIONAL STRATEGY FOR FINANCIAL MARKET DEVELOPMENT 2018-2024

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ISBN: 978-979-8086-62-5

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FOREWORD
MINISTRY OF FINANCE

Assalamu'alaikum Wr. Wb.
Praise to God Almighty for His grace and blessings that the National Financial Market Development and Deepening Strategy (SN-PPPK) book has successfully been completed. The SN-PPPK delivers a joint strategy between the Ministry of Finance, Bank Indonesia and Indonesian Financial Services Authority (OJK) oriented towards financial market development and deepening.

Broadly speaking, the overarching goal of national development is prosperity for all. Nevertheless, prosperity for all may only be achieved through sustainable development backed by adequate sources of predominantly domestic financing.

Demand for financing from Indonesia's financial sector has always been dominated by the banking sector as intermediaries. Notwithstanding, the amount of financing required has continued to rise and has also shifted towards the longer term, thus necessitating alternative funding sources. Consequently, broader access to financing through the financial markets is required, which the business community has thus far seemed reluctant to exploit.

Deep, active, inclusive and efficient financial markets are key determinants of increasing the availability of funds for development financing through financial market mechanisms, while providing diverse instruments for economic players to manage risk and liquidity. To that end, efforts to enhance public literacy and understanding of financial market mechanisms and market infrastructure are absolutely essential.

On the other hand, strengthening coordination amongst the regulatory and supervisory authorities is of no less importance in order to accelerate financial market development and deepening. Therefore, the Ministry of Finance, Bank Indonesia and Financial Services Authority (OJK) agreed to establish the Coordination Forum on Development Financing through Financial Market (FK-PPPK) in 2016 as medium for strategic coordination. As a tangible form of coordination to deliver the financial market development strategy in Indonesia, the

SN-PPPK book represents a joint national strategy to develop and deepen the domestic financial markets.

I would like to extend my sincere appreciation to all parties for their contributions and cooperation, especially those from the Ministry of Finance, Bank Indonesia and Financial Services Authority (OJK) who have devoted their time and energy to the completion of this book.

In closing, I hope that this SN-PPPK book is used as a joint strategy and guidelines by all stakeholders when developing and deepening Indonesia's financial markets as an alternative source of development financing. Therefore, the overarching goal of national development to achieve public prosperity will quickly be accomplished.
Wassalamu'alaikum Warahmatullahi Wabarakatuh.

SRI MULYANI INDRAWATI
Minister of Finance of the Republic of Indonesia

FOREWORD
BANK INDONESIA

Assalamu'alaikum Wr. Wb.

IN PRAISE OF GOD the Almighty for His grace and blessings that the National Financial Market Development and Deepening Strategy (SN-PPPK) book has successfully been completed. The SN-PPPK book is the outcome of assiduous work by all parties in terms of formulating a work plan for financial market development in Indonesia. As a central bank that contributes actively and tangibly to the national economy, the financial market is a priority policy area in the pursuit of ensuring effective monetary policy transmission and maintaining financial system stability.

The financial market plays a strategic role in the national economy. Economic growth in Indonesia over the past few decades has been inextricably linked to support from the financial market, particularly as a provider of development funds. Although financial market development has remained sound, the financial markets in Indonesia are yet to reach an optimal state. Economic funding remains the preserve of the banking industry, thus limiting alternative sources of funding for the business community.

The financial markets are also a strategic provider of financing for infrastructure development. Current economic policy is on the right path, including infrastructure development that has always been considered a prerequisite for faster economic growth. Of no less importance, however, are initiatives to accelerate financial market development, which must become a priority for the relevant authorities moving forward.

Such initiatives to accelerate financial market development in Indonesia are our joint responsibility. In 2016, Bank Indonesia, the Ministry of Finance and Indonesian Financial Services Authority (OJK) established the Coordination Forum on Development Financing through of Financial Market (FK-PPPK) thus triggering momentum to realise the joint vision of financial market development in Indonesia. We have also taken heed of other countries' experiences with healthy and liquid financial markets, namely that solid coordination between the policymakers is a key success factor.

I welcome the completion of the SN-PPPK book as a joint framework for all financial market authorities and market participants in Indonesia. The Book should be seen as a first step of joint measure to lay solid foundations for future financial market development initiatives in Indonesia. Furthermore, just as important is the hard work now required from all relevant parties to realise the plans detailed in the Book. To that end, Bank Indonesia extends a friendly hand to all stakeholders to realise our aspirations of creating a more prosperous Indonesia.
Wassalamu'alaikum Warahmatullahi Wabarakatuh.

PERRY WARJIYO
Governor of Bank Indonesia 2018-2023

FOREWORD
BANK INDONESIA

Assalamu'alaikum Wr. Wb.

STRIVING to achieve solid, balanced, sustainable and inclusive economic growth, the role of reliable and efficient financial markets is prerequisite. The financial markets are currently playing an increasingly important role as government economic policies place greater emphasis on infrastructure development. Reliable and efficient financial markets are expected to bridge the funding gap that the banking system has thus far failed to achieve. Such financing needs can no longer rely on short-term funding sources. Consequently, policies will prioritise innovative funding instruments while expanding the investor base.

Of no less importance, Indonesia's financial markets must also support risk mitigation by economic players. In an open financial system, which has precipitated global financial market integration and interconnectedness, the domestic financial market structure must constantly be strengthened in order to dampen and absorb the shocks that materialise. A solid and credible financial market structure can only be achieved through high transaction volume accompanied by optimal risk management, a broad investor base, diverse instruments as well as reliable infrastructure and systems. Such conditions represent the concrete and measured target of future financial market development strategies.

Over the past two years, Bank Indonesia, the Ministry of Finance and Financial Services Authority (OJK) have synergised to create deep financial markets that play an active role as sources of national development financing. This vision has manifested in the national financial market development and deepening strategy framework. Not only serving as joint guidelines for the three institutions when playing their respective roles, the national strategy is also a reference for market players to gauge the future direction of financial market development policy to their advantage. Furthermore, formulation of the national strategy also represents a form of accountability by the Coordination Forum on Development Financing through Financial Market (FK-PPPK) that was established in 2016.

I warmly welcome the completion of the National Financial Market Development and Deepening Strategy (SN-PPPK) book for the period from 2018-2024. This book signifies the avowed commitment of the financial market authorities in Indonesia to embrace the future potential of domestic financial market development. Against a backdrop of changing financial market dynamics, the relevance of the strategy will be reviewed periodically and updated if required, while maintaining the general policy orientation.

Implementation is key. Therefore, implementation of the various initiatives into real policies and actions is critical. To that end, the concrete commitment of all stakeholders is required to ensure that the noble vision to achieve deep, liquid, efficient, inclusive and secure domestic financial markets can be accomplished.
Wassalamu'alaikum Warahmatullahi Wabarakatuh.

AGUS D. W. MARTOWARDOJO
Governor of Bank Indonesia 2013-2018

FOREWORD

FINANCIAL SERVICES AUTHORITY

Assalamu'alaikum Wr. Wb.

PRAISE BE TO GOD Almighty for His grace and blessings that the National Financial Market Development and Deepening Strategy (SN-PPPK) book has successfully been completed. Board of commissioners of Financial Service Authority (OJK) and officer are committed to preserving the sustainability of various policies that maintain financial system stability and expand the role of the financial sector in order to stimulate quality and sustained national economic growth.

We understand that the financial market plays a strategic role as a source of development financing and as a transmission channel of fiscal and monetary policy. We believe the creation of deep financial markets would improve market efficiency through the availability of sound infrastructure, while expanding the reach of the financial markets to all society through broader financial access and diverse selection of instruments. Moreover, deep and efficient financial markets support greater financial system stability.

Notwithstanding, we are also acutely aware that our financial markets in Indonesia are not deep or efficient enough. Stock market capitalisation is still far from its optimal level and domestic investor base is still limited, while bond liquidity, particularly corporate bonds, remains low. Additionally, Islamic financial market development is also suboptimal. All of these indicating that we still have a lot of work to accomplish.

In this SN-PPPK book, therefore, the Financial Services Authority (OJK) has set out various strategic programs to realise deeper and more competitive domestic financial markets by 2024. Furthermore, to appraise and evaluate program implementation, several Key Performance Indicators (KPI) have been proposed as targets when addressing the economic dynamics and challenges. The SN-PPPK book also describes future financial market deepening strategies to be synergised with government programs in order to achieve sustainable and balanced economic growth. A salient measure, therefore, is to evaluate and refine various existing policies that support the availability of adequate development financing sources without neglecting prudential principles and consumer protection aspects.

We are also cognisant that improving financial literacy and inclusion is a requisite foundation of financial market development. To that end, financial market deepening efforts must also be accompanied by programs to expand broad-based financial access to all society.

Addressing the rapid proliferation of financial technology (FinTech), efforts to integrate FinTech industry development into financial market deepening programs are also crucial in order to create synergy between FinTech and traditional financial services institutions. We hope that synergy and collaboration between both industries will culminate in the availability of diverse financial instruments and efficient financial infrastructure.

In closing, we believe that through the hard work and active participation of all stakeholders in the financial services sector, the targets contained in the SN-PPPK book will be achieved by 2024 and Indonesia will have deep, competitive and inclusive financial markets.
Wassalamu'alaikum Warahmatullahi Wabarakatuh.

WIMBOH SANTOSO
Chairman of the OJK Board of Commissioners

DISCLAIMER

FINANCIAL market development and deepening is a large-scale priority program for the Ministry of Finance, Bank Indonesia and the Indonesian Financial Services Authority (OJK). The three authorities concur that deep and developed financial markets would improve monetary and fiscal policy transmission, development financing, and financial system resilience to potential domestic and external risks.

The National Financial Market Development and Deepening Strategy (SN-PPPK) shall be implemented in stages appropriate to each program. The success of each program is therefore not only determined by the initiatives put in place by the respective authorities but also by a number of preconditions, including dynamic of global and domestic macroeconomic as well as consumer literacy and financial inclusion. Such considerations necessitate coordination and collaboration between the relevant authorities and stakeholders to ensure each stage has the requisite preconditions.

When compiling this edition, the authorities proposed Key Performance Indicators (KPI) and strategic programs for each financial market in order to measure the achievements of all financial market development and deepening programs. The KPIs and strategic programs will be used as guidelines for the relevant authorities and stakeholders when initiating measures to develop and deepen the financial markets. It is important to realise, however, that the KPIs and strategic programs will constantly be aligned with the latest developments influencing the financial markets along with other affecting factors.

Consequently, the SN-PPPK book is a living document and will be updated in line with prevailing developments. Furthermore, although the implementation horizon for the programs contained in this book ends in 2024, the financial market development and deepening program will not finish there. The authorities will reformulate and subsequently implement the next stage of financial market development and deepening programs.

EXECUTIVE SUMMARY

THE FINANCIAL markets play a strategic role as source of economic financing, channel of transmission for monetary and fiscal policy as well as safeguard to preserve financial system stability. Research has shown that deep financial markets accelerate economic growth. Various financial market breakthroughs are urgently required to support infrastructure development as a prerequisite of sustainable economic growth. Therefore, 49.98% of funds from the financial markets have been targeted to support infrastructure development during the period from 2020-2024.

Future strategic financial market development initiatives in Indonesia must be oriented towards achieving qualities of deep and globally competitive financial markets. Such qualities are: (i) ability to provide alternative sources of financing and investment; (ii) ability to facilitate risk mitigation; and (iii) ability to promote transaction efficiency by refining the quality of financial market infrastructure.

Financial market development and deepening can only be achieved through strong coordination between the relevant financial market authorities and institutions. Accordingly, Indonesia financial market authorities are required to agree and formulate a national strategy as a reference as well as pledge of commitment for all stakeholders when developing and deepening of financial market. To that end, Bank Indonesia, the Ministry of Finance and Financial Services Authority (OJK) have established the Coordination Forum on Development Financing through Financial Market (FK-PPPK).

The Coordination Forum was mandated with formulating a National Financial Market Development and Deepening Strategy (SN-PPPK) as a comprehensive and measureable single policy framework oriented towards realising the vision of creating deep, liquid, efficient, inclusive and secure financial markets.

Consequently, Coordination Forum on Development Financing through Financial Market (FK-PPPK) applied a top-down approach to develop a framework encompassing three main pillars as follows: (i) sources of economic financing and risk management; (ii) market infrastructure development; and (iii) policy coordination, regulatory harmonisation and education.

The three pillars have been elaborated within seven development elements to be implemented in seven financial markets, namely the government bond market, corporate bond market, money market, foreign exchange market, stock market, structured products market and Islamic financial market.

The SN-PPPK has been divided into three implementation stages, namely Strengthening the Foundations from 2018-2019, Acceleration from 2020-2022 and then Deepening from 2023-2024. A summary of the strategies and initiatives to be implemented by Coordination Forum on Development Financing by means of Financial Market (FK-PPPK) is broken down by market and strategic sector as follows:

GOVERNMENT BOND MARKET

1. **Development of online retail SBN distribution channels**
   The future policy direction is oriented towards developing online retail SBN distribution channels. This policy strives to facilitate retail investor access to SBN products, expand the domestic investor base and back financial inclusion efforts.

2. **Development of bonds derivative instruments**
   The future policy direction is concentrated on developing Indonesia Government Bond Futures (IGBF) for its function as feedback to determine government bond yields as well as a tool to improve investors' portfolio efficiency.

3. **Facilitation and assistance for issuances of municipal bonds and sukuk**
   The future policy direction is oriented towards strengthening the Municipal Bond and Sukuk Facilitation Team, while backing local government capacity building efforts.

4. **Development of thematic bonds**
   The future policy direction is focused on developing thematic bonds aimed specifically at productive programs/activities. The policy is also oriented towards strengthening the capacity building of project owners in terms of the reporting obligations concerning the use of proceeds from green bonds as well as the socio-environmental impact.

5. **Expansion of Bond Stabilisation Framework (BSF) Participants**
   The future policy direction is focused on strengthening BSF by encouraging new participants to ensure BSF effectiveness, as an improved tool to maintain government bond market stability.

6. **Development and optimisation of the Electronic Trading Platform (ETP)**
   The future policy direction is focused on second stage infrastructure development, harmonisation of the regulations supporting ETP implementation and an assessment of pre-trade and post-trade system integration.

7. **Harmonisation of tax regulations on government bond market**
   The future policy direction is focused on identifying bond tax regulatory issues. Thereafter, the relevant financial authorities will harmonise and amend the prevailing regulations.

8. **Optimisation role of financial services institutions**
   The future policy direction is focused on mapping and reviewing prevailing regulations in order to increase the participation of financial services institutions as investors. This strategy aims to overcome the lack of optimal participation of domestic institutional investors.

CORPORATE BOND MARKET

9. **Development of corporate bond variations**
   The future policy direction is to promote further expansion of corporate bonds variety, including green bonds, project bonds and other thematic corporate bonds.

10. **Expansion of corporate bond issuers**
    The future policy direction is to promulgate regulations covering: (i) public offerings of debt securities and/or sukuk to professional investors; and (ii) debt security issuances through non-public offering (private placements mechanism).

11. **Expansion of debt securities and sukuk intermediaries**
    The future policy direction is to license financial institutions other than securities companies that meet the specific criteria to act as intermediaries of corporate bonds, including banks.

12. **Improvement of the public offering registration process**
    The future policy direction, in terms of encouraging companies to issue corporate bonds, is to streamline the registration process through electronic registration and corporate action submission.

13. **Increasing liquidity, transparency and price efficiency**
    The future policy direction is to increase primary and secondary market transparency through application of e-book building system for public offerings and expansion of the current ETP for corporate bond transactions.

14. **Establishment of a triparty repo and repo transaction market standards**
    The future policy direction is to encourage implementation of triparty repo mechanism and repo transaction market standards in order to enhance transaction efficiency and standardise repo contracts.

15. **Harmonisation of tax regulations on corporate bond market**
    The future policy direction is focused on inter-authority coordination to explore the harmonisation of tax regulations, particularly in terms of the tariffs and mechanisms due to tax disparity amongst the different tax subjects, in particular with respect to interest rates and capital gains tax.

STOCK MARKET

16. **Expansion of listed companies, focusing on state-owned enterprises and their subsidiaries, regional companies and small-medium enterprises**
    The future strategy is oriented towards encouraging state-owned enterprises and their subsidiaries, municipal-owned enterprises (BUMD) as well as small and medium enterprises to conduct public offerings. In line with FinTech development, equity crowdfunding regulations will also be developed.

17. **Expansion of the investor base**
    The future strategy is oriented towards expanding access to prospective investors through process simplification of opening securities account and fund account. This will be backed by the use of information technology to electronically activate the accounts.

18. **Development of stock intermediaries**
    The future strategy is oriented towards issuing regulations to develop regional securities companies, expanding the roles of securities and custodian banks, as well as facilitating the establishment of Securities Funding Institutions (LPE).

19. **Development of stock derivatives**
    The future strategy is oriented towards encouraging development of stock derivatives for hedging purposes.

20. Development of e-registration

The future strategy is oriented towards optimising the e-registration system, not only for public offerings of equity securities and debt/sukuk securities, but also covering registrations of public listed companies, additional capital through rights issues, business development, business consolidation, voluntary tender offers and compulsory tender offers.

21. Development of e-book building

The future strategy is oriented towards expanding development of the e-book building system used for public offerings of equity securities to include public offerings of debt securities. This will increase price setting transparency and securities allocation accountability.

22. Improvement of transaction settlement efficiency

The future strategy is oriented towards accelerating transaction settlement to T+2.

23. Harmonisation of tax regulations on stock market

The future strategy is oriented towards increasing coordination between the financial market authorities and the tax authorities in terms of several policies, including commissions and costs of self-regulatory organisations (SRO), which will affect VAT and corporate tax calculations.

24. Education and socialisation for issuers and investors

The future strategy is oriented towards strengthening cooperation between the authorities and self-regulatory organisations (SRO) as well as relevant government ministries, to provide education and socialisation activities for prospective issuers and potential investors.

STRUCTURED PRODUCTS MARKET

25. Development of real sector and infrastructure-based structured product

The future policy direction is focused on the development and utilisation of DINFRA products or real sector-based products, such as Private Equity Funds (RDPT), asset-backed securities (EBA) and real estate funds (DIRE). Priority will also focus on product development as required by certain investors, including Public Housing Collective Investment Contracts (Tapera).

26. Expansion of the distribution channels for structured products

The future policy direction is focused on encouraging investment managers to cooperate with companies or institutions with broader networks, including companies with tested online systems.

27. Strengthening risk management for structured products

The future policy direction is focused on strengthening the supervision of structured product management to prevent erroneous practices such as misselling. Furthermore, the policy focuses on strengthening investment managers' governance to increase cost efficiency.

28. Development of information systems

The future policy direction relates to information system development for Tapera products, of which expected to improve management transparency and access of employees nationwide as a potential investor base.

29. Harmonisation of tax regulations on structured products
The future policy direction is focused on coordination between the capital market authorities and the tax authorities to refine the tax regulations applicable to the investment management industry.

30. Investment education and socialisation
The future policy direction is focused on massive education and socialisation activities extended to community segment, including those living in rural areas, civil servants and workers in the manufacturing industry.

MONEY MARKET

31. Market development for negotiable certificates of deposit and commercial papers
The future policy direction is focused on developing the feature set negotiable certificates of deposit and commercial papers appropriate to the market, both in the secondary and primary market, including regulatory amendments as necessary.

32. Market development for Overnight Index Swaps (OIS), Interest Rate Swaps (IRS) and Forward Rate Agreements (FRA)
The future policy direction is concentrated on mapping the market's requirements for interest rate derivatives, reviewing the various alternatives and preparing regulations concerning the use of interest rate derivatives by financial institutions in the form of among others OIS, IRS and FRA.

33. Expansion of financial services institutions in the repo market
The future policy direction is focused on expanding the participation of financial services institutions, and to also include non-bank financial institution in repo market development.

34. Strengthening the role of money market intermediaries
The future policy direction is concentrated on amending regulations to strengthen institutional arrangements and enhance the intermediaries' capabilities.

35. Development of a money market benchmark rate and yield curve
The future policy direction is focused on formulating pricing guidelines to maintain quotation quality and improve governance in the process to determine the Jakarta Interbank Offered Rate (JIBOR), as well as to further explore potential transaction-based benchmark rates. In addition, the policy also strives to establish reliable risk-free and risky yield curves.

36. Development of money market infrastructure
The future policy direction is focused on regulating transaction providers and amending the regulations for broad-based ETP utilisation. In addition policy also aims at potentially expanding the scope of CCP, developing a standard trade repository, as well as reviewing integrated money market systems from pre-trade to reporting.

37. Harmonisation of tax regulations on money market
The future policy direction is focused on strengthening coordination with the tax authorities to harmonise regulations concerning repo transactions, negotiable certificate of deposit, as well as discount rates on money market instruments.

38. Education and capacity building for money market players
The future policy direction is focused on educating money market players concerning repo transactions, certificates of deposit and commercial securities. The policy also strives to expand implementation of treasury certificates and a code of ethics.

FOREIGN EXCHANGE MARKET

39. Development of foreign exchange-structured products
The future policy direction is concentrated on developing structured products in order to improve the structure of the foreign exchange market, in particular the supply side of foreign exchange market, and provide alternative hedging instruments, such as swap-linked deposits and dual currency deposits.

40. Development of Local Currency Settlement (LCS)
The future policy direction is focused on increasing Appointed Cross Currency Dealer banks (ACCD) transaction volume with respect to the existing LCS scheme, while expanding the LCS scheme to other major trading partner countries.

41. Development of foreign exchange derivative transactions through exchange
The future policy direction is concentrated on reviewing the business models and market standards for FX futures transactions against the rupiah as well as preparing the regulations required to implement transaction.

42. Establishment of a Central Counterparty
The future policy direction is focused on compiling a roadmap for the establishment of a central counterparty (CCP), preparing pilot project and fully implementation of the CCP for OTC derivative transactions. In the long term, the use of CCP may further be expanded to other financial market instruments.

43. Development of an Electronic Trading Platform (ETP)
The future policy direction is to regulate the market transaction providers, map potential ETP utilisation and educate market players, while also enhance regulations in the long term to expand the use of ETP by foreign exchange market players.

44. Harmonisation of tax regulations on foreign exchange market
The future policy direction is to strengthen coordination with the tax authorities in order to harmonise tax regulations concerning derivative transactions, particularly hedging taxes applicable to nonbank corporations.

45. Education and capacity building for market players
The future policy direction is to increase the scale and outreach of the capacity building program in conjunction with the regulator, financial institution associations, domestic banks, exporter-importer associations and other stakeholders, as well as to implement treasury certificates and a code of ethics.

ISLAMIC FINANCIAL MARKETS

46. Application of active debt management principles for Government Islamic Securities (SBSN)
The future policy direction is focused on applying active debt management principles for government sukuk.

47. Diversification of sukuk instruments
Future policy is concentrated on innovating the contract structure, underlying assets and varieties of sukuk instruments, including additional variations of corporate sukuk by state-owned enterprises (BUMN) and municipal-owned enterprises (BUMD).

48. Development of Islamic mutual funds and increasing sukuk liquidity
Future policy is focused on policy in the Islamic mutual fund market, in particular developing sukuk mutual funds and Islamic securitisation. Meanwhile, policy in the Islamic bonds market will focus on increasing government sukuk liquidity through Islamic repo regulations and increasing the volume of corporate sukuk issuances.

49. Expansion of the investor base for Islamic financial market products

Future policy is focused on expanding the investor base for Islamic finance, including institutional investors and retail investors, with an emphasis on domestic investors. Potential institutional investors include the Haj Financial Management Agency (BPKH), Social Security Management Agency (BPJS), Housing Savings Consideration Board (Bapertarum), Islamic Pension Funds, Islamic Insurance and Multinational Institutions.

50. Development of the Islamic social financial sector

Future policy is concentrated on developing the Islamic social sector (zakat, waqf and haj funds) through synergy with the commercial Islamic sector. The initiative shall commence with the realisation of the sukuk linked waqf and cash waqf linked sukuk markets.

51. Development of various Islamic money market instruments

Future policy is focused on developing Islamic Negotiable Certificates of Deposit, Islamic repo, Interbank Mudharabah Investment Certificates (SIMA) using wakalah and musyarakah contracts, Islamic Commercial Securities (SBK) and Bank Indonesia sukuk.

52. Optimisation of Islamic repo and hedging transactions

Future policy is focused on efforts to stimulate Islamic repo and hedging transactions through regulatory amendments and capacity building for the market players.

53. Development of database for sukuk market commercial and social investor

Future policy is concentrated on identifying potential and existing investors, including commercial and social investors, as well as developing a waqf and zakat database through coordination between the relevant authorities and institutions, such as the Indonesian Waqf Board, National Amil Zakat Board and BPS-Statistics Indonesia.

54. Development of the real sector benchmark rate

Future policy is focused on developing the real sector benchmark rate as a replacement for the conventional interest rate currently used as a reference for yields by Islamic money market players.

55. Strengthening governance

Future policy is concentrated on establishing the International Working Group (IWG) on Zakat Core Principles (ZCP). In addition, the policy will emphasise strengthening the institutional arrangements and credibility of waqf authorities with responds to increasing assets under management (AUM) of waqf funds.

56. Strengthening Coordination within the National Islamic Finance Committee (KNNS)

Future policy is focused on further strengthening coordination with stakeholders and institutions through KNNS, thus facilitating the harmonisation of various policies in order to mutually support the development of Islamic finance.

57. Harmonisation of Islamic regulations, taxation, accounting and financial market infrastructure

Future policy is focused on harmonising Islamic regulations, taxation, accounting and infrastructure in order to accelerate Islamic financial market growth considering the distinct characteristics of Islamic and conventional finance.

58. Strengthening coordination with global Islamic finance stakeholders

Future policy is concentrated on increasing coordination and expanding the role of international institutions, such as IDB, ICMA IILM and several standard setting bodies, including the Basel Committee on Banking Supervision (BCBS), Islamic Financial Services Board (IFSB) and International Islamic Financial Market (IIFM), in order to develop the domestic Islamic financial market in accordance with international practices.

59. **Education and capacity building of market players**
    Future policy is focused on certification and implementation of continuing professional education programs for professionals associated with Islamic finance. In addition, the policy also encompasses cooperation with universities and other higher learning institutions to conduct research into Islamic finance, while promoting the link and match program.

EXPANSION OF INVESTOR BASE

60. **National education campaign to increase pension fund and insurance penetration**
    Policy will focus on a broad and integrated campaign extolling the benefits of pension funds and insurance.

61. **Education for players in the pension funds and insurance industries concerning investment management strategies**
    Policy will focus on encouraging adoption of robust approach in pension fund and insurance investment process in accordance with the asset profile and liability management.

62. **Coordination with the relevant authorities to conduct a comprehensive and integrated review of pension system regulations**
    Policy will focus on reviewing employee contributions, pension fund participation and pension fund payments to recipients, including regulations for early redemption.

63. **Strengthening the role of the banking industry as investor in the financial markets**
    Policy will focus on expanding the role of the banking industry as key participant in the bond market, structured products market and money market.

INVESTOR PROTECTION AND EDUCATION

64. **Implementation of the national financial literacy strategy as well as strengthening investment protection infrastructure and regulations**
    Policy will concentrate on providing infrastructure to report and settle disputes as well as supervise investor protection. Policy will also be oriented towards implementing an integrated strategy to improve overall financial literacy throughout Indonesia.

HARMONISATION OF TAX REGULATIONS

65. **Harmonisation of tax regulations**
    Policy will focus on overcoming concerns between the financial market authorities and corresponding industries. Furthermore, the policy strives to harmonise prevailing perceptions regarding existing regulations and review any solutions that could immediately be implemented. In the long term, the policy strives to amend regulations paying due consideration to best practices.

EMPOWERMENT OF FINANCIAL TECHNOLOGY (FINTECH)

66. **Development of the Financial Technology ecosystem**
    Policy will focus on developing financial technology (FinTech) in area of P2P lending as well as financial market transactions and payment systems, such as E-KYC, credit scoring, digital signature and e-stamp. The authorities will promote cooperation between FinTech P2P lending and other financial services institutions, including the banks, capital market and finance companies.

67. **Promulgation of regulations to strengthen innovation, governance and risk mitigation as well as consumer protection**
    The policy strives to establish a solid regulatory framework applicable to the FinTech industry, thus facilitating innovation while adhering to consumer protection principles and financial system stability.

IMPLEMENTATION OF CLOSE-OUT NETTING

68. **Regulatory harmonisation to accommodate close-out netting or default resolution**
    The future policy direction is oriented towards issuing supporting regulations that support the close-out netting concept by stipulating the transaction restrictions, such as derivatives, repo and securities lending or certain contract-based transactions, for instance under PIDI or ISDA Master Agreement and GMRA.

69. **Socialisation and education concerning the implementation of netting and close-out netting**
    The policy strives to align the perception of law enforcement concerning netting and close-out netting in Indonesia.

STRENGTHENING ALTERNATIVE SPECIAL PURPOSE VEHICLE (SPV) SCHEMES

70. **Harmonisation of the legal framework as well as tax and accounting regulations**
    The future policy direction is oriented towards reviewing the regulations concerning the instruments, taxation and accounting, hence Special Purpose Companies (SPC) and Collective Investment Contracts (CIC) may provide similar benefits as Special Purpose Vehicles (SPV) as trustees.

REGULATION OF TRANSACTION INFRASTRUCTURE

71. **Regulation of transaction infrastructure**
    The policy strives to create a fair, orderly and transparent money market and foreign exchange market, thus ensuring efficient and liquid markets. Therefore, financial market infrastructure will be developed in line with international standards.

EXPANSION OF INFRASTRUCTURE FINANCING SOURCES

In the near term, as an integral part of implementing the initiatives detailed above, the financial market authorities in Indonesia will also encourage economic players to innovate funding for infrastructure. Innovation may include asset securitisation as well as the enrichment of bond funding variation and Islamic financial market instruments in accordance with the unique characteristics of each projects. The sustained development of innovation is one financial market contribution to future development financing.


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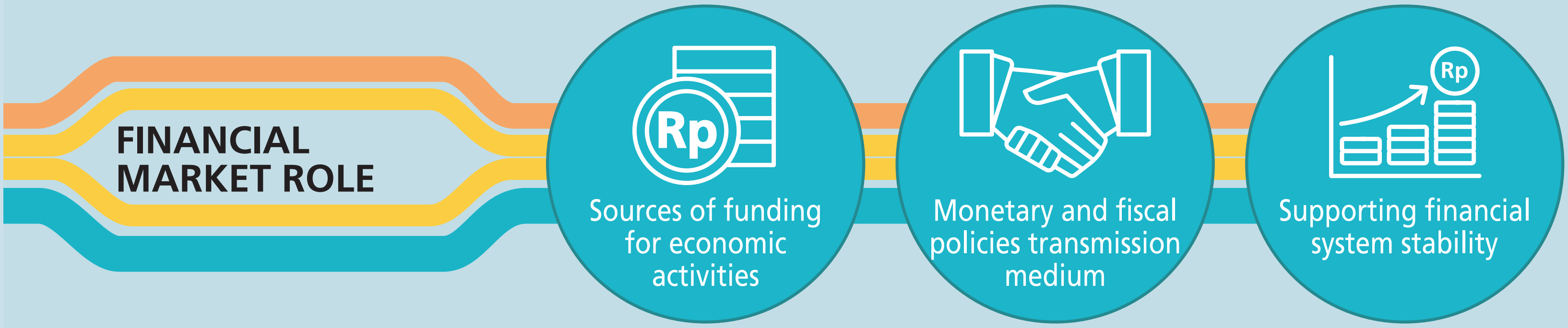
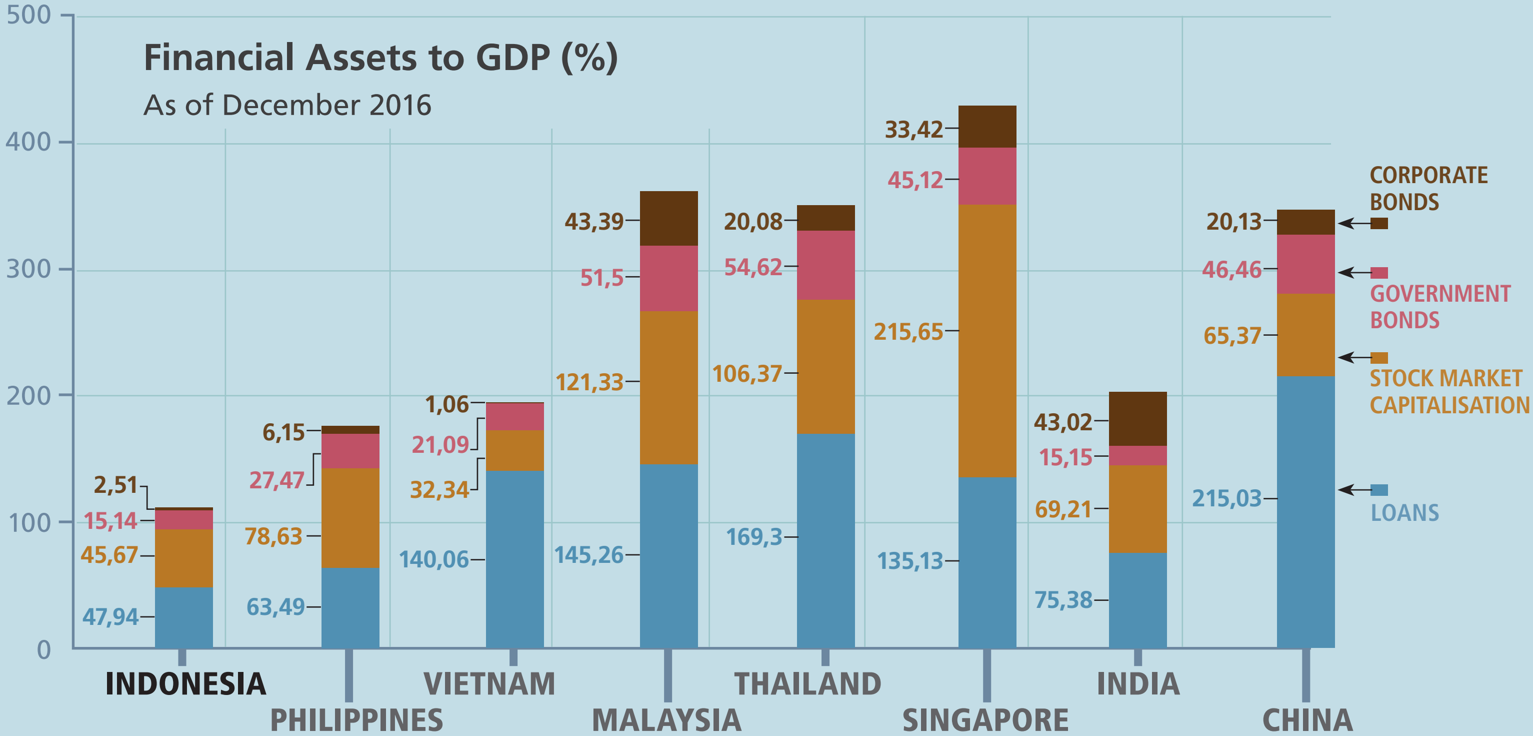
1 OVERVIEW

Financial Markets, Engines of Economic Growth

The financial markets are an engine of economic growth because they function as a source of economic funding and maintain financial stability. Notwithstanding, the financial markets in Indonesia are not as deep as in other peer countries.



DEPTH OF FINANCIAL MARKETS IN INDONESIA NOT YET ON PAR WITH PEER COUNTRIES



INDONESIAN ECONOMIC OUTLOOK

BY **2025**: BECOME AN **"UPPER MIDDLE INCOME COUNTRY"**

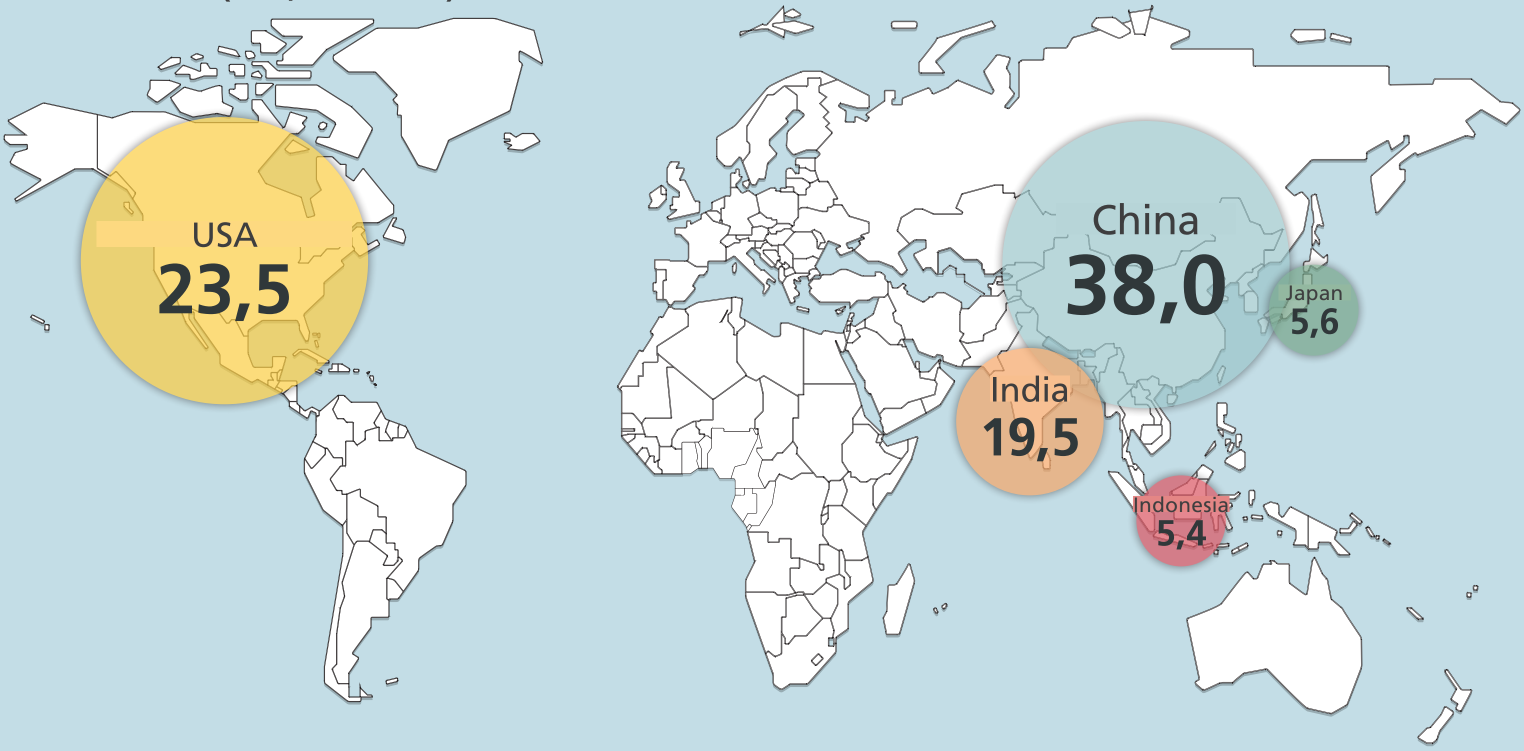
Requirement:

Economic growth at per year
6,25%

USD 6.520
Per capita income in 2025

BY **2030**: BECOME THE **5TH LARGEST GLOBAL ECONOMY**

GDP (USD, TRILLIONS)



SOURCE: **MINISTRY OF FINANCE, BANK INDONESIA, FINANCIAL SERVICES AUTHORITY (OJK), PWC, WORLD BANK, ADB, BLOOMBERG**

Achieving optimal economic growth requires the backing of deep and developing national financial markets

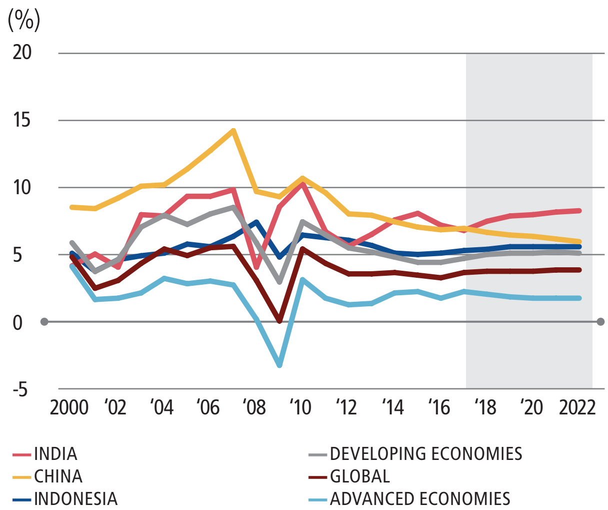
The government's national development strategy through the infrastructure sector requires the backing of financing from the financial markets

1.1 The Importance of Financial Market Development and Deepening

The global economic landscape changes gradually over time. Since the end of the Asian Financial Crisis in 1997, emerging market economies (EMEs), particularly China and India, have achieved impressive economic growth, becoming the main engines of the global economy.

Solid economic growth has persisted in China and India, now consistently surpassing 5% (Graph 1.1.1).

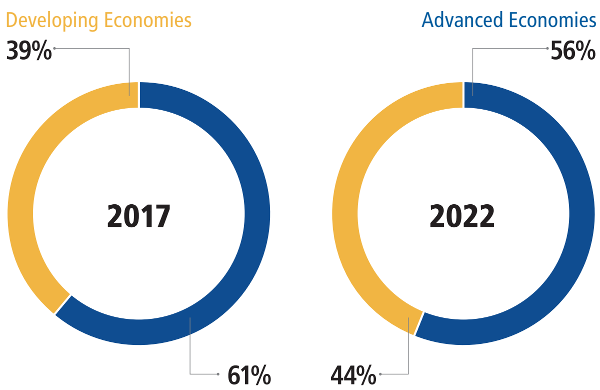
Graph 1.1.1. COMPARISON OF ECONOMIC GROWTH BETWEEN ADVANCED ECONOMIES AND DEVELOPING ECONOMIES



SOURCE: **INTERNATIONAL MONETARY FUND (IMF)**

Both countries have led emerging market economies as the new global economic powers, shifting the domination away from countries in Europe and the United States. The International Monetary Fund (IMF) projects the contributions of developing economies to global economic growth to expand over the next few years, with the prediction expected to persist for years to come (Graph 1.1.2).

Graph 1.1.2. COMPARISON OF THE CONTRIBUTIONS OF ADVANCED ECONOMIES AND DEVELOPING ECONOMIES



SOURCE: **INTERNATIONAL MONETARY FUND (IMF)**

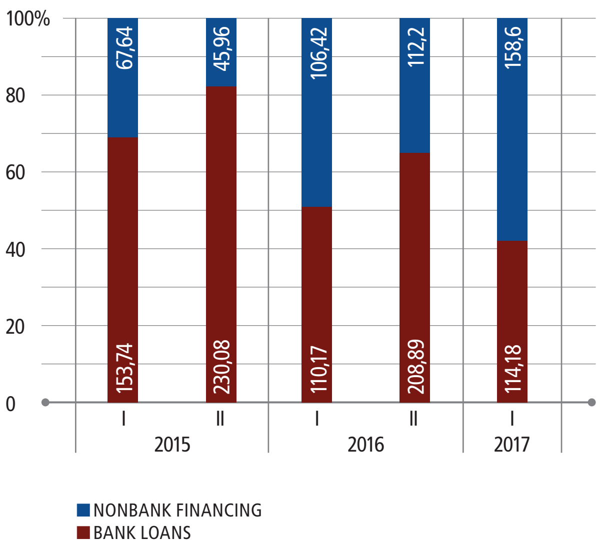
Over the next few years Indonesia is projected to become a major player in the global economy. Consistent national economic growth in Indonesia has been tested, for instance during the global financial crisis in 2008. In the subsequent decade, Indonesia has successfully maintained solid economic growth but regrettably has failed to regain the optimal pre-crisis pace of growth that exceeded 6%.

The government has compiled a development plan, known as the Medium-Term National Development Plan (RPJMN), in order to achieve a faster rate of growth. One national development target contained in the RPJMN is for Indonesia to become an upper-middle class income country by 2025. The conditions that must be met to be considered an upper-middle class country include sustainable national economic growth averaging 6.25% per year as well as a bump in per capita income from USD3,605 in 2016 to USD6,520 in 2025.

A significant boost of investment is required in order to achieve economic growth of 6.25%. Such investment will need the support of new financing sources. Over the past three years, an average 60% of business financing has been sourced from bank loans but the trend of nonbank financing has already begun to tick upwards (Graph 1.1.3). The domination of bank loans has limited the funding options of the business community and pushed up the cost of funds. Over the upcoming few years, the contribution of nonbank financing through the financial markets will have to increase beyond the contribution of bank loans.

The current level of financial market deepening in Indonesia remains below that in other peer countries (Graph 1.1.4). If no proactive response to this phenomenon is forthcoming, the financial markets could potentially fail to support rapid

Graph 1.1.3. DEVELOPMENTS OF ECONOMIC FINANCING

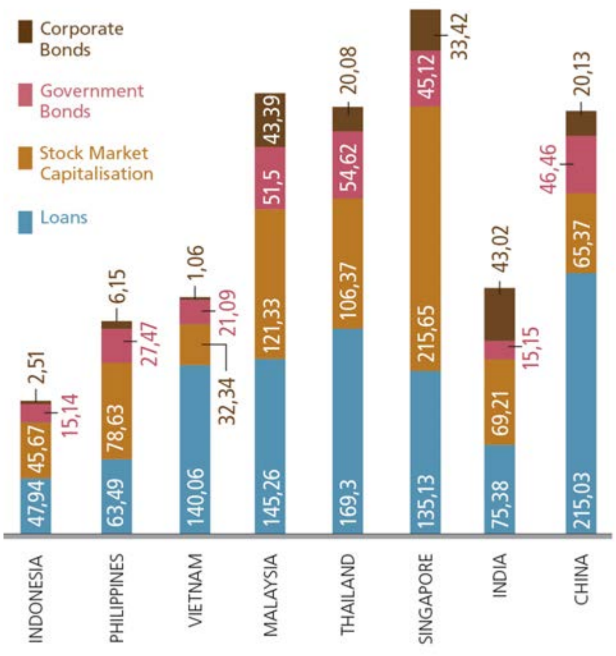


SOURCE: **BANK INDONESIA, FINANCIAL SERVICES AUTHORITY (OJK)** economic growth in the real sector. Various researches have shown that deep and developing financial markets effectively accelerate economic growth. Therefore, diverse breakthroughs in the financial sector are urgently required in the near term with the support of all policymakers.

In addition to domestic demand, there are also global calls for financial market development and deepening. In 2018, the European Securities and Markets Authority (ESMA) issued the Markets in Financial Instruments Directive II (MiFID II). Other international institutions, such as the Committee on Payments and Market Infrastructures (CPMI) and the International Organisation of Securities Commissions (IOSCO) also presupposed the establishment of a central counterparty (CCP) to improve transaction security and transparency in the derivatives market. Such global developments demand a response from the domestic financial markets, thereby enabling Indonesia to reinvent itself as a future financial hub.

Graph 1.1.4. COMPARISON OF FINANCIAL MARKET DEEPENING IN INDONESIA AND OTHER ASIAN COUNTRIES

(Ratio to GDP, %)

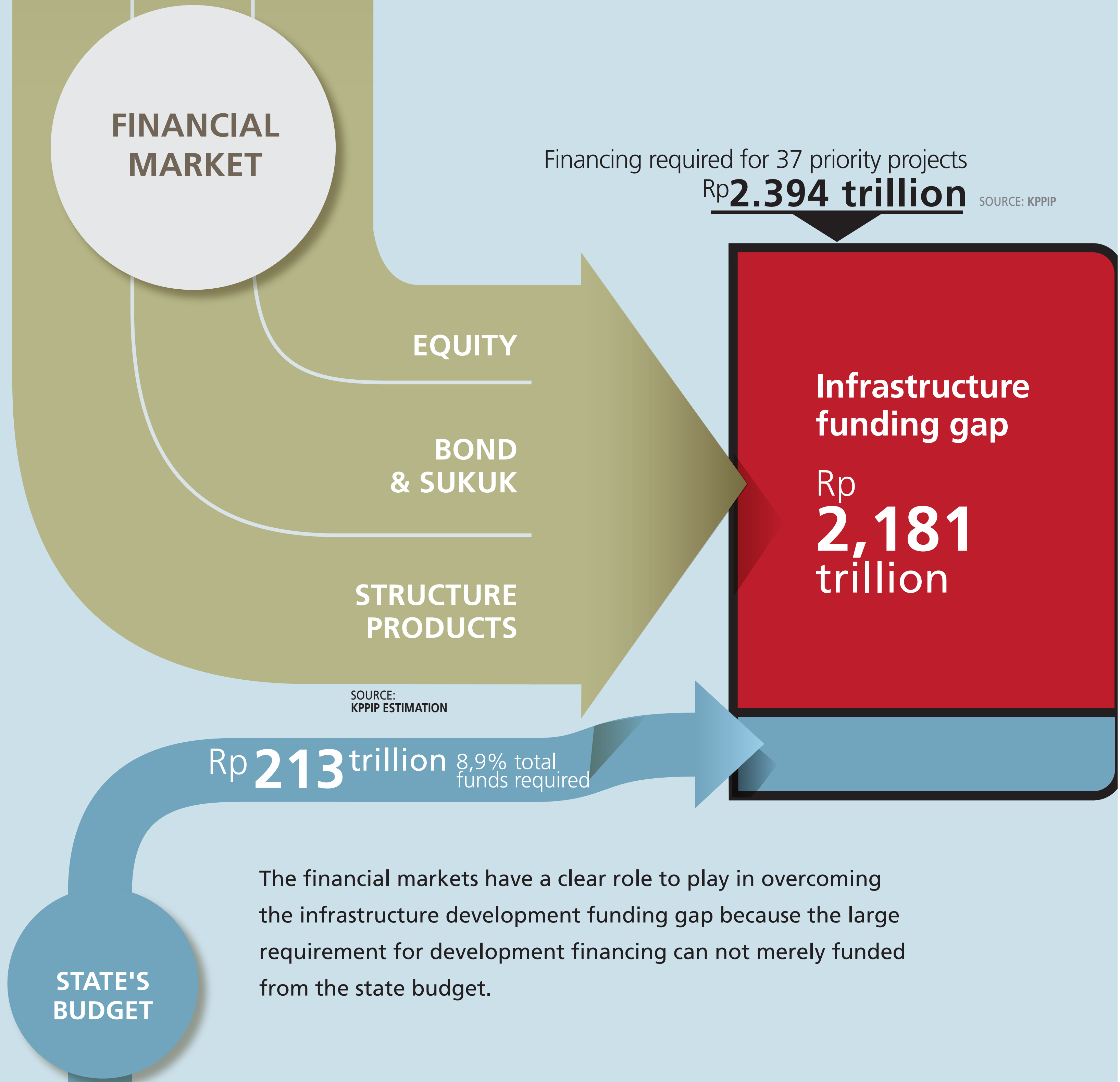


SOURCE: **WORLD BANK**

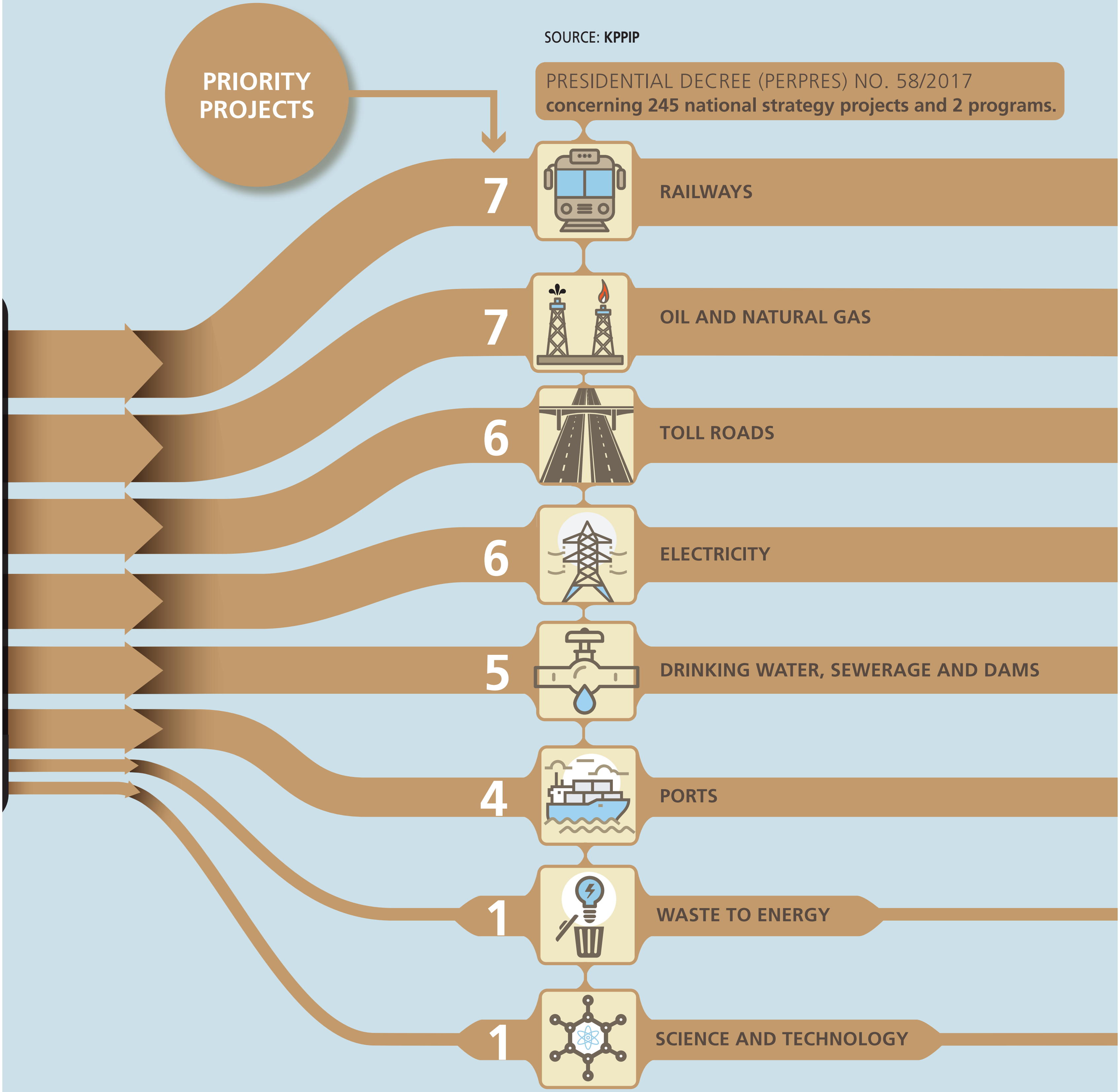
The aforementioned conditions highlight the need for financial market development and deepening to receive special attention. The strategic initiatives to be rolled out over the upcoming years must be able to add depth to Indonesia's financial markets. First, to provide alternative sources of financing and investment for society. Second, to promote transaction efficiency in the financial markets through quality financial market infrastructure. Third, to facilitate the risk mitigation of market players.

Financial market development and deepening initiatives also require coordination between various authorities and institutions. All of the financial market authorities must compile and agree a national strategy as a joint reference for all stakeholders and a pledge of commitment to develop and deepen financial market in Indonesia.

Financial Markets, Equity, Bond and Sukuk, Structure Products



The financial markets have a clear role to play in overcoming the infrastructure development funding gap because the large requirement for development financing can not merely funded from the state budget.

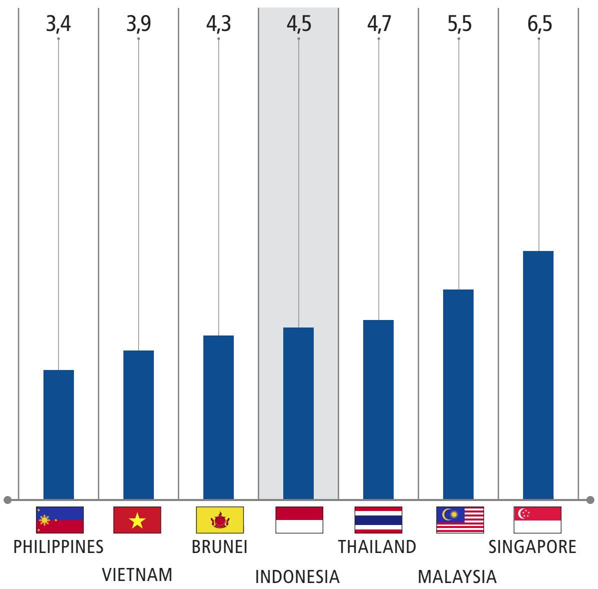

SOURCE: KPPIP
PRIORITY PROJECTS
PRESIDENTIAL DECREE (PERPRES) NO. 58/2017
concerning 245 national strategy projects and 2 programs.
7
RAILWAYS
7
OIL AND NATURAL GAS
6
TOLL ROADS
6
ELECTRICITY
5
DRINKING WATER, SEWERAGE AND DAMS
4
PORTS
1
WASTE TO ENERGY
1
SCIENCE AND TECHNOLOGY

1.2 Infrastructure Development

INFRASTRUCTURE development is a form of investment required to support higher growth. Despite recent gains, the condition of infrastructure in Indonesia falls short of advanced economies. In the Southeast Asian region, Indonesia's infrastructure competitiveness score only bests Vietnam, the Philippines and Brunei (Graph 1.2.1).

Furthermore, infrastructure availability in Indonesia in terms of supporting economic activities remains insignificant.

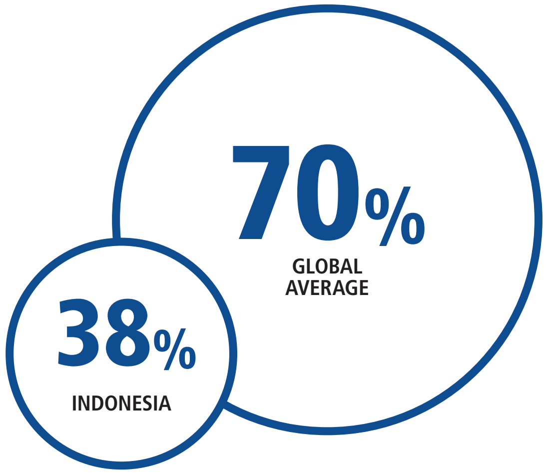
Graph 1.2.1. COMPARISON OF INFRASTRUCTURE COMPETITIVENESS SCORES IN ASEAN COUNTRIES IN 2017



SOURCE: **WORLD ECONOMIC FORUM**

Based on World Bank data (2015), the stock of Indonesia's infrastructure to Gross Domestic Product (GDP) is below the global standards, exclude of Japan and Brazil (Graph 1.2.2). Consequently, the government is naturally focusing on building infrastructure to shore up economic growth, while ensuring equitable development.

Graph 1.2.2. COMPARISON OF INFRASTRUCTURE STOCK TO GDP AGAINST GLOBAL STANDARDS (2015)



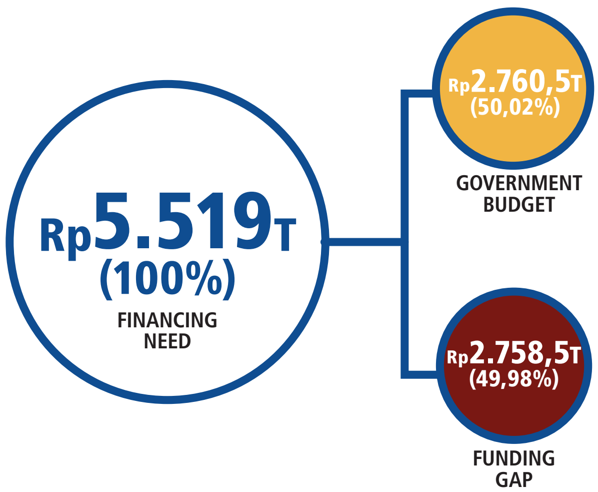
SOURCE: **WORLD BANK**

In the Medium-Term National Development Plan (RPJMN) for 2015-2019, the government has stipulated 1,600 national infrastructure projects as a reference for the government ministries/agencies to prepare strategic plans. The government has designated 245 National Strategic Projects (PSN) and two programs distributed over 15 sectors (Figure 1.2.1). Furthermore, the government also selected 37 priority infrastructure projects from the 245 PSN that will have a large multiplier effect on the national economy and connectivity.

Infrastructure development requires large-scale funding. According to the Medium-Term National Development Plan (RPJMN) for 2015-2019, the total funds required amount to

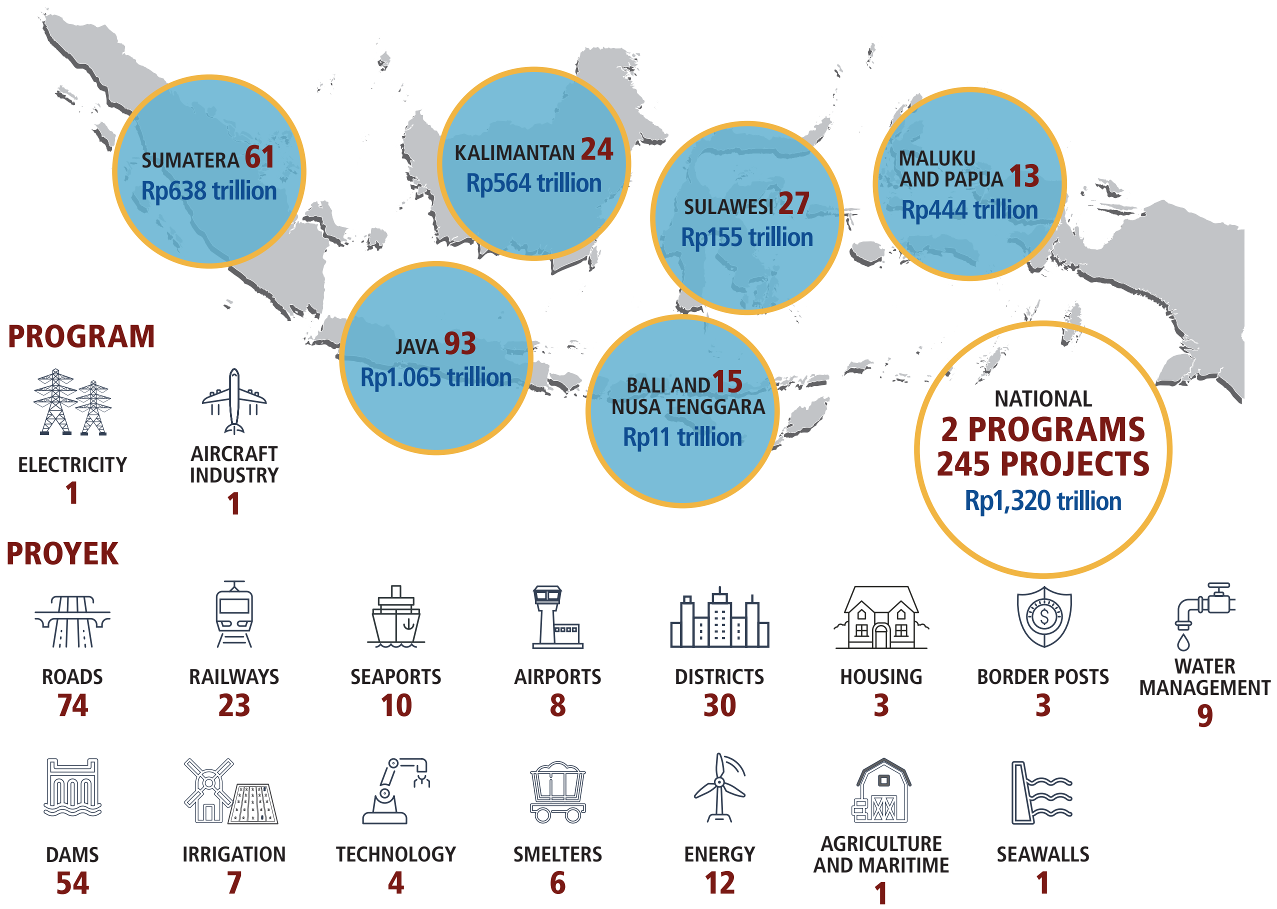
Rp5,519.4 trillion. Of that total, the government's capacity to meet the infrastructure development funding required is severely limited. Based on the State Budget and Regional Budget, the government only has sufficient funds for around 50.02% of the total requirement. Consequently, a funding gap of Rp2,758.5 trillion, or 49.98% remains (Graph 1.2.3). Therefore, the government is encouraging private investor participation, either in full or through public-private partnerships.

Graph 1.2.3. INFRASTRUCTURE FUNDING GAP



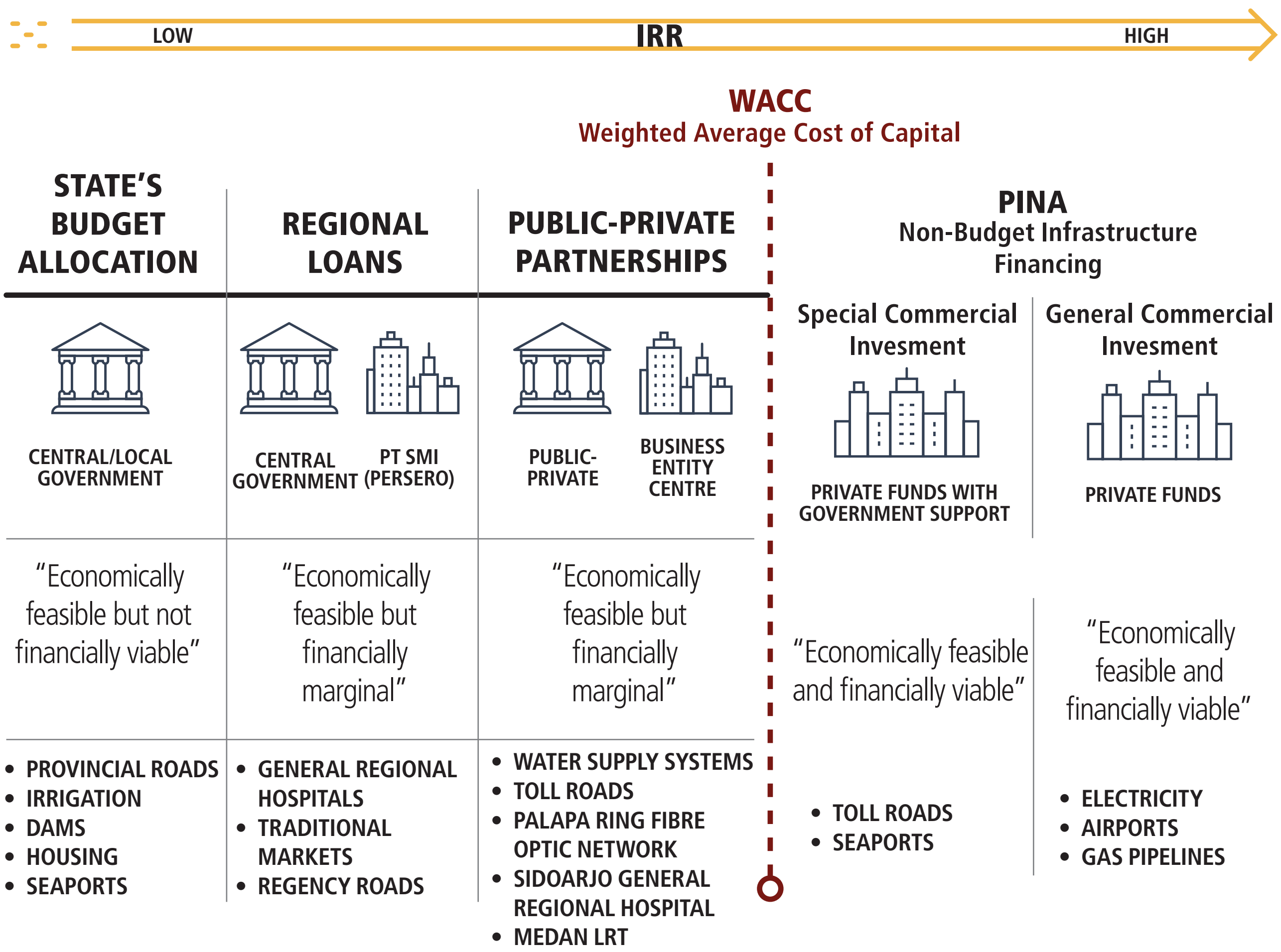
SOURCE: **BANK INDONESIA, FINANCIAL SERVICES AUTHORITY (OJK), NATIONAL DEVELOPMENT PLANNING AGENCY**

Figure 1.2.1. SUMMARY OF 245 NATIONAL STRATEGIC PROJECTS



SOURCE: **COORDINATING MINISTRY FOR ECONOMIC AFFAIRS**

Figure 1.2.2. NON-BUDGET INFRASTRUCTURE FINANCING SCHEME (PINA)



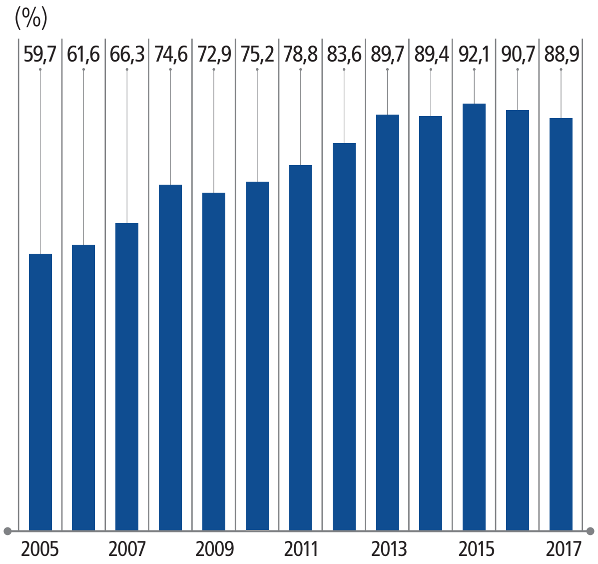
SOURCE: **BAPPENAS**

There are two types of private financing schemes promoted by the government, namely public-private partnerships (PPP) and non-budget infrastructure financing (PINA) (Figure 1.2.2).

Infrastructure financing continues to confront many constraints despite government efforts to encourage private investor participation. Private investors have always relied on bank loans for infrastructure financing but the capacity of the national banking industry is already restrained by two key factors. First, the high loan-to-deposit ratio in the banking industry (Graph 1.2.4). Second, the potential liquidity mismatch due to short-term nature of funds source coupled with long-term nature of infrastructure financing (Graph 1.2.5).

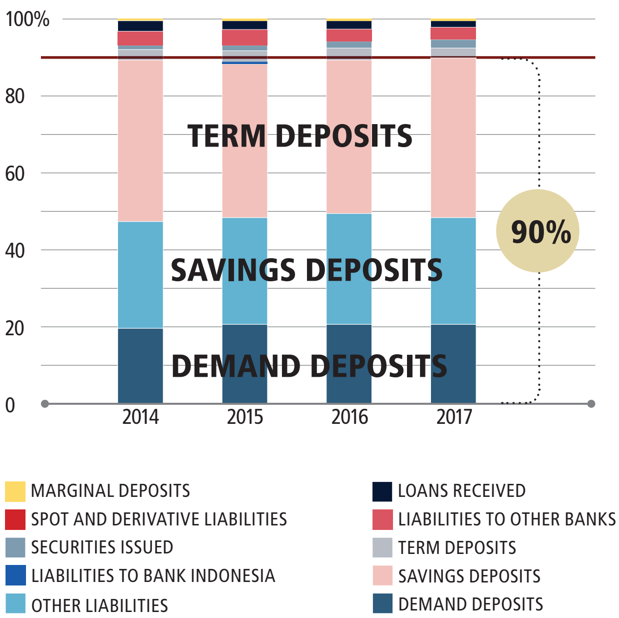
From the investors' perspective, investment constraints in infrastructure projects stem from high-risk investments and the long-term nature of investment return. Consequently, there are no other ways to support infrastructure development financing than effective financial market deepening, particularly through innovative new funding

Graph 1.2.4. LOAN-TO DEPOSIT RATIO OF THE INDONESIAN BANKING INDUSTRY



SOURCE: **BANK INDONESIA, OJK**

Graph 1.2.5. DEPOSIT GROWTH



SOURCE: **BANK INDONESIA, OJK**

instruments, as well as enhance further the capacity and capability of domestic institutional investors. Nonetheless, through the range of development efforts contained in the National Financial Market Development and Deepening Strategy, the targeted 49.98% of funds required could by met through the financial markets. In this regard, the Government encourages the involvement of private investors in the financing both in the form of full participation and of joint participation with the Government.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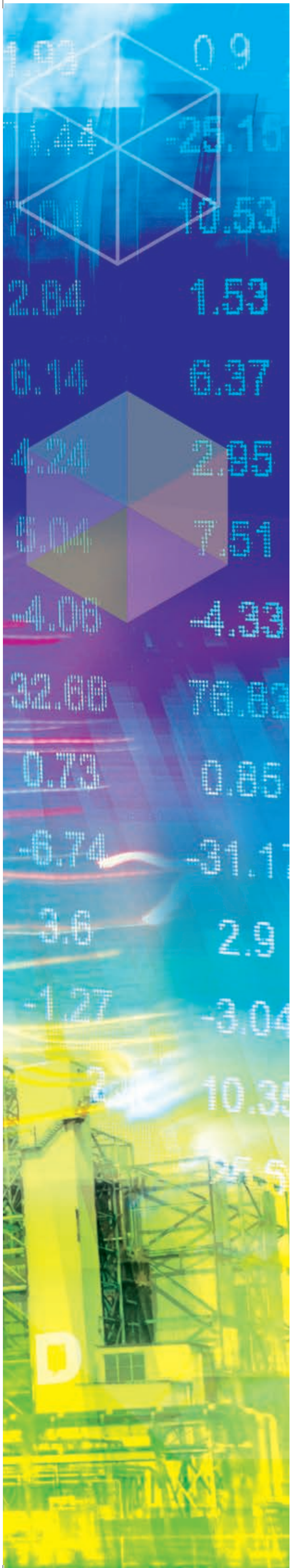


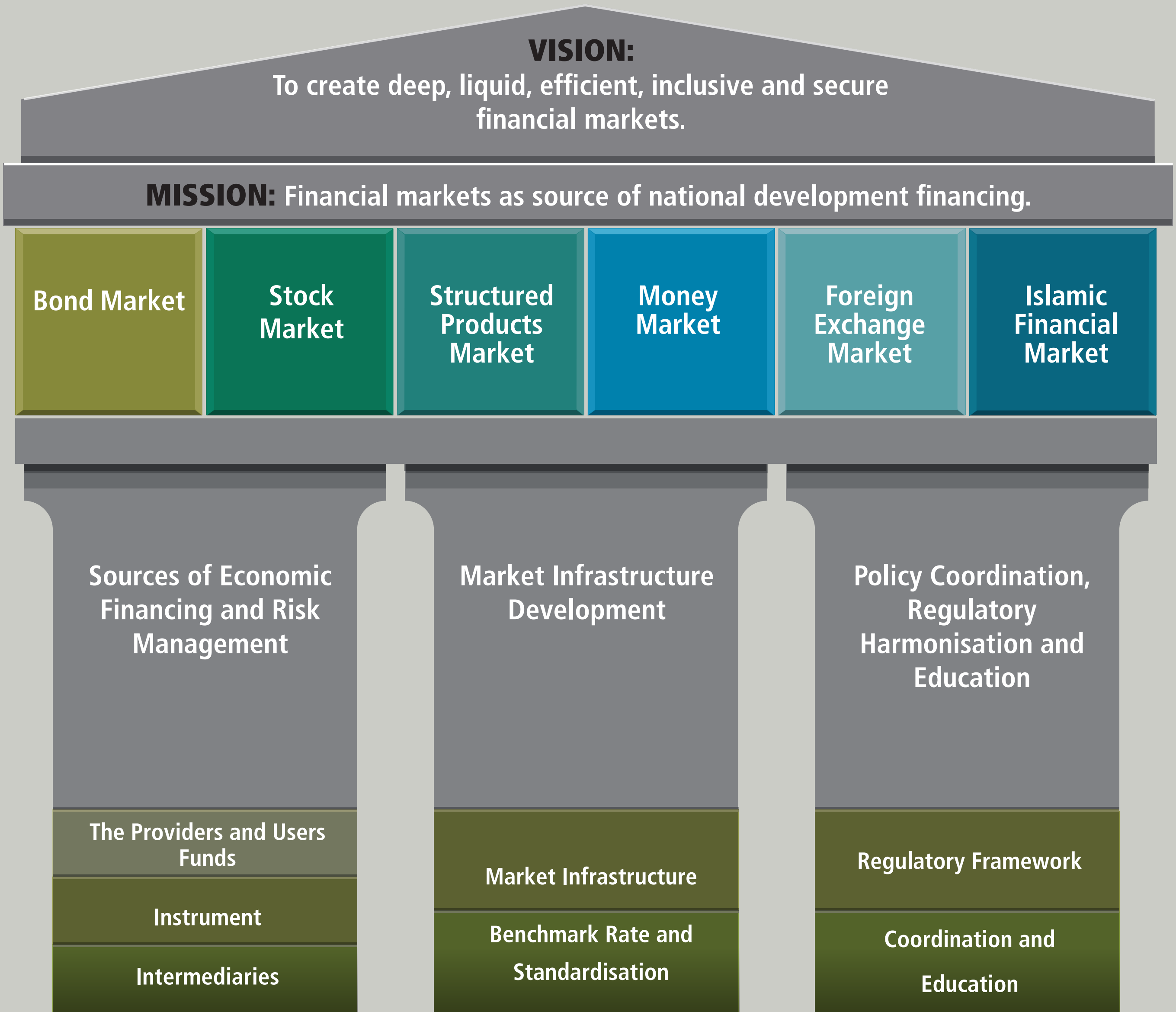
2
FINANCIAL MARKET DEVELOPMENT FRAMEWORK

National Financial Market Development and Deepening Strategy

The Ministry of Finance, Bank Indonesia and the Indonesian Financial Services Authority (OJK) have co-compiled the National Financial Market Development and Deepening Strategy (SN-PPPK) for 2018-2024 that aims to develop the financial markets in Indonesia.

DEVELOPMENT STEPS

Six markets will be developed based on three pillars and seven elements.



SOURCE: **MINISTRY OF FINANCE, BANK INDONESIA, FINANCIAL SERVICES AUTHORITY**

SN-PPPK, INTEGRATED POLICY INITIATIVE

- Comprehensive & integrated policy framework
- Guidelines for policy coordination
- Guide for inter-authority synergy
- Catalyst for predefined target realisation

FINANCIAL MARKET DEEPENING TARGETS

- Provide sources of financing and investment
- Facilitate risk-mitigation of market players
- Promote transaction efficiency through quality infrastructure

IMPLEMENTATION PHASES

INDICATORS	TARGETS		
	Strenghening Phase (2018-2019)	Deepening the Foundation (2020-2022)	Acceleration (2023-2024)
Government Bond Turnover	4,82	5,02	5,11
Growth of Corporate Bond Issuance Value (%/year)	20	20	20
Additional New Issuers	45	50	35
Additional Investors (Securities and Mutual Fund Accounts)	370.000	850.000	600.000
Growth of Structured Product AUM Value (%/year)	10	10	10
Outstanding Shares in Islamic Money Market to GDP (%)	1	1-2,5	2,5-5
Growth of Corporate Sukuk Value (%/year)	10	10	10
Islamic Investment Products AUM Growth (%/year)	10	10	10
Outstanding Money Market Transactions to GDP (%)	3-4	4-6	6-8
Average Daily Foreign Exchange Volume (%)	2	2,5	3
Composition of Derivatives (%)	42,5	48,2	50

The National Financial Market Development and Deepening Strategy will be Implemented in Three Development Phases

2.1 Financial Market Development and Deepening Framework

THE ROLE of the financial markets as source of economic funding and medium of monetary and fiscal policy transmission is exceptionally strategic. Furthermore, healthy financial markets support financial system stability. However, from several aspects, Indonesia domestic financial markets are not optimal in terms of supporting the national economy.

There are several factors that must be set as development priorities in order to optimise the economic role of the financial markets. First, increasing participation of capital users, capital providers and intermediaries, while expanding the range of alternative financial instruments available to market players. Second, developing domestic financial market infrastructure by streamlining the complex processes to become efficient. Third, honing and complementing the legal and regulatory framework, while enhancing the competencies of the market players.

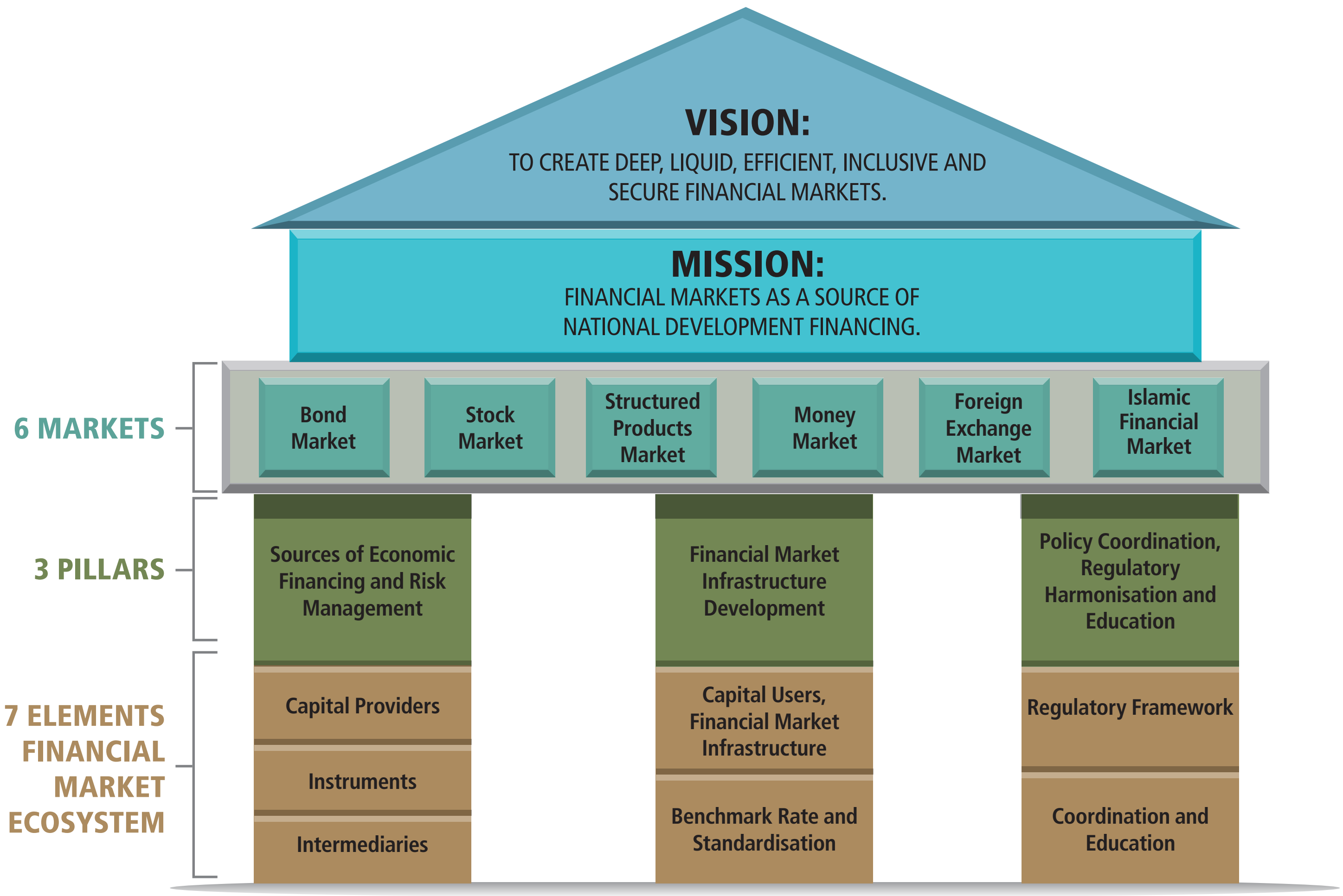
In 2016, the financial market authorities in Indonesia, namely the Ministry of Finance, Bank Indonesia, and the Financial Services Authority (OJK) formed the Coordination Forum on Development Financing by means of Financial Market (FK-PPPK). One of the initial tasks of the Forum was to compile a National Financial Market Development and Deepening

Strategy (SN-PPPK). The SN-PPPK has been positioned as a comprehensive and measureable single policy framework encompassing all financial market development initiatives towards achieving the mission of creating deep, liquid, efficient, inclusive and secure financial markets.

Using a top-down approach, the Financial Market Development and Deepening Coordination Forum Coordination Forum on Development Financing by means of Financial Market (FK-PPPK) developed the Indonesian financial market development and deepening framework for 2018-2024, consisting of three main pillars as follows: (i) sources of economic financing and risk management; (ii) market infrastructure development; and (iii) policy coordination, regulatory harmonisation and education.

Further development of the three pillars was translated into seven financial market deepening elements (Figure 2.1.1).

Figure 2.1.1. NATIONAL FINANCIAL MARKET DEVELOPMENT AND DEEPENING STRATEGY FRAMEWORK



PILAR I: SOURCES OF ECONOMIC FINANCING AND RISK MITIGATION

Developed financial markets are prerequisite for economic financing and as a mean to mitigate financial risks. The need for developed financial markets has precipitated financial market development and deepening efforts that aim to increase demand and supply of financial market instruments.

On the demand side, the initiatives are oriented towards expanding the domestic institutional and individual investor base. On the supply side, the progam is concentrated on providing instruments tailored to the needs of the investors. Healthy and dynamic interaction between supply and demand will be facilitated through solid intermediaries.

Thereafter, development under the first pillar consists of three elements as follows:

a. Capital Providers and Capital Users
   This element focuses on increasing the participation of domestic institutions as capital providers and users by facilitating access to funding and providing other associated incentives.
b. Financial Instruments
   This element focuses on developing and enriching alternative financial market instruments tailored to the needs of capital users and investors as well as supporting development financing.
c. Intermediaries
   This element focuses on optimising the active participation of intermediaries in the financial services sector in order to increase transaction volume and stimulate issuances of financial market instruments.

PILAR II: MARKET INFRASTRUCTURE DEVELOPMENT

Optimal financial markets are not achievable without the backing of reliable financial market infrastructure. On the other side, financial market infrastructure is a source of operational risk that must be managed and mitigated to avoid systemic risk in the financial system. Cognisant of the strategic function of financial market infrastructure, advanced economies have already compiled roadmaps for market infrastructure development.

In 2009, G-20 members agreed to formulate three market infrastructure policies, namely exchange or Electronic Trading Platforms (ETP) as transaction media, trade repositories for reporting and Central Counterparties (CCP) for clearing.

Based on the aforementioned considerations, development under the second pillar consists of two elements as follows:

a. Financial Market Infrastructure
   This element focuses on developing market infrastructure that open more access to information, while facilitating fast, secure and efficient transaction settlement. Having that in place, the follow-up measures will then focus on integrating or connecting market infrastructure systems consisting of trading venues, clearing and settlement systems as well as a trade repository, into a more integrated platform.
b. Benchmarks and Standardisation
   This element focuses on developing credible benchmark rates which supports price discovery and increase financial market transactions and liquidity. There are currently benchmark rates for the stock market, bond market and money market that must be improved to accurately reflect prices, which can be used for decision-making by market players.

PILAR III: POLICY COORDINATION, REGULATORY HARMONISATION AND EDUCATION

Financial sector policies has always been formulated with prudent to achieve the respective goals of each authority but lack integration in their implementation. In some cases, priorities of each authority are different, which undermines financial market development and deepening.

During the initial phase, inter-authority coordination is focused on harmonising tax regulations and financial institution development. In addition, measures to strengthen the legal framework, including aspects of close-out netting in the bankruptcy process, investment policy for financial institutions as well as the use of Special Purpose Vehicles (SPV) will also be priorities in this third pillar.

In the end, financial market product innovation will not be optimal without the backing of greater understanding amongst the market players. The development of financial instruments, structured product, repo transactions, derivative transactions and the use of various financial contracts, therefore, requires greater understanding by market players.

Development under the third pillar consists of two elements as follows:

a. Regulatory Framework
   This element focuses on harmonising financial market regulations to enable achievement of target, amongst others by strengthening the institutions, intermediaries, financial market infrastructure, taxation and other regulations.
b. Coordination and Education
   This element focuses on developing an inter-authority coordination and cooperation framework, while improving competencies of individuals in market institutions and financial literacy of the public.

2.2 SN-PPPK Implementation Phases

The Coordination Forum on Development Financing by means of Financial Market (FK-PPPK) prioritised the development strategies contained in the National Financial Market Development and Deepening Strategy (SN-PPPK) into three development phases.

a. Strengthening the Foundations (2018-2019)
   During this phase, the expected results include expansion of the domestic and foreign investor base, enrichment of the financial market instruments, particularly for infrastructure development, and the establishment of reliable financial market yield curves. Several other desirable outcomes include the availability of information systems for the investors, broader use of ETP infrastructure for debt securities, establishment of a Central Counterparty (CCP), institutional strengthening of intermediaries as well as the preliminary stages of regulatory harmonisation for tax and financial market laws.
b. Acceleration (2020-2022)
   During this phase, the expected outcomes include further expansion and strengthening of the domestic and foreign investor base, increasing transaction volume, further enrichment of financial market instruments and derivative products, as well as greater credibility of the benchmark rates. Several other desirable results include further development of the information systems for investors, optimisation of ETP utilisation, expansion of the financial product distribution and marketing channels for retail investors and additional regulatory harmonisation for tax and financial market laws.
c. Deepening (2023-2024)
   During this phase, the expected outcomes include strengthening the investor base for derivative products, optimisation of derivative products and use of the benchmark rates, as well as optimisation of information system development for the investors. In addition, this

Figure 2.2.1. FINANCIAL MARKET DEVELOPMENT KPIS BY PHASE

STRENGTHENING THE FOUNDATIONS
2018-2019

- Government Bond turnover: **4,82**
- Growth of Corporate Bond Issuance Value: **20% per year**
- Additional New Issuers: **45**
- Additional Investors (Securities and Mutual Fund Accounts): **370.000**
- Growth of Structured Product AUM Value: **10% per year**
- Outstanding Shares in Islamic Money Market: **1% GDP**
- Growth of Corporate Sukuk Value: **10% per year**
- Islamic Investment Products AUM Growth: **10% per year**
- Outstanding Money Market Transactions: **3-4% GDP**
- Average Daily Foreign Exchange Volume: **2% over trade flows**
- Composition of Derivatives: **42,5%**

ACCELERATION
2020-2022

- Government Bond turnover: **5,02**
- Growth of Corporate Bond Issuance Value: **20% per year**
- Additional New Issuers: **50**
- Additional Investors (Securities and Mutual Fund Accounts): **850.000**
- Growth of Structured Product AUM Value: **10% per year**
- Outstanding Shares in Islamic Money Market: **1-2,5% GDP**
- Growth of Corporate Sukuk Value: **10% per year**
- Islamic Investment Products AUM Growth: **10% per year**
- Outstanding Money Market Transactions: **4-6% GDP**
- Average Daily Foreign Exchange Volume: **2.5% over trade flows**
- Composition of Derivatives: **48,2%**

DEEPENING
2023-2024

- Government Bond turnover: **5,11**
- Growth of Corporate Bond Issuance Value: **20% per year**
- Additional New Issuers: **35**
- Additional Investors (Securities and Mutual Fund Accounts): **600.000**
- Growth of Structured Product AUM Value: **10% per year**
- Outstanding Shares in Islamic Money Market: **2,5-5% GDP**
- Growth of Corporate Sukuk Value: **10% per year**
- Islamic Investment Products AUM Growth: **10% per year**
- Outstanding Money Market Transactions: **6-8% GDP**
- Average Daily Foreign Exchange Volume: **3% over trade flows**
- Composition of Derivatives: **50%**

• The targets of turnover, outstanding shares, average volume and composition concerning the KPIs for the government bond market, Islamic money market, money market and foreign exchange market are to be achieved at the end of the respective phase.
• The targets of additional issuers and investors in the stock market are to be increased throughout the respective phase.

SOURCE: **MINISTRY OF FINANCE, BANK INDONESIA, FINANCIAL SERVICES AUTHORITY (OJK)**

phase also aims to further optimise ETP utilisation as well as the financial product distribution and marketing channels and finalise the regulatory harmonisation for tax and bankruptcy laws.

The implementation of each phase is oriented towards achieving the final goal by fulfilling the key performance indicators (KPIs) as detailed in Figure 2.2.2.

By translating the overarching strategy into three development pillars and seven elements, the vision to create deep, liquid, efficient, inclusive and secure financial market is expected to be accomplished. Nevertheless, it is important to note that implementation of the financial market development and deepening initiatives through to 2024 is still subject to various external and internal challenges


2.11%
4.84
113.00
114.50
-1.00
-0.42%
4.85
-5.00
-2.05%
234.00
239.00
14.60
0.60
4.29%
54.00
0.50
0.93%
2.48
0.14
5.98%
7.40
-0.20
-2.63%
-1.28%
75.00
6.20

3

FINANCIAL MARKET DEVELOPMENT STRATEGY

Government Bond Market

With surge of investor inclination towards bonds auctions and increasing numbers of bonds outstanding, the government bond market is considered comparatively deep. Nevertheless, the government and relevant authorities have formulated several strategies to further deepen the government bond market.

STRATEGIES

MARKET DEVELOPMENT STRATEGY

- 3x Increase of outstanding tradeable SBN from 2012-2017
- Samurai Bonds and USD Bonds to expand bond variations
- Benchmark SUN simplified to four series to increase liquidity
- Bond ownership still dominated by resident investors but non-resident investors' role begun to tick upwards

FIVE SALIENT CHALLENGES

- Limited domestic investor participation concentrated on Java Island
- Secondary market liquidity remains low
- Limited varieties of SBN instruments and derivatives
- Inefficient transactions
- Suboptimal tax regulations

- Optimise the variations of debt securities issued
- Amend regulations to expand the domestic investor base

- Optimise issuances of infrastructure debt securities
- Optimise issuances of thematic bonds

- Develop online Retail SBN
- Develop government bond derivatives
- Promote issuances of municipal bonds and sukuk
- Develop Indonesia Government Bond Futures (IGBF)
- Develop issuances of thematic bonds
- Expand participation in the Bond Stabilisation Framework (BSF)
- Optimise financial services institutions
- Continuous education and socialisation activities
- Harmonise tax regulations

SOURCE: **MINISTRY OF FINANCE, BANK INDONESIA, FINANCIAL SERVICES AUTHORITY (OJK)**

The SBN market has flourished over the past few years, particularly in terms of issuances.

Liquidity in the secondary market remains suboptimal due to limited variety of instruments and derivative products as well as underdeveloped repo transactions.

Turnover Ratio will gradually be increased from 4.48 in 2016 to 4.82 in 2019, 5.02 in 2020 and 5.11 in 2024.

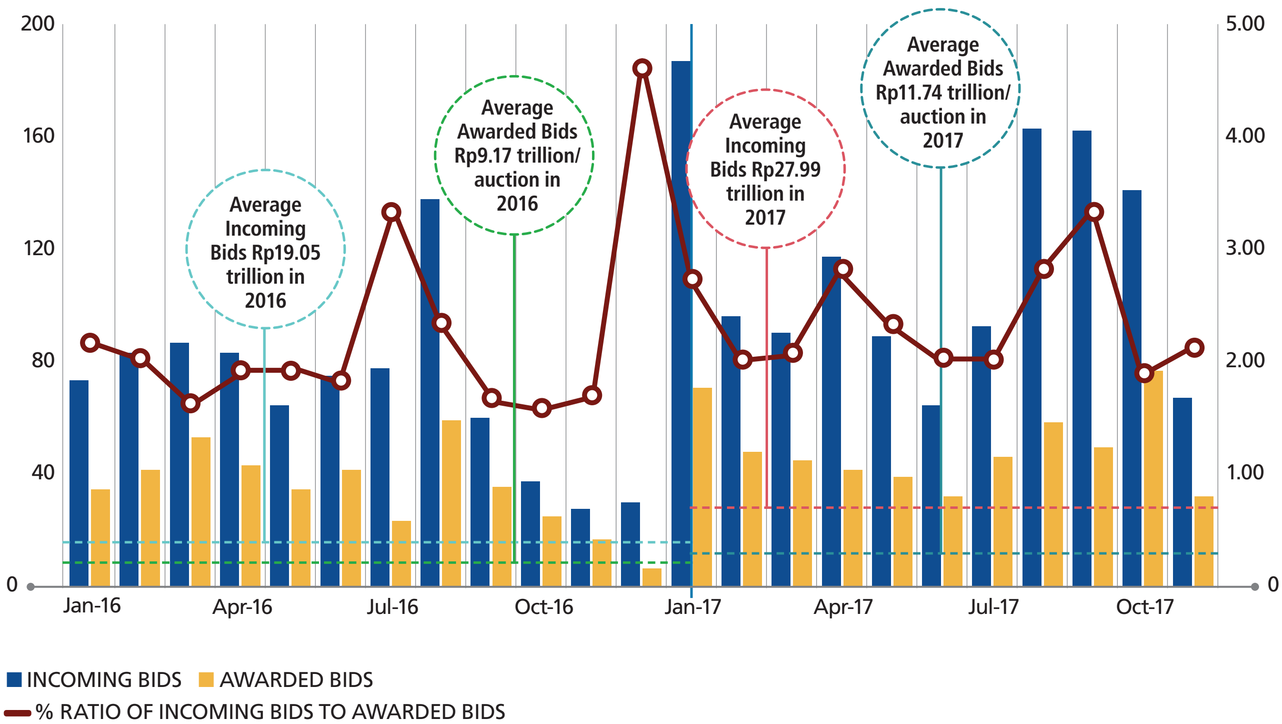
3.1 Government Bond Market

TOTAL outstanding of tradeable government securities (SBN) increased from 2011 to 2017, demonstrating vibrant government bond market development. At the end of 2017, total outstanding of tradeable government securities (SBN) experienced a three-fold increase compared with conditions at the end of 2012, rising to Rp3,006.79 trillion. The strong gains are consistent with economic output growth and strong demand for fiscal spending to provide infrastructure. The development of government bonds in Indonesia is not merely limited to government debt securities (SUN) and Islamic tradeable government securities (SBN) issued in the domestic market but also encompasses debt securities issued in the international market, including Samurai Bonds issued through public offerings and dollar bonds using SEC Registration.

Investor inclination towards domestic SBN market has continued to increase, as evidenced by the growing number of incoming bids and awarded bids, reaching Rp27.99 trillion and Rp11.74 trillion in 2017 respectively (Graph 3.1.1).

In terms of the investor profile, resident investors have dominated SBN holdings year over year but non-resident investors have expanded ownership to around 37-40% of the total during the past three years (Graph 3.1.2).

Graph 3.1.1. PERFORMANCE OF SBN AUCTIONS (JANUARY 2016 – NOVEMBER 2017)



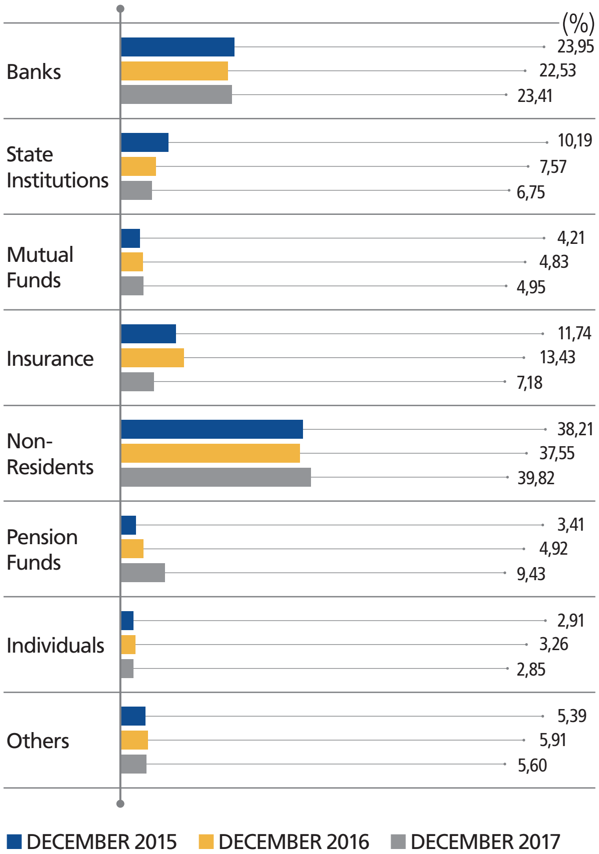
SOURCE: **MINISTRY OF FINANCE**

In terms of infrastructure, the domestic SBN market is also considered relatively well developed, as indicated by the sound administration and settlement system using the Bank Indonesia – Scripless Securities Settlement System (BI-SSSS), the primary dealer mechanism and Bond Stabilisation Framework (BSF).

In addition, benchmarks and yield curves are available as a reference for fair market prices of government bonds. To that end, the government has stipulated four series of SUN as the benchmark series, namely with tenors of 5, 10, 15 and 20 years. For shorter tenors, the government has increased the number of auctions and target issuances of 3-month treasury bills (SPN). Furthermore, the government also increased target issuances for 12-month treasury bills (SPN) and 2-month Islamic Treasury Bills (SPNS). Consequently, the government increased the target for 3-month SPN issuances to Rp5 trillion in 2017 and to Rp2 trillion for SPSN.

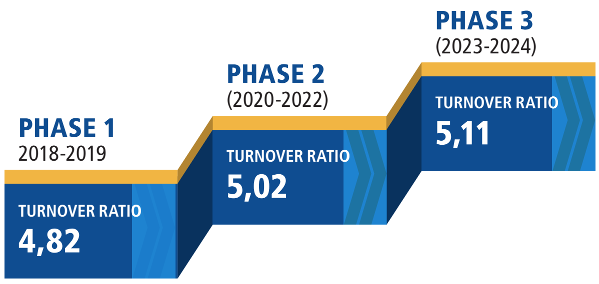
Nevertheless, liquidity in the secondary market remains suboptimal because market players tend to hold SBN until maturity, thus limiting repo market activity. One determinant of low liquidity in the SBN market is the suboptimal use of the Electronic Trading Platform (ETP). On the other hand, limited diversity of SBN instruments and their derivatives has restricted investor options in the secondary market.

Graph 3.1.2. SBN HOLDERS (2015-2017)



SOURCE: **MINISTRY OF FINANCE**

Figure 3.1.1. GOVERNMENT BOND MARKET DEVELOPMENT TARGETS



SOURCE: **MINISTRY OF FINANCE**

3.1.1. SBN MARKET DEVELOPMENT STRATEGY AND TARGETS

The target of the SBN market deepening strategy is the turnover ratio considering that secondary market liquidity remains the most binding constraint to future market development efforts.

Striving to hit that target, the authorities will apply several SBN market development and deepening strategies under three pillars.

PILAR I : SOURCES OF ECONOMIC FINANCING AND RISK MANAGEMENT

- Development of Online Retail SBN Distribution Channels

  One of the current issues plaguing the investor base is a concentration of institutional investors located on Java Island. Therefore, the future policy orientation is focused on developing online retail SBN distribution channels, while paying due consideration to the existing distribution channels. Further elaboration of this initiative is presented in the Box entitled **Development of Online Retail SBN Distribution Channels.**

- Development of Government Bond Derivatives

  Another problem that has surfaced is the limitation of government bond derivatives for hedging transactions. Therefore, the future policy orientation is concentrated on developing Indonesia Government Bond Futures (IGBF), which will also support the government to determine yields as well as help the investors to hedge and improve portfolio efficiency.

Currently, the government derivatives market remains underdeveloped due to a number of constraints: (i) lack of alternatives to IGBF products derived from exchange rates and/or interest rates, thus preventing the banking industry from participating in IGBF transactions; (ii) lack of liquidity providers; and (iii) requirement of further development of the Indonesia Stock Exchange system to support operational of transaction. Therefore, the future development strategy includes:

a. Cooperation between the Financial Services Authority (OJK), Bank Indonesia and self-regulatory organisations (SRO) as well as the Ministry of Finance to review the urgency of the banking industry's role in IGBF trading, while providing alternative IGBF products for the banking industry based on prudential principles.
b. Review potential SUN portfolio holders other than banks and stock exchange members, for instance non-resident investors as liquidity providers, and expand participation in IGBF trading.
c. Develop IGBF products tailored to market needs.
d. Expand the membership of payment banks to settle IGBF transactions in the exchange.
e. Review bank participation in bond futures and respective instrument size in line with government policy orientation that will include bond futures transactions as part of the requirements as a primary dealer.

- Facilitation and Assistance for Issuances of Municipal Bonds and Sukuk

  One effective way for regional government to fund local development, primarily infrastructure, is to seek funding from the capital market through issuances of municipal bonds and sukuk. To that end, several regulations contain provisions to relax the supporting documents and conditions required to issue municipal bonds and sukuk, including OJK Regulation (POJK) No. 61/POJK.04/2018, OJK Regulation (POJK) No. 62/POJK.04/2018 and OJK Regulation (POJK) No. 63/POJK.04/2018, have been formulated.

  Future policy is oriented towards strengthening the Municipal Bond/Sukuk Facilitation Team in order to support local government preparations. In addition, the Ministry of Finance will also provide capacity building for local governments to effectively manage the investments and financing from municipal bond/sukuk issuances.

- Development of Thematic Bonds

  Striving to diversify the types of SBN available and to meet investor demand, especially those with an impact investing mandate as well as for productive activities and programs, for example infrastructure development as well as environmental, educational, health and other programs, the Government is reviewing issuances of thematic bonds. Thematic bond issuances will be directed towards utilising government programs and projects as the underlying.

  The government has already prepared a green bond and green sukuk framework as a reference for the criteria of green bonds and has issued green sukuk in the international market. Future policy is focused on: (i) reviewing issuances of green bonds and green sukuk in the domestic market; and (ii) providing socialisation as well as dissemination activities and training for project owners with regard to the proceed reporting of green bond/sukuk as well as the socio-environmental impact.

PILAR II: FINANCIAL MARKET INFRASTRUCTURE DEVELOPMENT

- Expansion of Bond Stabilisation Framework (BSF) Participation

  Investor propensity towards the SBN market is influenced by SBN market stability, thus necessitating an effective BSF.

  Policy to strengthen the BSF will seek to draw new participants, thus improving BSF effectiveness as a tool to maintain market stability.

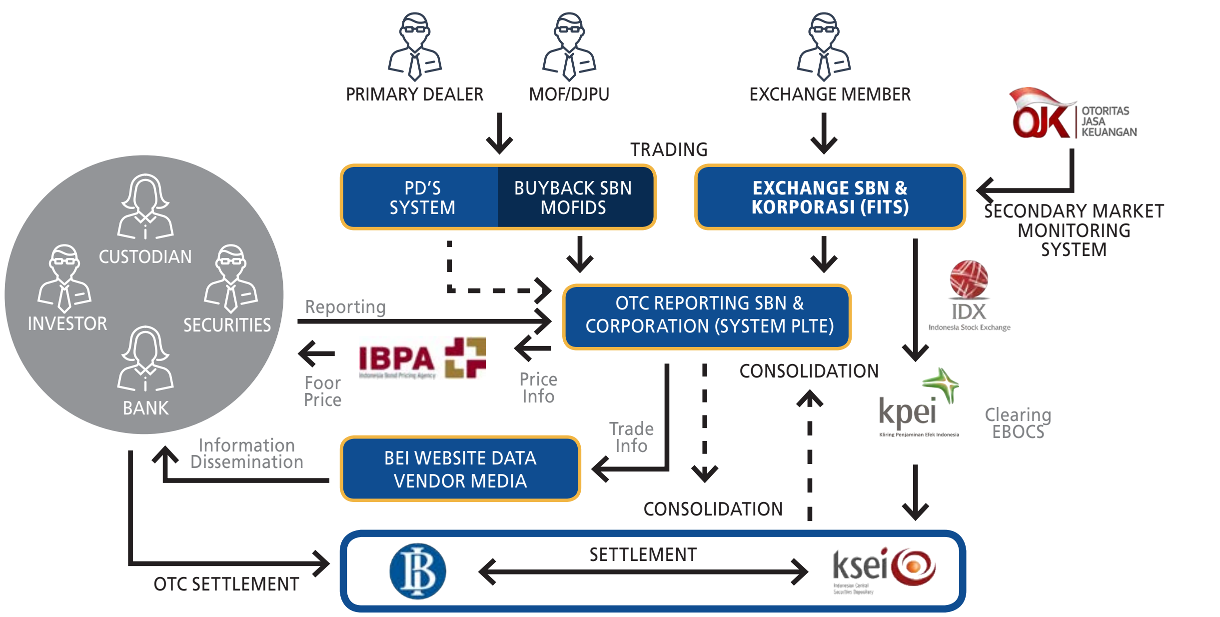
- Development and Optimisation of the Electronic Trading Platform (ETP)

  ETP development is expected to provide the following solutions: (i) increase SBN and corporate bond market liquidity; (ii) improve cost efficiency and mitigate trading risk; (iii) increase price information transparency; and (iv) improve secondary market surveillance and oversight by the regulator. The ETP scheme is presented in Figure 3.1.2.

The future policy orientation is:

a. Second phase infrastructure development (systems and IT)
b. Harmonisation of the supporting regulations for ETP implementation; and
c. An integrated assessment of tradeable government securities (SBN) from pre-trade to post-trade, while coordinating with the relevant authorities in relation to an integrated system.

Figure 3.1.2. TRADING DEBT SECURITIES THROUGH ETP



SOURCE: **MINISTRY OF FINANCE; FINANCIAL SERVICES AUTHORITY (OJK)**

PILAR III: POLICY COORDINATION, REGULATORY HARMONISATION AND EDUCATION

- Harmonisation of tax regulations on government bond market

  The relevant authorities have identified regulatory issues concerning SBN taxation and will subsequently coordinate with the Government through the Ministry of Finance. The future development strategy is focused on harmonising the SBN tax regulations, namely the types (final and non-final), tariffs and mechanisms for withholding tax on the coupon or discount rate as well as capital gains tax.

  In terms of taxation, securities companies and insurance companies are currently subject to final tax, while the banks are subject to corporate income tax and pension funds are exempted from tax obligations. Regarding tariffs, however, mutual funds are subject to a lower tax tariff than other tax objects. There is even a discrepancy between income tax tariffs, with domestic investors subject to 15% and non-resident investors subject to 20%.

- Optimisation of Financial Services Institutions

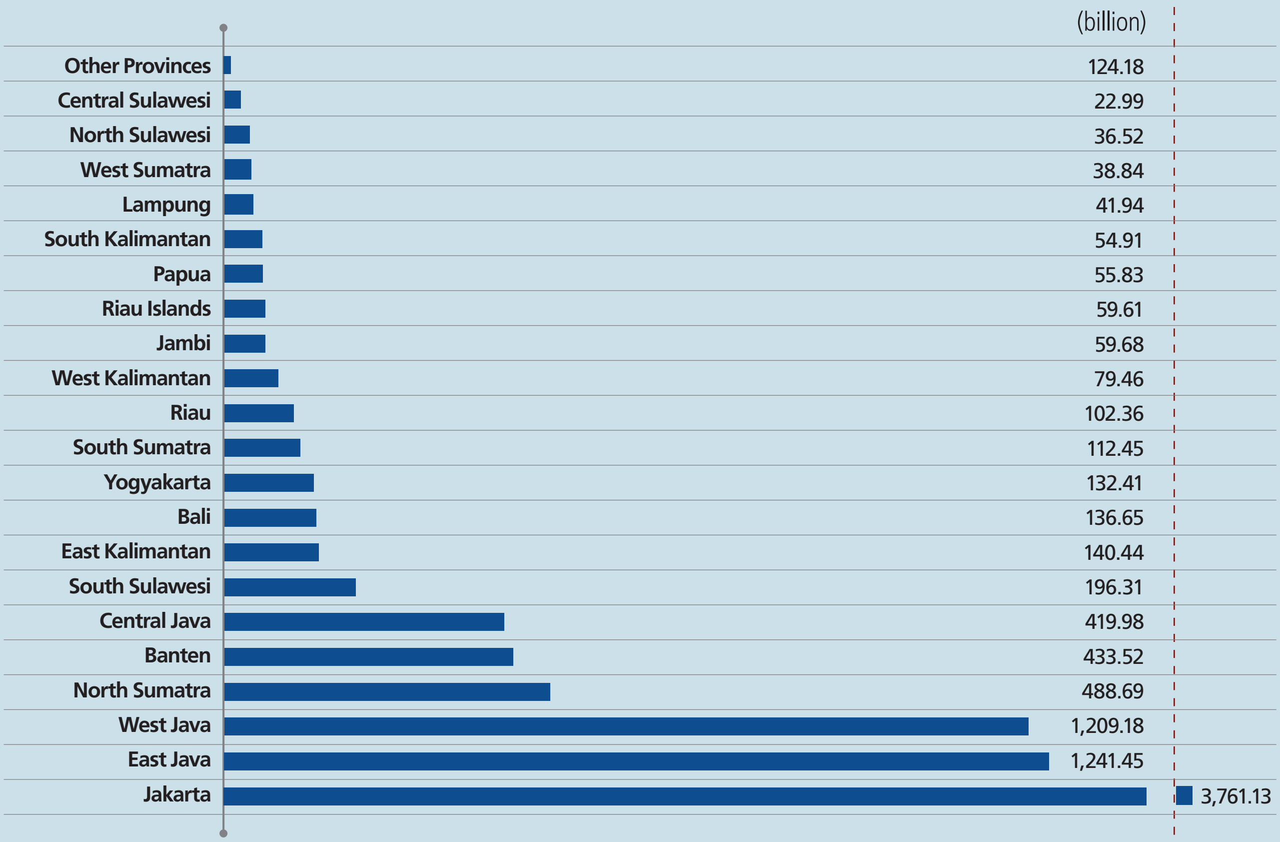
  This strategy represents one government solution to overcome suboptimal domestic investor participation. The government will map and review conditions to increase investor participation in the domestic bond market, especially financial services institutions such as pension funds, insurance and banking industry. **Further elaboration is presented in Section 3.8.1 Expansion of the Investor Base.**

Development of Online SBN Retail Distribution Channels

THE ROLE of Retail SBN to cover the state budget deficit has increased year over year. In the 11 years since Indonesian Retail Government Bonds (ORI) were first issued in 2006, the Government has now issued ORI014 with a value of Rp8,948 trillion from a total of 21,211 investors.

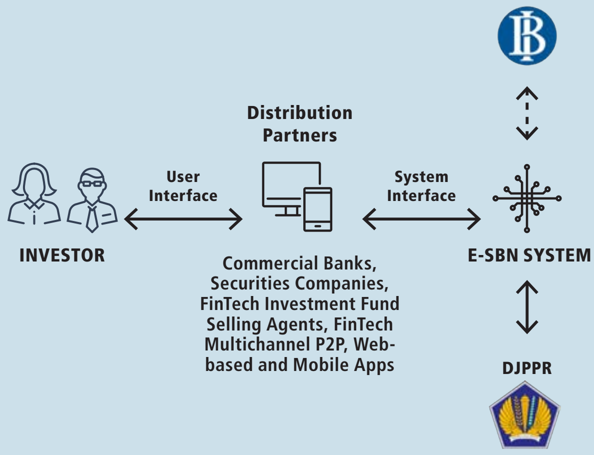
Currently, retail SBN are offered with a relatively small minimum purchase in order to give retail investors the maximum opportunity. Accordingly, investors are able to purchase retail SBN with a minimum capital investment of Rp5 million, which was subsequently reduced to only Rp1 million for series SBR003 retail Savings Bonds. Nevertheless, the distribution of retail SBN remains suboptimal. For example, the average order value of ORI per investor remains relatively large. For ORI013, the average reached Rp574 million compared with Rp391 million for ORI014. The average decline per investor indicates that the distribution of retail ORI has improved but the numbers remain well in excess of the Rp5 million minimum.

Graph 3.1.3. ORDER VOLUME OF ORI014 BY PROVINCE



SOURCE: **MINISTRY OF FINANCE**

Figure 3.1.3. PURCHASE MECHANISM FOR ONLINE RETAIL SBN



SOURCE: **MINISTRY OF FINANCE**

In fact, several selling agents booked an average order volume of more than Rp1 billion, which is unremarkable considering that selling agents offering ORI typically only focus on their priority customers.

Regionally, retail SBN issuances are not represented evenly throughout the territory of the Republic of Indonesia, as illustrated by Graph 3.1.3, with investors from Jakarta dominating around 42% of total order volume and investors from Western Indonesia, excluding Jakarta, accounting for around 50%. In contrast, investors from Eastern Indonesia and Central Indonesia only make up around 8% of the total. The data indicates that ORI issuances do not yet effectively reach more remote regions.

Seeking to overcome that issue, the government initiated a breakthrough alternative to the retail SBN selling mechanism, with the goals of improving the quality of retail investors, expanding the reach of the investor base and reinforcing the financial inclusion program, while also paying due regard to the cost efficiency of retail SBN issuances.

The development strategy for online retail SBN distribution channels also takes into consideration the existing distribution channels. In addition, the government will also support financial technology (FinTech) development through strategic partnerships to sell retail SBN online. By expanding the distribution network, the scope of retail SBN sales is expected to broaden. This system will eventually integrate all retail SBN incoming bids through various distribution channels into a core system API (application programming interface), namely the e-SBN system (Figure 3.1.3).

Corporate Bond Market

The role of the corporate bond market in terms of national economic funding could be improved. Despite a steady increase of issuances over the past few years, market liquidity remains low. Consequently, the financial authorities have proposed a number of measures to strengthen the market.

MARKET DEVELOPMENT STRATEGY

- Liquidity in the secondary market remains low, with a turnover ratio of less than 25%
- Awareness of corporate bond issuances has increased over the past few years
- The economic contribution remains minimal, as evidenced by the lower ratio of outstanding government bonds to GDP than in other ASEAN countries

STRATEGIES

FIVE SALIENT CHALLENGES

- Limited number of issuers
- Low liquidity in the secondary market
- Suboptimal intermediaries
- Inefficient price setting
- Narrow institutional and retail investor base

- Expand the variations of corporate bonds
- Amend regulations to expand the role of domestic investors

- Develop non-public offerings (private placements) of corporate bonds

- Streamline the public offering process
- Develop bond infrastructure
- Develop green bonds
- Develop the role of EBUS intermediaries
- Encourage SOEs to issue bonds
- Apply e-registration and electronic book building for public offerings
- Develop the Electronic Trading Platform (ETP)
- Develop the repurchase agreement (repo) market through market standards and triparty repo agents
- Harmonise tax regulations, as well as education and socialisation efforts

SOURCE: **BANK INDONESIA, MINISTRY OF FINANCE, FINANCIAL SERVICES AUTHORITY (OJK)**

Corporate bond market development remains suboptimal in supporting the national economy because the share of total funding is small

The value of bonds issued has increased over the past few years

Limited liquidity in the secondary market has impeded further development

3.2 Corporate Bond Market

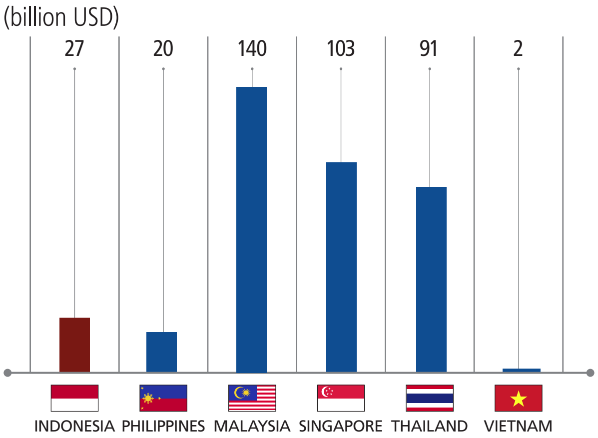
THE CORPORATE bond market is not as mature as the government bond market, therefore, the contribution to the national economy is also smaller. As of December 2016, the ratio of total outstanding corporate bonds to GDP was just 2.50%, compared with 14% for government bonds. In comparison to peer countries, the authorities and market players in Indonesia must continue working assiduously to increase the number of corporate bond issuances. Total outstanding corporate bonds in Indonesia has, thus far, been unable to match that achieved in Malaysia, Singapore or Thailand (Graph 3.2.1).

Nevertheless, corporate bonds are continuing to develop in Indonesia. over the past six years, total corporate bond and sukuk issuances have growth by an average of 24% to Rp156.71 trillion in 2017 (Graph 3.2.2). The increasing value of corporate bond issuances has, however, not been accompanied by a commensurate increase of liquidity in the secondary market. In 2017, corporate bond market liquidity was comparatively low, with a turnover ratio of less than 25%.

Corporate bond holdings have been dominated by institutional investors. The low penetration of corporate bond instruments stems from a mismatch between the number of issuances and investor capacity, including irregular taxation rules that are not universally applied to all investors (Graph 3.2.3).

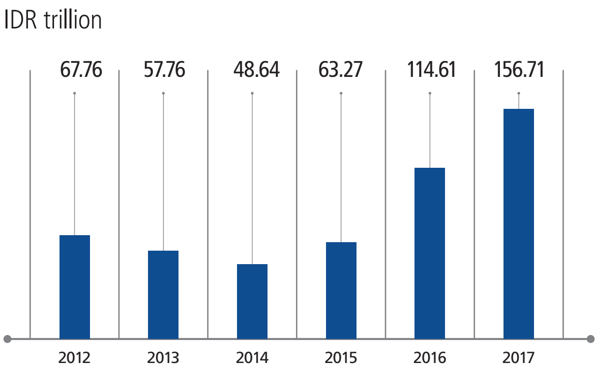
One of the main determinants of low market liquidity is the lack of price transparency. The trade of corporate bonds is dominated by over-the-counter (OTC) transactions, which undermines fair price setting transparency. Such conditions dissuade investors from actively trading corporate bonds in the secondary market. Furthermore, institutional investors are not familiar with repo transactions using corporate bonds as underlying. In general, the profile of corporate bondholders is dominated by institutional investors, pension funds and the insurance industry, which tend to hold corporate bonds to maturity, thus restraining liquidity in the secondary market.

Graph 3.2.1. COMPARISON OF OUTSTANDING CORPORATE BONDS IN ASEAN COUNTRIES IN THE THIRD QUARTER OF 2017



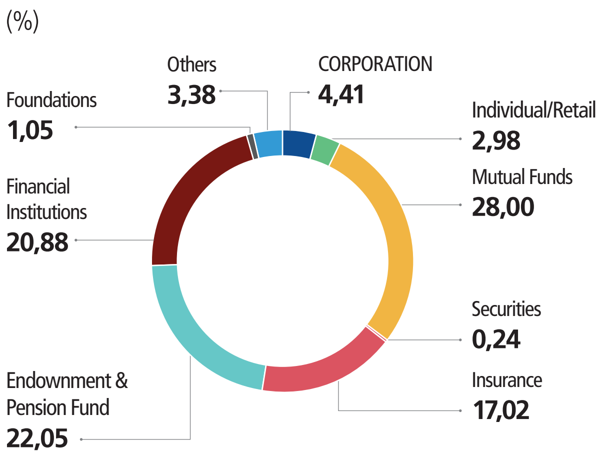
SOURCE: **ASIAN DEVELOPMENT BANK (ADB)**

Graph 3.2.2. CORPORATE BOND ISSUANCES



SOURCE: **FINANCIAL SERVICES AUTHORITY (OJK)**

Graph 3.2.3. CORPORATE BOND HOLDERS IN 2017



SOURCE: **OJK**

3.2.1. CORPORATE BOND MARKET DEVELOPMENT STRATEGY AND TARGETS

Limited funding support through corporate bonds, as shown in Graph 3.2.1, has made increasing bond issuers as target of corporate bond market deepening over three implementation phases.

Various strategies will be employed under three pillars to achieve the corporate bond market development and deepening targets.

Figure 3.2.1. CORPORATE BOND DEVELOPMENT TARGETS

SOURCE: **OJK**

Table 3.2.1. SIMPLIFICATION OF THE EBUS ISSUANCE REQUIREMENTS

DOCUMENTS TYPE	EXISTING	AMENDMENT
Financial Statement	Prior 3 years	Prior 2 years
Audit	Prior 3 years	Prior 2 years

SOURCE: **OJK**

PILAR I: SOURCES OF ECONOMIC FINANCING AND RISK MANAGEMENT

- Development of Corporate Bond Variations
  The instruments currently offered in the corporate bond market are standard plain vanilla products. On one hand, demand for corporate financing is becoming more diverse, for example financing originating from project cash flows, thus requiring the development of other bond varieties.

  The future policy orientation is directed towards expanding existing varieties of corporate bonds, including project bonds, green bonds/sukuk and other corporate bond variations.

- Expansion of the Corporate Bond Issuers
  In 2017, only 12 new issuers conducted public offerings of corporate bonds, contrasting starkly to the 76 issuers under continuous issuance scheme. Seeking to attract new issuers, OJK has refined and streamlined the registration requirements to issue corporate bonds through promulgation of OJK Regulation (POJK) No. 7/POJK.04/2017 and POJK No. 9/POJK.04/2017.

  The future policy orientation is directed towards issuing regulations that cover: (i) public offerings of debt securities/sukuk to professional investors; and (ii) issuances through private placements and encouraging bond issuances by state-owned enterprises as well as small and medium enterprises. The policy direction is dictated by the need for alternative offering schemes appropriate to the characteristics of the instruments and investors. In addition, this also takes into account the rapid proliferation of medium-term notes (MTN) over the past few years and the growing need for investor protection.

- Increasing the Role of EBUS (Debt Securities and Sukuk) Intermediaries
  Currently, securities companies are financial institutions mandated as corporate bond intermediaries. The future policy direction is focused on licensing other financial institutions that meet the specific criteria to operate as corporate bond intermediaries, including the banks. This is based on the tested risk-management capabilities of banks and the broad potential customer base. In terms of future implementation, OJK will require any bank wishing to engage in EBUS trading to first register with the authorities (Figure 3.2.2).

PILAR II: FINANCIAL MARKET INFRASTRUCTURE DEVELOPMENT

- Improvements of the Public Offering Registration Process
  The future policy orientation is focused on streamlining the registration process in order to stimulate corporate bond issuances. OJK has already begun implementing

such policy through OJK Regulation (POJK) No. 58/ POJK.04/2017 concerning Electronic Registration and Corporate Action Submission. This regulation facilitates online registration application through OJK's licensing system. The current systems and mechanisms will be strengthened further to ensure a streamlined and efficient registration process.

- Increasing Liquidity, Transparency and Efficiency

  The future policy orientation is focused on increasing transparency in the primary and secondary markets. Primary market development will include application of the e-book building system for public offerings. The system can accurately measure investor interest, thus improving transparency and fair price setting, while simultaneously guaranteeing accountability in terms of price setting as well as the allocation and distribution of securities.

  Another policy to improve transparency is through implementation of the Electronic Trading Platform (ETP) to develop online EBUS trading. Further elaboration of this initiative is contained in the Box: **ETP System Infrastructure and Regulation Development.** OJK will also promulgate regulations concerning alternative market operators (PPA) under the framework of ETP development as illustrated in Figure 3.2.2. Through the regulations, corporate bonds may be traded through a non-exchange platform, while still providing enough flexibility to ensure transparent benchmarks. In addition, negotiations between transacting parties will still be facilitated, while also accommodating broader direct participation from the stock exchange.

- Establishment of Tripary Repo and Repo Transaction Market Standards

  One of the most binding constraints to repo market development is the lack of benchmarks acceptable to market participants or both parties involved, considering that the transactions are bilateral between two parties. Striving to standardise the business processes of repo transactions, future policy is focused on issuing and promoting market standards, which aim to provide repo transaction guidelines applicable to all market players.

  Another policy to support repo transactions is triparty repo services (Figure 3.2.3). Such services would be provided in conjunction with a self-regulatory organisation (SRO), namely the Indonesia Stock Market Clearing House (KPEI). As a third party, KPEI has the system and risk-management capacity to provide back-office services for existing repo transactions conducted bilaterally, including process confirmation, mark-to-market, margin management and income payment facilities. The triparty repo system will provide repo transaction services for debt securities and equity securities.

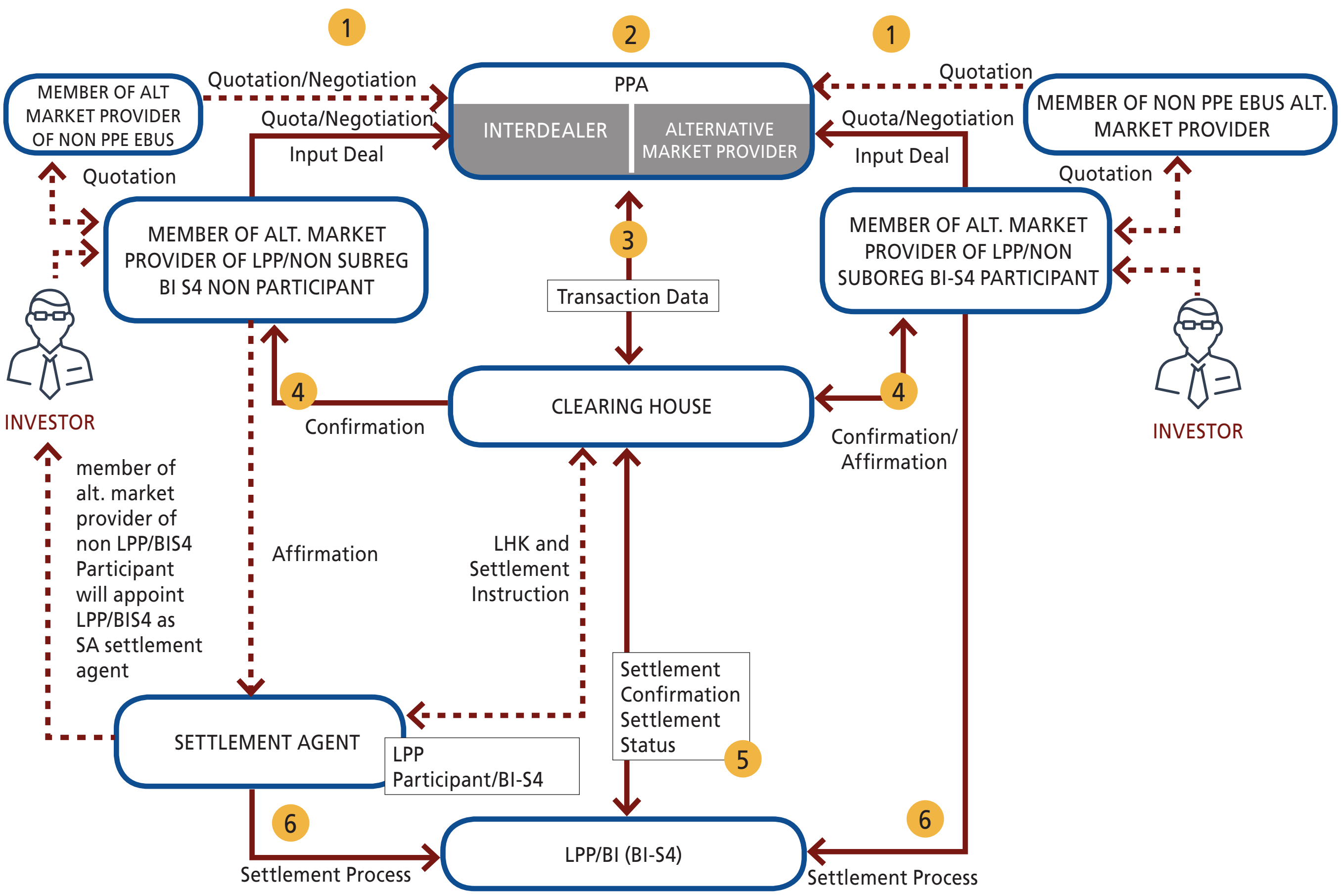
PILAR III: POLICY COORDINATION, REGULATORY HARMONISATION AND EDUCATION

- Harmonisation of Tax Regulations on Corporate Bonds Market

  The relevant authorities have already identified the salient issues concerning tax regulations for corporate bonds and will subsequently coordinate with the Government through the Ministry of Finance. The future development strategy is focused on harmonising the corporate bond tax regulations, namely the types (final and non-final), tariffs and mechanisms for withholding tax on the coupon or discount rate as well as capital gains tax.

  Regarding the types of tax, securities companies and insurance companies are currently subject to final tax, whiles banks are subject to corporate income tax and pension funds are exempted from tax obligations. Concerning the tariffs, mutual funds are subject to lower tax tariffs. There is also disparity between the rate of income tax payable by domestic investors (15%) and non-resident investors (20%).

Figure 3.2.2. ALTERNATIVE MARKET PROVIDER SCHEMES

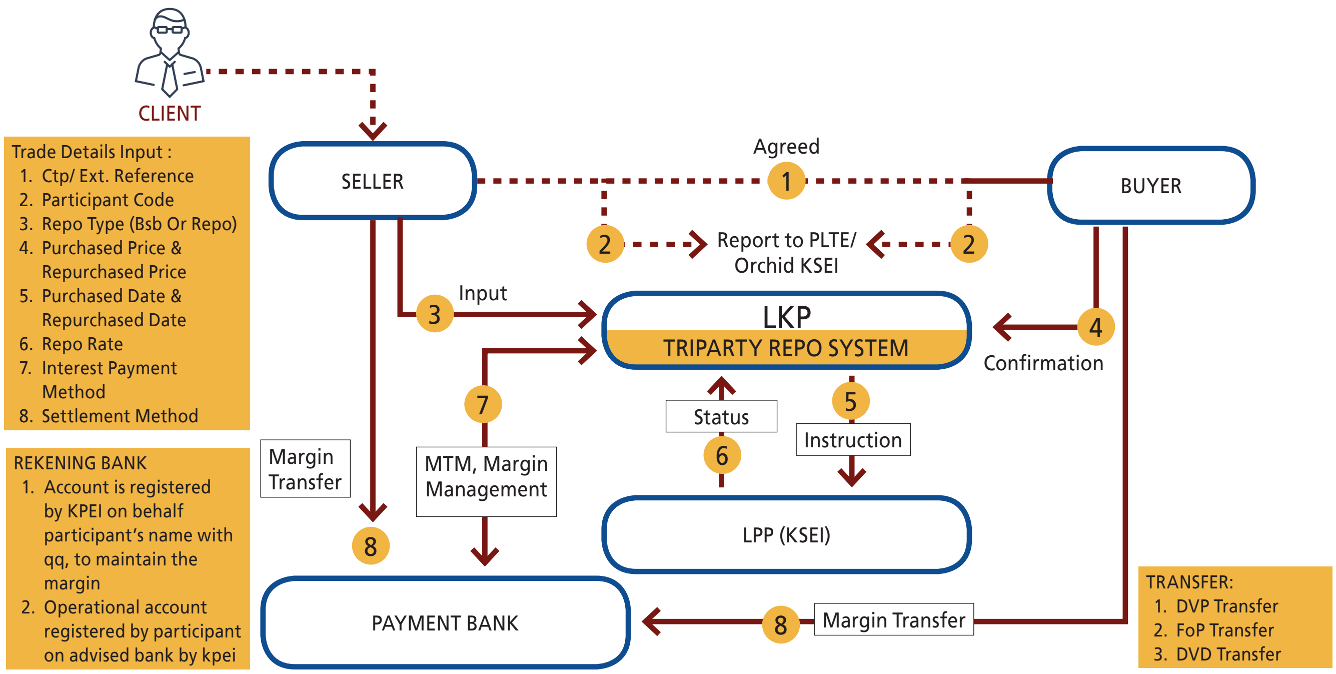


(LKP): Clearing and Guarantee Agent
(LPP): Deposits and Settlement Agent
(BI-S4): Scripless Securities Settlement System (Bank Indonesia)
(PPE EBUS): Sukuk and Debt-securities Trading Intermediary

NOTES:
1. PPA members submit a quotation to the PPA system. A non-PPE EBUS member of the PPA may send the quotation through the PPE EBUS or directly to the PPA.
2. The PPA system will perform inter-dealer and dealer vs non-dealer trade matching.
3. The transaction data from the PPA will be sent to the Clearing House.
4. The Clearing House will submit a Clearing Report to the non-LLP/Non-BI-S4 sub registry PPA members. If a PPA member is also an LLP participant or BI-S4 sub registry, the Clearing House will submit the Clearing List directly to the PPA.
5. The Clearing House will send the settlement confirmation status to LPP/BI-S4.
6. The Settlement Agent will settle to LLP/BI-S4 if the PPA member is not an LLP participant or BI-S4 sub registry. If the PPA member is an LLP participant or BI-S4 sub registry, the settlement process is performed directly by the PPA based on processing the Clearing List.

SOURCE: **OJK**

Figure 3.2.3. TRIPARTY REPO SCHEME



NOTES:

1. Financial services institutions or the customers of financial services institutions through financial services institutions may conduct repo transactions with another financial services institutions using classic repo or sell and buy back options.
2. Financial services institutions report the transactions in the PLTE/Orchid system at the Indonesian Central Securities Depository (KSEI) and will receive CTP/external reference.
3. Financial services institutions acting as a seller will input the repo transaction details and CTP external reference to the triparty repo system at the Indonesia Stock Market Clearing House (KPEI).
4. Financial services institutions acting as a buyer will send a confirmation in the triparty repo system.
5. Through the triparty system, the Indonesia Stock Market Clearing House (KPEI) will submit bookkeeping instructions.
6. The Indonesian Central Securities Depository (KSEI) will submit the bookkeeping status to the Indonesia Stock Market Clearing House (KPEI).
7. The Indonesia Stock Market Clearing House (KPEI) will perform mark-to-market (MtM) on the underlying repo using the BEI price for shares and IBPA price for bonds. Based on MtM, the instruction to transfer/pay the cash margin to the buyer bank will be given.
8. The Buyer/Seller will settle the payment on the margin call to the counterparty.

SOURCE: **FINANCIAL SERVICES AUTHORITY (OJK)**

ETP System Infrastructure Development and Regulations

DEVELOPMENT of the Electronic Trading Platform (ETP) represents the electronic centralisation of debt securities and sukuk (EBUS) transactions, from the order submitted by the investor to the execution system, transformation of the order into a transaction and infrastructure dissemination. Currently, EBUS transactions are typically performed through over-the-counter (OTC) transactions of which its transparency is comparatively low.

The prevailing dynamics of the debt securities market in Indonesia that necessitate ETP implementation are as follows:

1. Low liquidity in the secondary bond market
2. Low transparency in the secondary market, thus clouding fair price setting of debt securities in Indonesia for portfolio management strategies, including monitoring
3. Limited oversight of the secondary bond market
4. The presence of unregulated market operators, intermediaries and information providers

The ETP system has a number of goals as follows:

1. Improve oversight and surveillance effectiveness
2. Increase liquidity and transparency
3. Improve the effectiveness of fiscal and monetary policymaking

ETP development will be implemented in three phases as follows:

Phase I For Indonesia Retail Bond (ORI) instrument transactions.

Phase II For Phase I instruments plus Indonesia Retail Sukuk (Sukri), Benchmark Series Government Securities (SBN) as well as Corporate Bonds/ Sukuk.

Phase III For Phase II instruments plus other SBN.

Phase I ETP development was completed on 6th April 2017. The next phase of development will begin based on the regulatory backing, market requirements and preparedness of the ETP system. In terms of membership, ETP will not be restricted to securities companies but also open to banks, money market brokers and other third parties.

Table 3.2.2. PLANNED ETP DEVELOPMENT PHASES

	INSTRUMENTS	MEMBERS	MECHANISMS	CLEARING AND GUARANTEES	SETTLEMENT
Phase I	Indonesian Retail Bonds (ORI)	• Bank • Securities Companies	Quote-driven	Clearing	BEI and KSEI
Phase II	• Phase I instruments • SUKRI • Benchmark series SBN • Corporate Bonds/ Sukuk	• Bank • Securities • Companies	• Quote-driven • Periodical auctions	Clearing	BEI and KSEI
Phase III	• Phase II instruments • Other SBN	• Bank • Securities Companies • Money Market Brokers	• Quote-driven • Periodical auctions • Continous autions	Clearing and Guarantees	BEI and KSEI (SID)
INDONESIA STOCK EXCHANGE					

SOURCE: **INDONESIA STOCK EXCHANGE (BEI)**


6.060
000-6.080
3.600
3.570-3.610
13.120
+1.020
22.700
22.050-22.800
9.350
+0.050
+0.538%
9.220-9.380
932.20
1.23B
216.42M
162.27M
09:30
13:00
16:00

Stock Market

With a growing investor base and enhanced transaction performance, stock market liquidity is improving. Nevertheless, this sector continues to face several challenges, including needs to increase number of issuers. The financial market authorities have proposed a range of initiatives to deepen the stock market.

MARKET DEVELOPMENT STRATEGY

- Trading liquidity in the Indonesia Stock Exchange has increased over the past year
- The stock market is still subject to non-resident investor erratic behaviour despite the growing domestic investor base
- The number of issuers in the Indonesia Stock Exchange remains below that found in other ASEAN countries

STRATEGIES

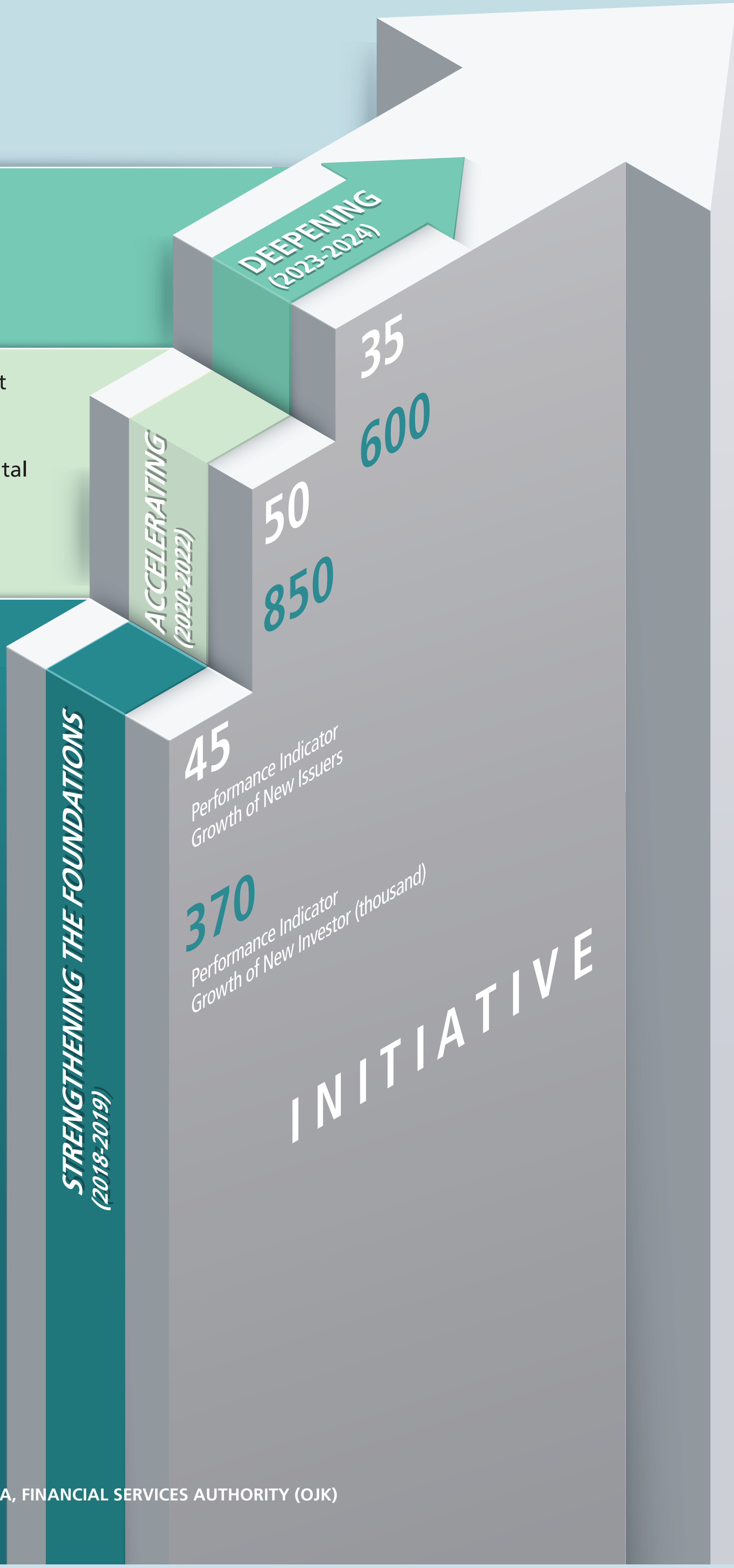
FOUR SALIENT CHALLENGES

- Comparatively small number of new issuers
- Limited retail investor base as concentrated in Java Island
- Limited varieties of equity-based instruments and derivatives
- The operational reach of securities companies is restricted to the major cities

- Develop general clearing members
- Expand securities funding services

- Develop the equity derivatives market
- Stratify securities companies
- Improve the competencies of the capital market supporting professions

- Encourage stock issuances by small and medium enterprises (SMEs)
- Develop securities companies as intermediaries
- Encourage state-owned enterprises and municipal-owned enterprises to conduct public offerings
- Regulate equity crowdfunding
- Develop alternative securities funding services
- Coordinate tax policies
- Provide continuous education and socialisation activities
- Streamline the account opening process



SOURCE: **MINISTRY OF FINANCE, BANK INDONESIA, FINANCIAL SERVICES AUTHORITY (OJK)**

Stock issuances through initial public offerings (IPO) and rights issues have continued to expand but remain suboptimal

Stock trading liquidity in the secondary market of the Indonesia Stock Exchange has continued to track an upward trend

The role of non-resident investors in terms of holdings and trade in the secondary market remains significant despite a growing domestic investor base over the past few years

3.3 Stock Market

THE NUMBER of issuing companies in the stock exchange has continued to increase. As of 31st December 2017, a total of 566 issuers were registered in the Indonesia Stock Exchange, which is still relatively small compared to other Asian countries (Table 3.3.1)

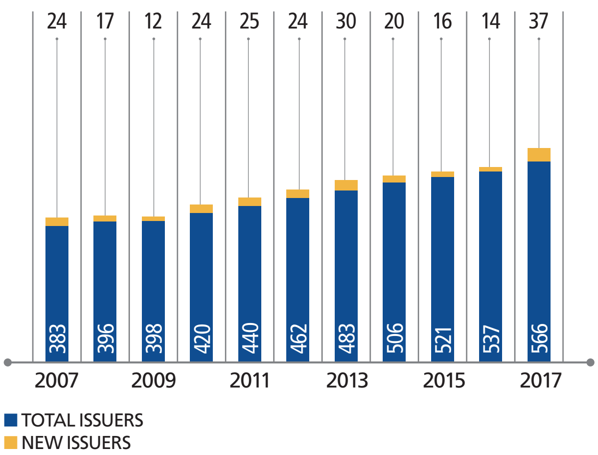
Table 3.3.1. A REGIONAL COMPARISON OF TOTAL ISSUERS (2017)

COUNTRIES	REGISTERED ISSUERS
Philippine	267
INDONESIA	**566**
Thailand	688
Singapore	750
Malaysia	904
China	1,396
Hong Kong	2,118
South Korea	2,134
Australia	2,147
Japan	3,604

SOURCE: **WEF**

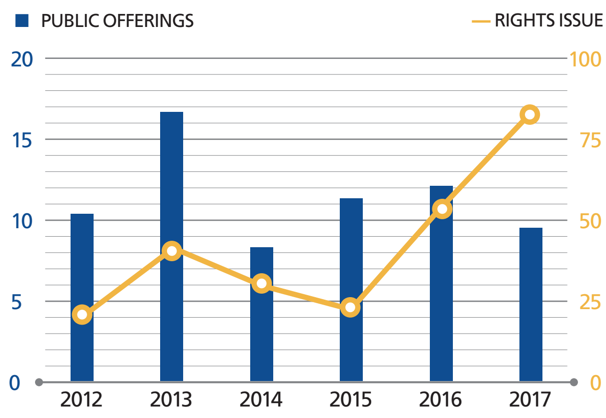
In terms of growth, the number of issuers in the Indonesia Stock Exchange and the issuance value (public offerings and rights issues) have continued to track upward trends. From 2007-2017, the number of new issuers grew by an average of just 4% per year, equivalent to 22 new issuers per year. Over the past five years, the value of public offerings and rights issues has expanded by 7% and 40% per year respectively as illustrated in Graph 3.3.2.

Graph 3.3.1. TOTAL ISSUERS IN THE BEI



SOURCE: **INDONESIA STOCK EXCHANGE**

Graph 3.3.2. VALUE OF PUBLIC OFFERINGS AND RIGHTS ISSUES



SOURCE: **INDONESIA STOCK EXCHANGE**

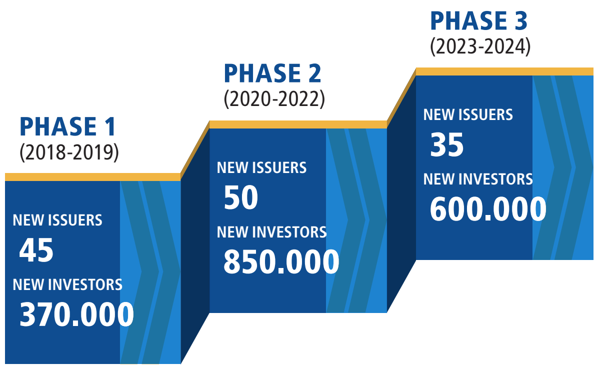
In terms of trade in the secondary market, liquidity has continued to increase. Over the past six years, total stock transaction value in the Indonesia Stock Exchange has grown by 10.14% per year to reach Rp1,809.59 trillion in 2017. The rising transaction value has also been boosted by trade volume, which increased 14.76% to Rp2.09 trillion in 2017.

The share of domestic holdings in the Indonesia Stock Exchange has increased year over year to reach 48.7% in 2017. Such developments are congruent with growth of the domestic investor base, as evidenced by impressive 72.44% growth in just one year of the Single Investor Identification (SID) from 2016-2017, in line with the financial market deepening program that targets expansion of the domestic investor base. There are currently around 1 million retail investors in Indonesia, representing less than 1% of the total population of 260 million. Therefore, there remains a vast opportunity to expand the domestic retail investor base to around 20-30% of the total population. Furthermore, the distribution of retail investors is concentrated on Java Island, accounting for around 77.15% of the total.

3.3.1. STOCK MARKET DEVELOPMENT STRATEGY AND TARGETS

The importance of increasing the number of issuers as well as attracting new issuers necessitated two stock market

Figure 3.3.1. STOCK MARKET DEVELOPMENT TARGETS



SOURCE: **OJK**

development targets. The targets will be achieved through several strategies under three pillars.

PILAR I: SOURCES OF ECONOMIC FINANCING AND RISK MANAGEMENT

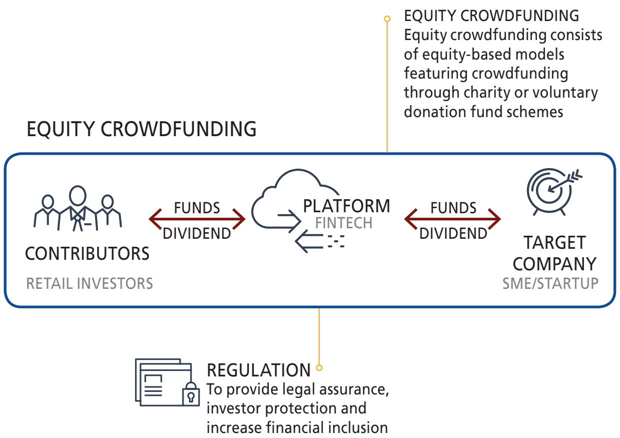
- Expansion of listed companies, focusing on state-owned enterprises and their subsidiaries, regional companies and small-medium enterprises

  Seeking to accelerate the pace of new issuer growth, the future strategy will be oriented towards encouraging state-owned enterprises and subsidiaries, municipal-owned enterprises (BUMD) as well as small and medium enterprises (SMEs) to conduct public offerings in the stock exchange. Concerning small and medium enterprises (SMEs), the use of innovative technology will be regulated in order to facilitate equity crowdfunding (Figure 3.3.2). To that end, equity crowdfunding regulations will be drawn up to provide legal assurance and investor protection as well as to increase financial inclusion.

- Expansion of the Investor Base

  The future policy orientation is focused on expanding the investor base for the stock market by expanding access to prospective investors through a simplified account opening process. The simplification program will be implemented using Know Your Customer (KYC) principles by financial institutions as third-party KYC providers. This initiative is backed by the use of information technology to open accounts online.

Figure 3.3.2. CROWDFUNDING EQUITY SCHEME



SOURCE: **OJK**

- Development of Stock Intermediaries

  Several strategies will be applied to expand the role of intermediaries as follows:

  a. Promulgate regulations to develop regional securities companies, thus promoting a trickle-down effect of marketing activities conducted by branch offices in the big cities to smaller towns and regencies.
  b. Expand the role of securities companies and custodian banks. In future, custodian banks will act as settlement agents and perform direct settlement in conjunction with the Indonesia Stock Market Clearing House (KPEI), thereby avoiding the need for bail-out funds.
  c. Expand the marketing network through cooperation with financial services institutions, such as banks and other third parties.
  d. Facilitate the establishment of Securities Funding Institutions (LPE). LPE represent an additional alternative fund provider for securities transactions by securities companies that have, thus far, had to rely on financial institutions or other third parties for funding, especially when conducting margin transactions and/or short selling transactions.

- Development of Stock Derivatives

  One of the problems blighting the domestic stock market is limited derivative instrument varieties. Consequently, the future policy direction is focused on encouraging the development of stock derivatives for hedging purposes.

PILAR II: FINANCIAL MARKET INFRASTRUCTURE DEVELOPMENT

- Development of e-Registration

  The Indonesian Financial Services Authority (OJK) has already issued OJK Regulation (POJK) No. 58/POJK.04/2017 concerning the Electronic Registration and Corporate Action Submission. Initially, the documents required for e-registration include a registration statement for public offerings of equity securities, public offerings of debt securities and/or sukuk, and public offerings of continuous bonds and/or sukuk.

  The future policy direction is focused on expanding the e-registration rules for public listed companies in order to increase capital through rights issues, corporate mergers and consolidation, voluntary tender offers and compulsory tender offers.

- Development of e-Book Building

  One of the salient issues plaguing public offerings is the book building process, which is still performed manually by securities underwriters, leading to information asymmetry that restricts price setting transparency and does not reflect the interests of all investors. In conjunction with an SRO, therefore, the authorities will develop an e-book building system initially for public offerings of stocks but then expanded to corporate bonds. Further elaboration of this initiative is presented in Box: **E-Book Building Infrastructure Development.**

- Improvement of Transaction Settlement Efficiency through System Integration

  The advancements and integration of information technology made possible by Straight Through Processing (STP), from the system, transaction execution and the clearing system to the management of Single Investor ID (SID) and Customer Fund Account (RDN), allow for a faster and more practical securities and fund allocation process, reducing settlement from T+3 to T+2.

  The future policy direction, therefore, is focused on accelerating transaction settlement to T+2 in order to increase liquidity through faster reinvestment of the funds, enhanced operational efficiency and less systemic risk in the capital market. To that end, the authorities will prepare a legal framework, which will be followed by SRO, stock exchange members, custodian banks and other players adjusting their systems, rules and business processes.

PILAR III: POLICY COORDINATION, REGULATORY HARMONISATION AND EDUCATION

- Harmonisation of Tax Regulations on Stock Market

  Striving to develop the secondary stock market, the financial market authorities will coordinate with the tax authorities. Coordination will encompass commissions and cost of SRO (levies) in line with the Accounting Guidelines for Securities Companies (PAPE). The move will affect: (1) the calculation of Value Added Tax (VAT); and (2) the calculation of joint cost allocation, which determines the magnitude of corporate income tax payable by securities companies

- Education and Socialisation for Investors and Issuers

  The future policy orientation is directed towards strengthening cooperation between the authorities and SRO and relevant government ministries to provide education and socialisation activities to prospective issues and potential investors.

e-Book Building Infrastructure Development

DEVELOPMENT of the e-book building system will strengthen the capital market industry in Indonesia. The overarching goal of the initiative is to expand investor access to participate in public offerings as well as create price setting transparency and accountability in the primary market. The current conditions in the primary market that demand an e-book building system include:

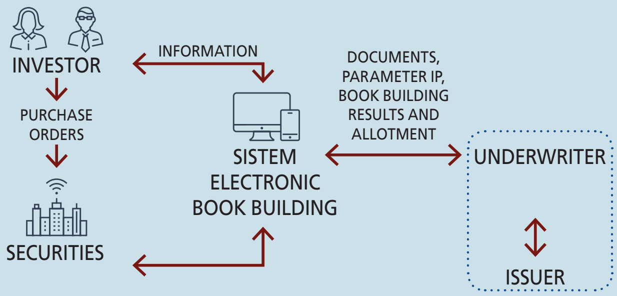
1. Dwindling participation and a shrinking investor base over the past few years, and
2. Opaque price setting in the current book building process, which is limited to certain investors.

The new system is not only expected to accommodate the book building process electronically but also extend to the public offering process as well as the allocation and rationing of securities in the public offering process. The centralised allocation and rationing regulations will be refined to provide greater opportunity for public investors to participate in initial public offerings (IPO). Initially E-book building system development is focused on public offerings of stocks but will subsequently be extended to bonds.

The application of e-book building will increase transparency and fair price setting of the stocks offered. Furthermore, the offerings will be distributed through a fair allocation process because the information concerning the book building parameters will already be disclosed in the system.

Investors may also conveniently submit a price offering due to fair treatment. E-book building will increase accountability in terms of price setting, allocation and distribution. The electronic system will also make the book building and allocation of securities processes more efficient through automation.

Figure 3.3.3. E-BOOK BUILDING SCHEME



SOURCE: **OJK**

235.00
-1.00
-0.42%
234.00
239.00
-5.00
-2.05%
239.00
14.60
0.60
4.29%
54.00
0.50
0.93%
2.48
0.14
5.98%
7.40
-0.20
-2.63%
-1.28%
2.11%
4.84
4.85
113.00
114.50
75.00
6.20

Structured Products Market

Rapid infrastructure development and growing public demand for investment instruments have precipitated the emergence of structured products. Further development of structured products, however, is focused on real sector-based investment products. The financial authorities have proposed several initiatives to foster financial market deepening and development.

MARKET DEVELOPMENTS

- Mutual funds and asset-backed securities are the fastest developing instruments
- The development of electronic infrastructure and distribution channels is contributing to the proliferation of structured products
- Implementation of the integrated investment management system, S-INVEST, began in 2016
- The expansion of Investment Fund Selling Agents (APERD) has increased the amount of managed funds in the investment management industry

STRATEGIES

THREE SALIENT CHALLENGES

- Limited product variety
- Limited public understanding of structured products
- Suboptimal application of tax regulations to support structured product market development

- Optimise the distribution channels of structured products to expand the investor base

- Strengthen inter-institutional cooperation to expand the distribution of structured products

- Facilitate the establishment of real sector-based investment products
- Develop an information centre for the investment management industry
- Harmonise tax regulations
- Conduct education and socialisation activities concerning structured products

SOURCE: **MINISTRY OF FINANCE, BANK INDONESIA, FINANCIAL SERVICES AUTHORITY (OJK)**

Relatively small market share of structured products compared with other financial markets

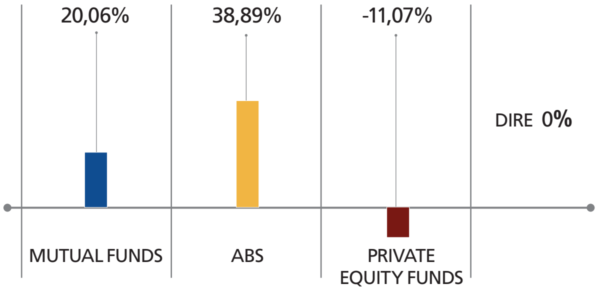
Reliable market infrastructure and distribution channels have contributed to the expansion of structured products

3.4 Structured Products Market

THE DEVELOPMENT of managed assets from structured product in the form of collective investment contracts (KIK) has experienced varying degrees of growth over the past five years. Graph 3.4.1 shows that only mutual funds and asset-backed securities have grown, contrasting the contraction of private equity funds (RDPT) and lack of real estate investment (DIRE) growth.

On the other hand, as of December 2017, there have also been no issuances recorded of infrastructure investment

Graph 3.4.1. GROWTH OF STRUCTURED PRODUCTS FORM 2013-2017



SOURCE: **OJK**

fund instruments (DINFRA), which have only recently been regulated. Moving forward, DINFRA issuances are expected to support infrastructure financing with the participation of a broader investor base.

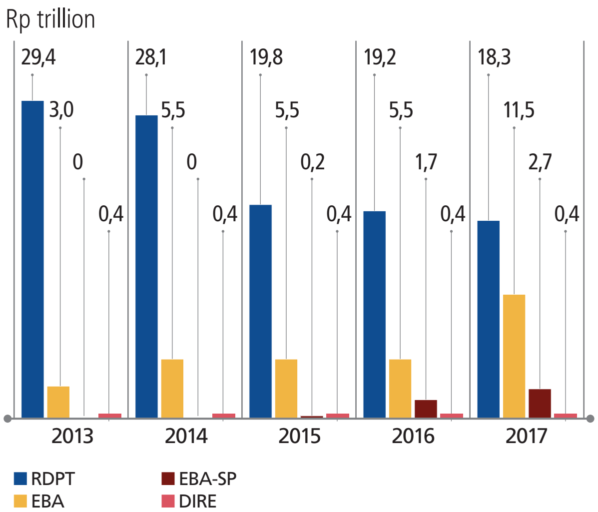
In general, over the past five years managed funds in the investment management industry have grown by an average of 20.75% to reach Rp693.24 trillion at the end of 2017. Nevertheless, structured products only account for around 4.37% of total managed funds in the financial industry.

Growth in terms of the total and value of managed products in the industry was triggered by the proliferation of parties eligible to become Investment Fund Selling Agents (APERD). According to OJK Regulation (POJK) No. 39 of 2014, becoming an Investment Fund Selling Agent (APERD) is no longer the sole preserve of banks but also securities companies engaged in underwriting service and broker-dealers as well as securities companies established to market mutual funds. Furthermore, based on OJK Regulation (POJK) No. 23 of 2016, mutual funds could be sold through cooperation between investment managers and third parties with a broad business network. The cooperation was manifested by providing sales outlets and/or electronic systems.

Reliable market infrastructure has also contributed to the development of structured products. In the middle of 2016, the investment management industry launched an integrated investment management system known as S-INVEST (Graph 3.4.1). The system revolutionised mutual fund transactions from a manual to an electronic system. Commencing in the middle of 2017, all mutual fund order instructions and transactions were processed fully online.

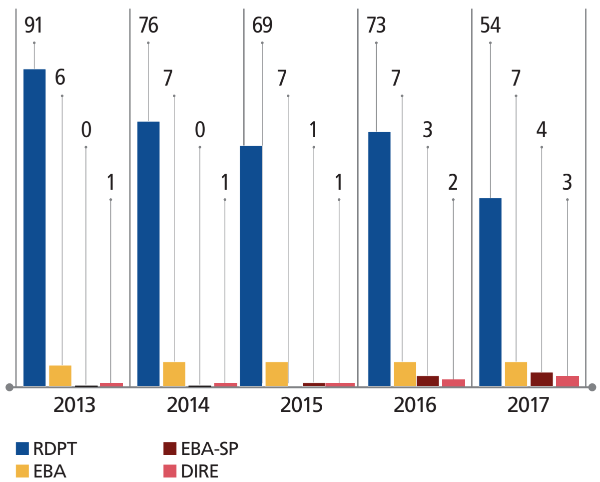
The current focus of government policy is infrastructure development to stimulate project-based and infrastructure-based investment products, such as private equity funds (RDPT), real estate investments (DIRE), asset-backed securities (EBA) and infrastructure investment fund instruments (DINFRA). Nonetheless, the development of structured products remains suboptimal. Limited structured

Graph 3.4.2. MANAGED FUND VALUE OF STRUCTURED PRODUCTS FROM 2013-2017



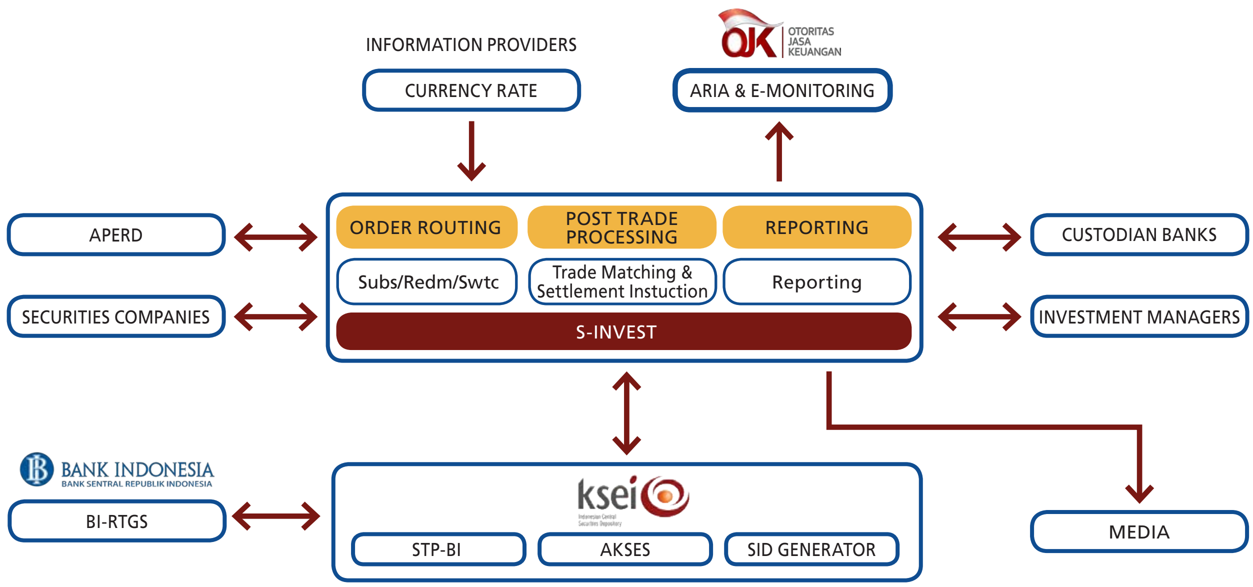
SOURCE: **OJK**

Graph 3.4.3. NUMBER OF STRUCTURED PRODUCTS FROM 2013-2017



SOURCE: **OJK**

Figure 3.4.1. INTEGRATED INVESTMENT MANAGEMENT MECHANISM THROUGH S-INVEST



SOURCE: **KSEI**

product development is due in part to a lack of product understanding by market players. In addition, structured product market development is further constrained by tax regulations. Consequently, different structured products incur different tax treatment despite the same characteristics.

Figure 3.4.2. STRUCTURED PRODUCT MARKET DEVELOPMENT TARGETS

SOURCE: **OJK**

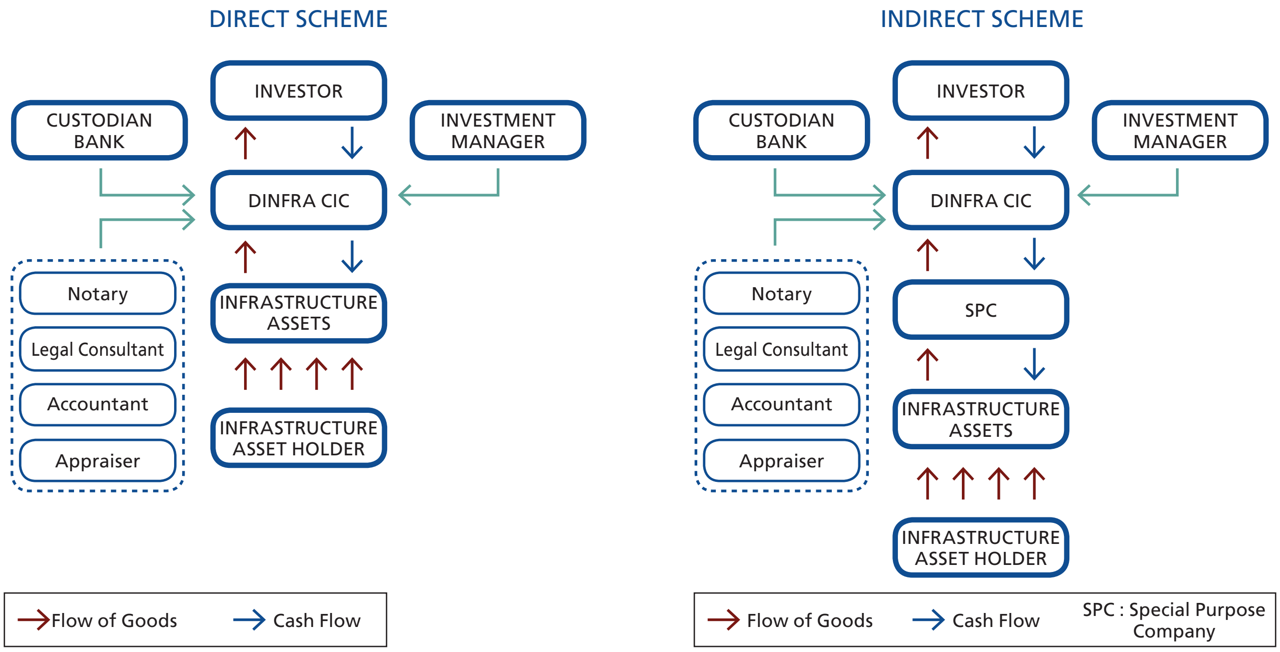
3.4.1. STRUCTURED PRODUCT MARKET DEVELOPMENT STRATEGY AND TARGETS

The structured product market development and deepening targets will be achieved through three phases of initiatives under three pillars.

PILAR I: SOURCES OF ECONOMIC FINANCING AND RISK MANAGEMENT

- Development of Real Sector and Infrastructure-Based Structured Product
  The orientation of future structured product market development is focused on the development and utilisation of DINFRA product schemes and/or real sector-based products, such as RDPT, EBA and DIRE (Figure 3.4.3). Market development through real sector-based structured products has been successful in other countries, as elaborated in the Box: **Implementation of Infrastructure Funds in Thailand for Infrastructure Financing.**

Figure 3.4.3. DINFRA CIC SCHEME



SOURCE: **OJK**

Simultaneously, structured products customised to the needs of certain investors will also be developed as a priority, for example Public Housing Savings (Tapera). To that end, the relevant authorities will promulgate regulations concerning Tapera collective investment contracts as a legal framework for Tapera participants to invest in Tapera collective investment contracts (Figure 3.4.4).

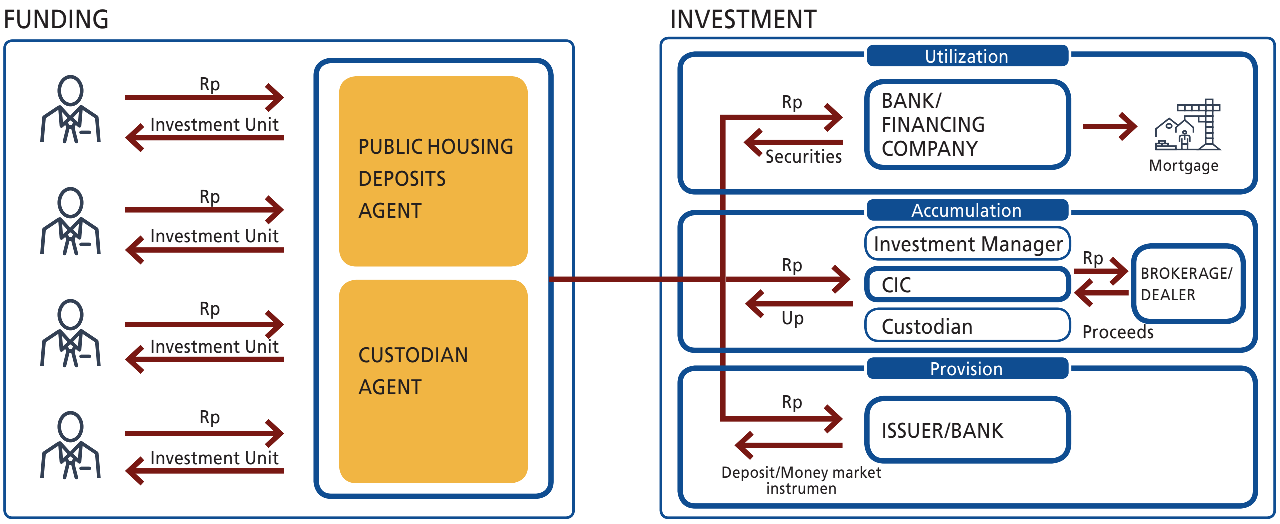
- Expansion of the Distribution Channels for Structured Products

The marketing of structured products is currently possible through conventional selling agents as well as companies or institutions with a broad information technology network. Future policy is focused on encouraging investment managers to cooperate with companies or institutions with broad networks, such as the major telecommunications providers, retail supermarkets and courier services companies. In addition, cooperation with tested online companies will also be encouraged (Figure 3.4.5).

- Strengthening Risk Management of Structured Products

The main challenge facing structured product development is how to build public confidence in product security and fund management practices. Therefore, the future policy orientation is focused on strengthening oversight of structured product management in order to prevent erroneous practices such as misselling. Policy will also focus on strengthening governance at investment managers in the pursuit of healthy competition and to avoid incurring losses for the customers, for instance in

Figure 3.4.4. TAPERA SCHEME



A. DIRECTION

1. The Participant pays for a regular deposit directly to the virtual account at the Custodian Bank or through a payment channel. In return, the Participant receives an investment unit (Article 17, Article 18 and Article 19 of The Tapera Act (No. 4) of 2016).

B. UTILISATION

1. BP Tapera appoints a Bank or Housing Finance Company to channel the housing financing.
2. Upon receipt of the funds, the Bank or Finance Company transfers the securities to the Custodian Bank

C. INVESTMENT

1. BP Tapera appoints an Investment Manager and Custodian Bank under the Collective Investment Contract scheme to invest the funds (Article 23 of the Tapera Act).
2. The investment is made in accordance with conventional or Islamic principles (Article 21 of the Tapera Act) targeting financial products in the form of banking industry term deposits, central/ local government debt securities, housing securities, or other investments pursuant to prevailing regulations.
3. The Tapera participant may select to invest based on conventional or Islamic principles (Article 22 of the Tapera Act).

D. RESERVES

BP Tapera places part of the Tapera Fund in term deposits and money market instruments as a reserve to return the deposit and investment if the participant wishes to cancel membership.

SOURCE: **OJK**

relation to the service fees associated with the integrated investment management system.

PILAR II: FINANCIAL MARKET INFRASTRUCTURE DEVELOPMENT

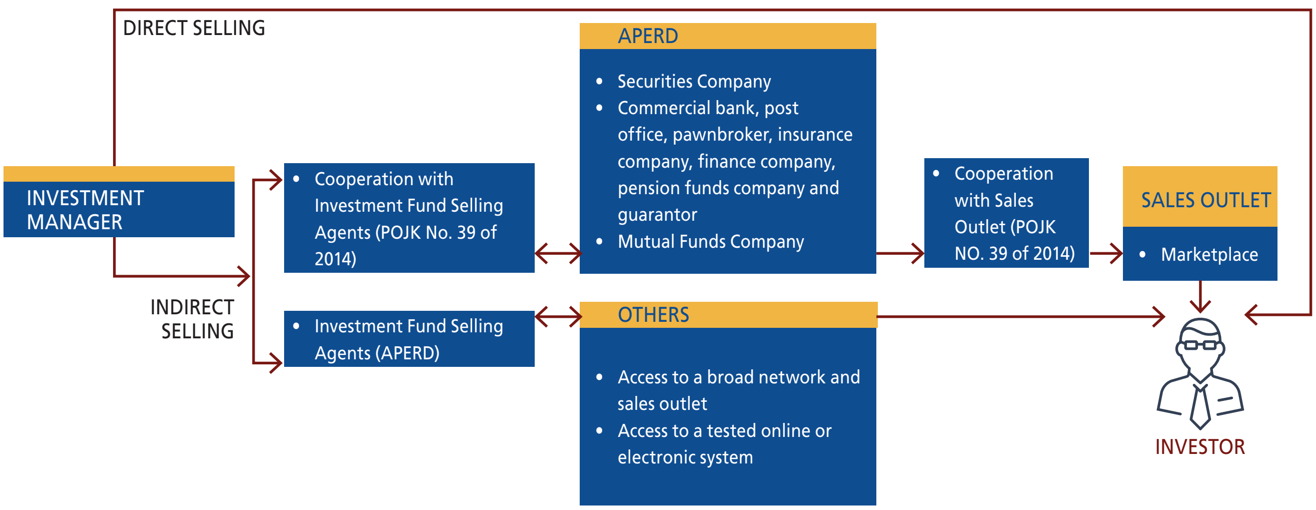
- **Development of Information System**
  The future policy orientation is focused on the management of collective investment contract (KIK) Tapera products. Information system development for KIK Tapera products will strengthen management transparency, thus targeting workers and employees throughout Indonesia as a potential investor base.

PILAR III: POLICY COORDINATION, REGULATORY HARMONISATION AND EDUCATION

- **Harmonisation of Tax Regulations on Structured Products**
  There still remain differences in the calculation and imposition of dual tax on various structured products despite similar characteristics. Like in other markets, the capital market authority must coordinate with the tax authority to refine the regulations as required.

- **Education and Socialisation for the Investors**
  The future policy direction is focused on massive education and socialisation efforts targeting all community segments, including those living in rural areas, civil servants and workers in the manufacturing industry.

Figure 3.4.5. DISTRIBUTION CHANNELS OF STRUCTURED PRODUCTS



SOURCE: **OJK**

Implementation of Infrastructure Funds in Thailand for Infrastructure Financing

THAILAND is one of the countries in Southeast Asia to successfully implement infrastructure financing through collective investment schemes. Since September 2011, Thailand has had in place the necessary regulations for infrastructure funds. In Thailand, infrastructure funds were created to draw capital from institutional and individual investors in order to fund local infrastructure projects. The financial product aims to mobilise government funds in Thailand to develop infrastructure.

The infrastructure funds also represent an alternative source of funding for the private sector involved in government infrastructure projects. As of 31st October 2016, five infrastructure funds were operational in Thailand with a total capitalisation value of 252.6 billion baht (around Rp95 trillion)[1]. Infrastructure funds in Thailand are fund schemes developed by asset management companies (investment managers) approved by the Security and Exchange Commission of Thailand. The fund schemes are operated as a juristic person, the assets of which are separate from the asset manager.

There are two prevailing public investment schemes as follows:

1. Direct Investment, namely investment in physical assets through rights to future revenue, concession rights, leasehold rights and rights to receivables.
2. Indirect Investment, namely investment in stocks or bonds (more than 75%) with voting rights of a company performing the infrastructure project. The company must invest in the infrastructure project to the tune of 75% of the NAV of the infrastructure fund or 75% of the corporate revenue originating from the infrastructure project.

The infrastructure funds in Thailand are applicable to 10 types of infrastructure project, the assets of which must benefit the Thai population and may not provide services to an affiliated party exceeding one-third of total capacity. Striving to stimulate infrastructure fund development to finance infrastructure, the Government of Thailand provides tax incentives for the infrastructure fund at the fund level and investor level as follows:

1. **Fund Level**
   The infrastructure fund is not a taxable entity and thus exempt from corporate income tax. Unit holders receive net profit without tax deductions. Subsequently, there are also exemptions from value-added tax, specific business taxes and stamp duties when the assets are transferred to the infrastructure fund.
2. **Investor Level**
   Individual investors are exempt from individual income tax on the dividends received for up to 10 years from the issuance of the infrastructure fund. Investors are also exempt from capital gains tax. Institutional investors registered in the stock exchange are exempt from dividend tax if the infrastructure fund is maintained for more than three months. Unregistered institutional investors are subject to half of the usual dividend tax rate if maintaining the project for more than three months. Institutional investors domiciled in Thailand are subject to capital gains in the form of corporate income tax but foreign institutional investors are not subject to corporate income tax.
   The success of the tax incentives detailed above should be considered by the authorities in Indonesia to stimulate infrastructure and financial market development.

1: BTSGIF General Presentation, November 2016

6.060
3.600
3.570-3.610
13.120
12.060-13.340
22.700
9.350
9.220-9.380
+1.020
+0.050
+0.538%
932.20
1.23B
216.42M
162.27M

Money Market

Transactions of securities issued by Bank Indonesia and the Government are considered predominating outstanding instruments in money market. Nevertheless, regulations from Bank Indonesia and the Financial Services Authority are being developed to encourage other privately issued money market instruments. Furthermore, the participation of nonbank and corporate financial services institutions must be expanded to accelerate further development.

MARKET DEVELOPMENTS

- Issuances of Bank Indonesia and Government money market securities are most common along with interbank money market transactions
- Alternative money market transactions have begun to emerge over the past four years, including repo transactions and issuances of Negotiable Certificates of Deposit (NCD)
- *Outstanding* dan *turnover* pasar uang terus naik namun belum menyamai negara *peer*
- Outstanding transactions and the turnover ratio of the money market have continued to increase but remain behind other peer countries

STRATEGIES

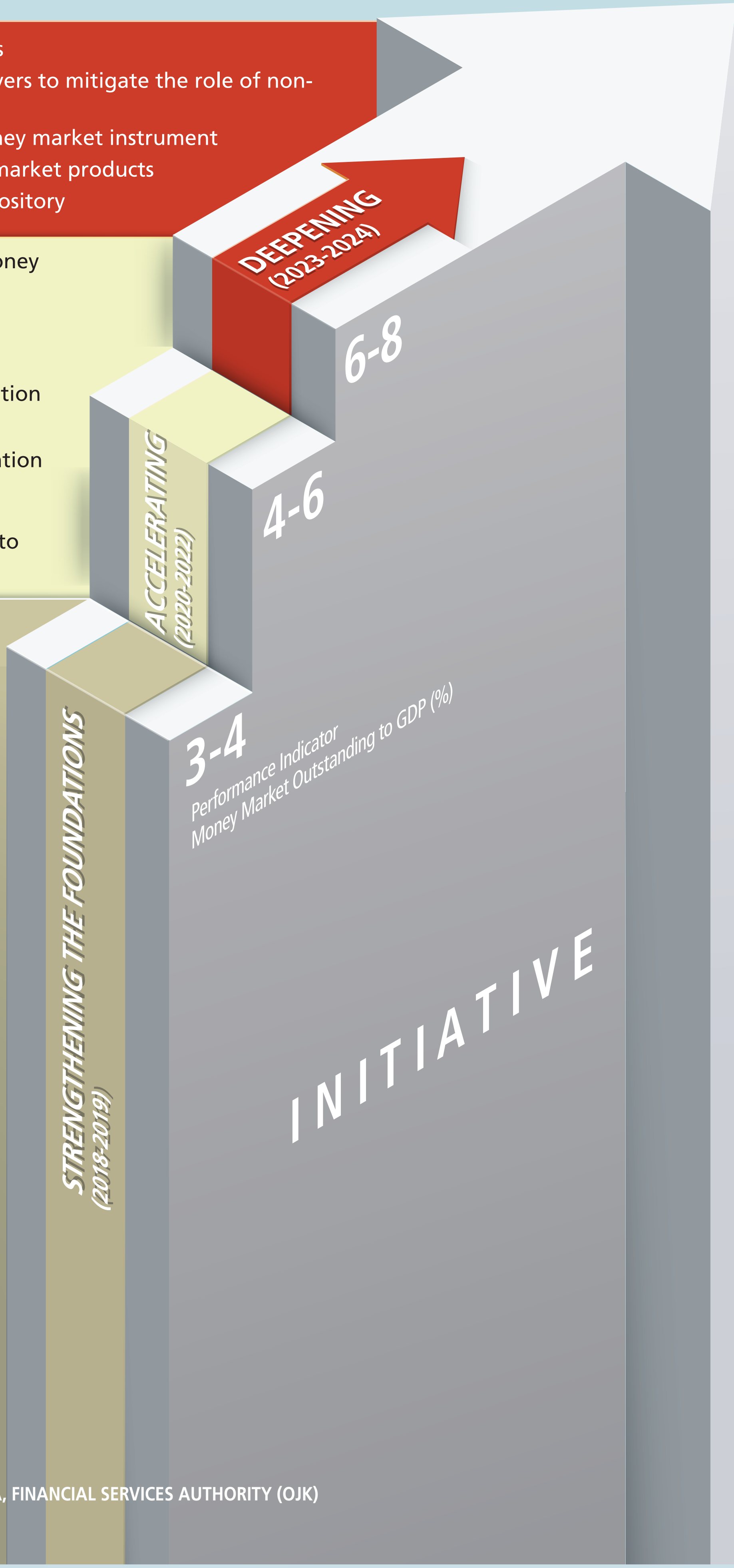
FOUR SALIENT CHALLENGES

- Concentration of short money market transactions on short-term tenor
- Underdeveloped interest rate derivatives
- The role of nonbank and corporate financial services institutions in the money market must be improved
- Suboptimal credibility of benchmark rates

- Develop non-IRS interest rate derivatives
- Expand the role of domestic market players to mitigate the role of non-resident investors
- Strengthen the securitisation-based money market instrument
- Expand the scope of the CCP to money market products
- Integrate the financial market trade repository

- Expand nonbank participation in the money market and derivatives
- Develop and strengthen the role of intermediaries
- Develop Triparty Repo and the securitisation of money market instruments
- Encourage market infrastructure integration
- Strengthen pricing information
- Implement close-out netting in relation to bankruptcy laws

- Increase interbank repo market transactions
- Increase private sector money market instruments
- Develop OIS and IRS interest rate derivatives
- Increase the capacity and capabilities of intermediaries
- Develop yield curves for risky and risk-free assets as references
- Develop transactions systems (ETP)
- Resolve tax issues
- Enhance market player capacity in repurchase agreements (repo) transaction and socialise issuance process of money market instrument
- Implement treasury certification for market players



SOURCE: **MINISTRY OF FINANCE, BANK INDONESIA, FINANCIAL SERVICES AUTHORITY (OJK)**

Issuances of short-term debt securities by Bank Indonesia and the Government continue to dominate domestic money market share in terms of outstanding value

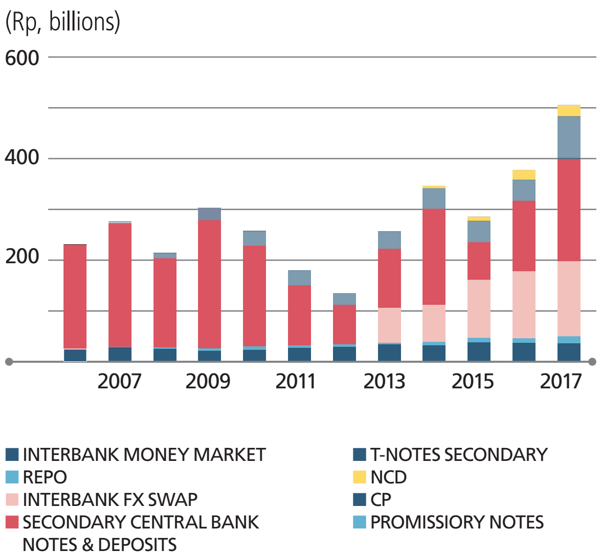
Secured money market transactions, such as FX Swaps and repo, have grown significantly and successfully overcome the associated exposure to credit risk

Bank and nonbank financial institutions have large potential for optimisation as future money market participants

3.5 Money market

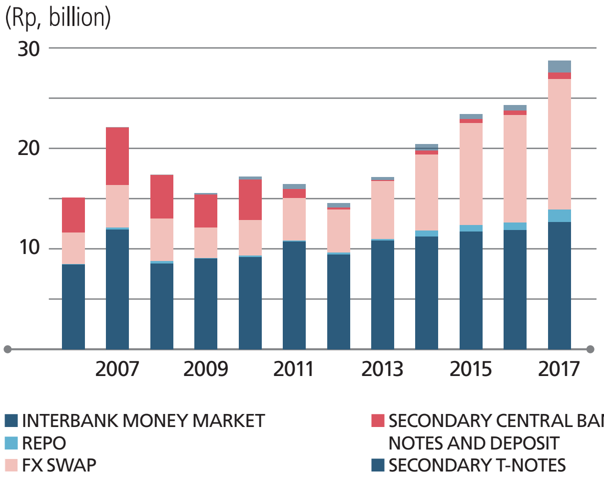
OVER the past decade, Bank Indonesia and Government issuances of securities have dominated the domestic money market in terms of outstanding value (Graph 3.5.1). Additionally, in terms of transaction volume, the interbank money market and FX Swaps have dominated domestic money market transactions (Graph 3.5.2).

Graph 3.5.1. OUTSTANDING MONEY MARKET TRANSACTIONS



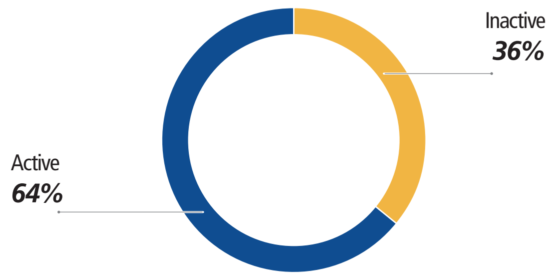
SOURCE: **BANK INDONESIA**

Graph 3.5.2. MONEY MARKET TRANSACTION VOLUME



SOURCE: **BI**

Graph 3.5.3. PROGRESS OF 74 GMRA SIGNATORY BANKS BY END OF 2017



SOURCE: **BI**

Nevertheless, over the past five years there has been an increase issuance of short-term government instruments, namely Treasury Bills (SPN) and Negotiable Certificates of Deposit (NCD). At the same time, nascent other transaction segments have emerged, such as SPN trading in the secondary market and repurchase agreements (repo) in the banking industry.

The development of money market instruments has also been supported by regulatory backing. Bank Indonesia encouraged the banking industry to adopt the Mini Master Repo Agreement (MRA) in 2015 and then the Global Master Repurchase Agreement (GMRA) – Indonesia Annex in 2017 in synergy with OJK Regulation (POJK) No. 9/POJK.04/2015 concerning Repo Transaction Guidelines for Financial services institutions, which precipitated mandatory utilisation.

Facilitated by the Financial Services Authority (OJK), the Indonesian Government Bond Traders Association (Himdasun) issued repo standard practices in 2018 as a reference for market players to perform repo transactions. At the end of 2017, a total of 74 banks had signed the Global Master Repurchase Agreement (GMRA) but only 64% of the banks had conducted a repo transaction (Graph 3.5.3).

3.5.1. MONEY MARKET DEVELOPMENT STRATEGY AND TARGETS

Figure 3.5.1. MONEY MARKET DEVELOPMENT STRATEGY AND TARGETS

SOURCE: **BI**

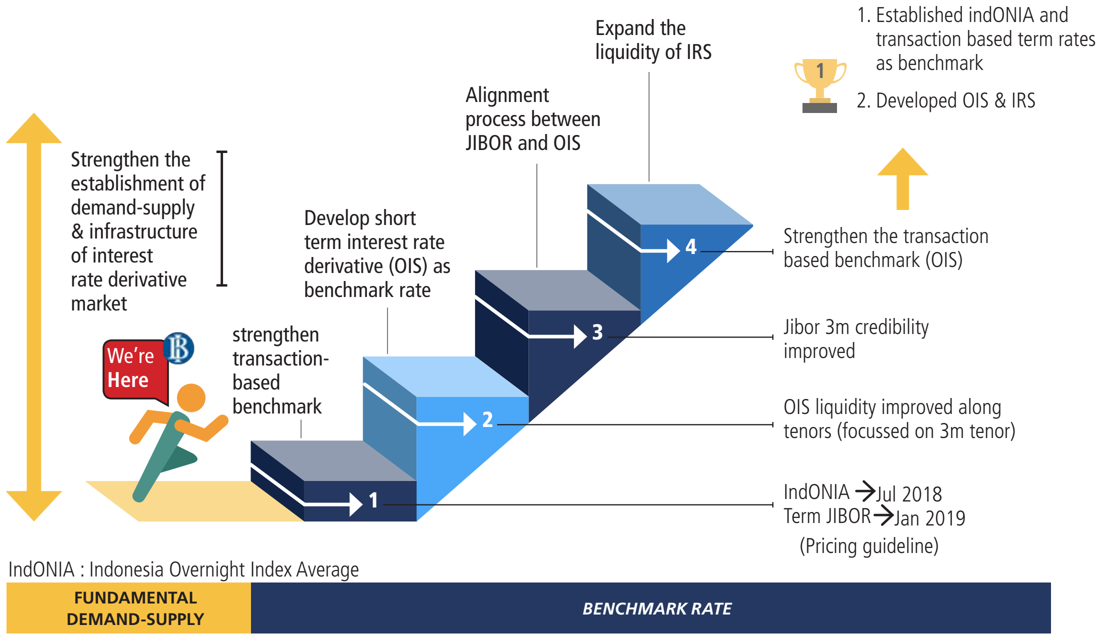
The money market development strategy is oriented towards achieving the target outstanding transactions to GDP based on three pillars.

PILAR I: SOURCES OF ECONOMIC FINANCING AND RISK MANAGEMENT

- Market Development for Negotiable Certificate of Deposit (CD) and Commercial Papers
  The authorities have issued regulations concerning Negotiable Certificates of Deposit (CDN) and Commercial Papers (CP). The effective implementation of regulations require supporting measures, including reference prices in the secondary market. Future policy orientation is focused on developing the features of Certificates of Deposit (CD) and Commercial Securities according to market requirements, including refining the regulations as required.

- Market Development for Interest Rate Swaps (IRS), Overnight Index Swaps (OIS) and Forward Rate Agreements (FRA)
  Interest rate derivatives, such as IRS, are available in Indonesia but development remains extremely limited. In fact, those instruments are required by financial institutions to manage interest rate risk. Therefore, the future policy direction is oriented towards: (i) mapping the needs of market players in terms of interest rate derivatives; (ii) reviewing various alternative interest rate derivatives; and (iii) preparing regulations for the use of interest rate derivatives by financial institutions, including Interest Rate Swaps (IRS), Overnight Index Swaps (OIS) and Forward Rate Agreements (FRA). In addition, the preconditions for creating a liquid interest rate derivatives market will be prepared, including education of the market players and strengthening the benchmark rate (Figure 3.5.2).

Figure 3.5.2. DIRECTION OF MARKET DEVELOPMENT OF INTEREST RATE DERIVATIVES



SOURCE: **BI**

- Expansion of Financial Services Institutions Participation in the Repo Market
  Secured repo transactions are a potential solution to overcome the issue of varying credit risk between financial market players. Nevertheless, there are several factors that must first be strengthened in order to optimise the repo market moving forwards. Currently, the banks dominate the short-term repo market with underlying debt securities. This is not an optimal situation in the long term considering that liquidity in the banking system tends towards the same position, which is a disincentive for lending and borrowing transactions. Consequently, nonbank participation in the repo market must also be encouraged in order to ensure different liquidity positions and the need for lending and borrowing transactions through repurchase agreements.

  The future policy orientation is focused on reviewing and amending as necessary a number of regulations that could deter nonbank financial institutions from participation in the repo market.

- Strengthening the Role of Money Market Intermediaries
  The role of securities companies as money market intermediaries must be expanded, particularly in terms of facilitating issuances and transactions of money market instruments such as Negotiable Certificates of Deposit (NCD) and Commercial Papers. The future policy direction is focused on formulating regulations to strengthen the institutional arrangements of intermediaries, while enhancing the capabilities required to support a more active role of money market intermediaries, particularly securities companies as well as money market brokers.

PILAR II: FINANCIAL MARKET INFRASTRUCTURE DEVELOPMENT

- Development of Money Market Benchmark Rates and Yield Curves
  Benchmark rates play a critical role as a reference for market players when transacting in the financial system, including loans with a floating interest rate and the interest rates derivatives. The future policy direction to create credible benchmark rates is focused on: (i) compiling pricing guidelines to maintain quotation quality and increase governance in the JIBOR setting process by contributor banks; and (ii) exploring potential transaction-based benchmark rates as alternatives. Further elaboration concerning the development of benchmark rates is presented in Box: **Development of a Money Market Reference Rate.**

  Furthermore, various yield curves for money market instruments need to be strengthened to improve portfolio management, for instance to issue money market instruments, mark-to-market and trading reference prices. The future policy orientation is focused on the construction of yield curves in the form of prices of market transactions, quotations from market players and internal models developed by market players.

- Development of Money Market Infrastructure
  Money market transactions are currently performed using various mode of transaction, which are subsequently settled and reported through different platforms. The use of electronic media, such as ETP remains suboptimal despite offering a number of advantages in terms of cost efficiency and price transparency. At the same time, global standards must also be applied to the domestic markets, for example the use of a Central Counterparty (CCP) for clearing transactions as well as the adoption of principles issued by international standard setting institutions.

  The future policy direction is oriented towards: (i) regulating market operators; (ii) honing the ETP regulations to expand utilisation amongst money market participants through education; (iii) reviewing the scope of the CCP, namely to expand from derivative transactions to include money market instruments; (iv) developing a trade repository; (v) reviewing system integration in terms of the money market to improve transaction and settlement efficiency.

pasar uang, (4) pengembangan sistem pelaporan (*trade repository*) yang standar dan (5) melakukan penyusunan kajian integrasi sistem terkait dengan pasar uang untuk meningkatkan efisiensi transaksi dan penyelesaiannya.

PILAR III: POLICY COORDINATION, REGULATORY HARMONISATION AND EDUCATION

- Harmonisation of Tax Regulations on Money Market
  The current interpretation and application of money market tax regulations need to be amended, including the imposition of taxes on money market instruments and repo transactions. Disparity in the implementation of tax regulations is constraining future money market development. In addition, differences in the treatment of tax regulations are also stifling repo transactions between banks and nonbank financial institutions.

  Similar to the tax strategies for other financial markets, the future tax strategy is focused on strengthening coordination with the tax authorities to harmonise the tax regulations for money market transactions/instruments.

- Education and capacity building for money market players
  The need for education and capacity building arose from policy to develop new money market instruments, such as negotiable certificates of deposit (NCD) and commercial paper (CP). On the other hand, various repo market initiatives require the support of capacity building, in particular targeting nonbank financial services institutions.

  The future policy direction is focused on: (i) education concerning repo transactions, negotiable certificate of deposit (NCD) issuances and transactions, as well as commercial paper (CP); and (ii) socialisation and full implementation of treasury certificates and a code of ethics. Such efforts will be bolstered by cooperation with financial institution associations, including IFEMC, Indonesian Government Bond Traders Association (Himdasun), the Indonesian Pension Funds Association (ADPI), insurance associations, the Association of Indonesian Securities Companies (APEI) and other stakeholders.

Development of a Money Market Reference Rate

THE IMPORTANCE OF A REFERENCE RATE

The money market benchmark rate is a reference rate for financial contracts. The benchmark rate is used as a reference for debt securities or loans with a floating interest rate, a reference for derivative contracts to mitigate interest rate risk, and for valuations of financial instruments. The floating reference rate is used, amongst others, for housing loans, interest rate swaps (IRS) and cross-currency swaps (CCS). The use of an unambiguous benchmark rate in the valuation of financial instruments and availability of interest rate derivatives will support risk management, including asset-liability management.

The availability of a credible benchmark rate is expected to stimulate financial market development, while simultaneously reinforcing financial system and monetary stability. Broad uptake of benchmark rates will also increase market liquidity, while financial transactions will become more efficient with low transaction costs as the complexity of financial contracts is pared back.

DEVELOPMENT OF A GLOBAL BENCHMARK RATE

Demand for a credible benchmark rate increased after LIBOR manipulation was exposed post Global Financial Crisis (GFC). LIBOR, which is formed based on the quotations of several banks, was considered manipulatable, thus bringing its credibility into question, primarily as a reference for financial contracts.

Various international authorities and institutions have explored and strived to formulate a credible reference rate that reflects financial market dynamics and can mitigate potential manipulation. The lack of a credible reference rate has undermined market confidence. Furthermore, the function of the financial markets will be disrupted because financial contracts have lost their reference rate, while risk management, particularly interest rate risk, has also been disrupted.

The transmission of interest rate risk to the financial markets through derivative instruments has also been adversely impacted because market rates and the reference rate are not moving in unison. In addition, a reference rate that lacks credibility also affects the central bank's ability to institute money market policies[1].

In 2014, the Financial Stability Board (FSB) issued two recommendations relating to reference rates. First, strengthen the current reference rate framework, referring as much as possible to the transaction data. Second, develop alternative reference rates addressing lower market liquidity as the basis of formulating the reference rate.

Striving to strengthen the current reference rate framework, the Financial Stability Board (FSB) backs the application of principles issued by the International Organisation of Securities Commissions (IOSCO) in 2013. The IOSCO principles cover four areas, namely governance, benchmark quality, methodology and accountability, based on 19 principles. One of the principles is to utilise a hierarchy of data inputs to determine the benchmark quotation rate.

Meanwhile, seeking to develop alternative reference rates, several countries have considered application of the Near Risk-Free Reference Rate (RFR). The alternatives being considered include the Unsecured Overnight Call Rate (UK and Japan) as well as the Secured Overnight Financing Rate (US and Switzerland).

Discussions remain an ongoing concern to ensure a smooth transition to the alternative reference rates, including aspects of valuation, documentation, accounting and the infrastructure required.

1 Bank for International Settlements (BIS), Towards Better Reference Rate Practices: A Central Bank Perspective, March 2013.

DEVELOPMENT OF A BENCHMARK RATE FOR THE DOMESTIC FINANCIAL MARKET

Current Indonesia money market benchmark is based on market participant quotation, namely JIBOR. It consists several tenors of overnight, 1 week, 3 months, 6 months, and 12 months.

Bank Indonesia continuously refines the JIBOR in order to bolster credibility by: (i) clarifying the definition of JIBOR; (ii) adjusting the quotations of contributor banks; (iii) refining and clarifying the JIBOR mechanism and methodology, including the transactable feature; and (iv) increasing transparency by issuing regulations pertaining to JIBOR. Application of the transactable feature has increased JIBOR credibility from merely a quotation from contributor banks to becoming transactable by requiring contributor banks to accept transactions from other contributor banks at the quoted JIBOR in terms of value and timeframe.

In purpose to strengthen credibility of benchmark rate to accommodate use of real transaction data, review has been undertaken by Bank Indonesia which results possibility to develop overnight rate based on transaction data. This conclusion is supported by fact that liquidity is concentrated in overnight tenor. In addition, demand and supply dynamics is driven by well diversified money market players. Therefore, transaction data will be available consistently to be used in setting benchmark rate.

Rather, liquidity in other tenor is somewhat limited, therefore to be able to provide consistent benchmark adoption of quotation-based that represents indicative price still need to be used. In this sense, Bank Indonesia will continuously monitor the development of this methodology along with financial deepening initiatives now being underway, and undertake necessary review to improve its credibility.

Bank Indonesia has published PBI No. 20/7/PBI.2018 on July 24th 2018 to strengthen credibility of benchmark rate, which includes adoption of new transaction-based benchmark rate, namely Indonesia Overnight Index Average (IndONIA), as well as refinement on quotation-based JIBOR methodology incorporating better transparency and governance.

Accordingly, with promulgation of such regulation, Bank Indonesia expects that starting January 2nd 2019 JIBOR will be replaced by IndONIA in any financial contracts. Bank Indonesia will then publish overnight interbank lending-borrowing historical data from 2017 to help market participants prepare amendment of financial contract

INDONIA AND JIBOR FEATURES

Striving to strengthen JIBOR credibility as quotation based-money market benchmark, refinement of JIBOR will be undertaken by adopting submission method by contributor banks. They must set hierarchy data of inputs that prioritize use of real transaction data as basis for quotation. Hierarchy data of inputs are:

1. Interbank lending-borrowing rate from transaction of contributor banks on the day of submission.
2. Executable quotation received for interbank lending-borrowing on the day of submission.
3. Other segment of money market transaction rate committed by contributor banks or executable quotation on other segment of money market transaction on the day of submission, and
4. Expert judgment.

In addition, the regulation also stipulate some requirements must be met by contributor banks

1. Requirement to submit data base on hierarchy of data inputs as well as validation function and role of personnel in business unit
2. Requirement to safekeeping data and related information, with regard to quotation formulation and submission, and
3. Requirement to adopt good governance internal procedure.

Table 3.5.2. SUMMARY OF INDONIA AND JIBOR METHODOLOGY

NO	SUBJECTS	INDONIA	JIBOR
1	Media of publication	Bank Indonesia website, every working day	
2	Time of publication	19.30 WIB	
3	Tenor	Overnight	Overnight, 1 week, 1 month, 3 months, 6 months, and 12 months Starting Jan 2nd 2019: 1 week, 1 month, 3 months, 6 months, and 12 months
4	Sources of data	Overnight interbank lending-borrowing transaction rate reported to Bank Indonesia via bank daily reporting system (LHBU), starting 07.00 WIB - 18.00 WIB	Quotation of money market indicative rate submitted to Bank Indonesia, starting 07.00-09.30 WIB Starting Jan 2nd 2019: Starting 07.00-10.30 WIB
5	Calculation methodology	Volume-weighted average	Simple average, excluding 15% highest and lowest rate

Foreign Exchange Market

Foreign exchange market development in Indonesia accelerated after the 1998 and 2008 crises. Nevertheless, various constraints emerged, including the suboptimal use of hedging instruments as well as a suboptimal supply-demand structure. Seeking to strengthen the foreign exchange market, the financial authorities have proposed a number of strategies.

MARKET DEVELOPMENTS

- Transaction volume continues to increase
- Portion of derivatives to total transactions continues to increase
- Transactions have developed beyond plain vanilla
- Liquidity and price efficiency have improved, evidenced by a narrower USD/IDR bid-ask spread

STRATEGIES

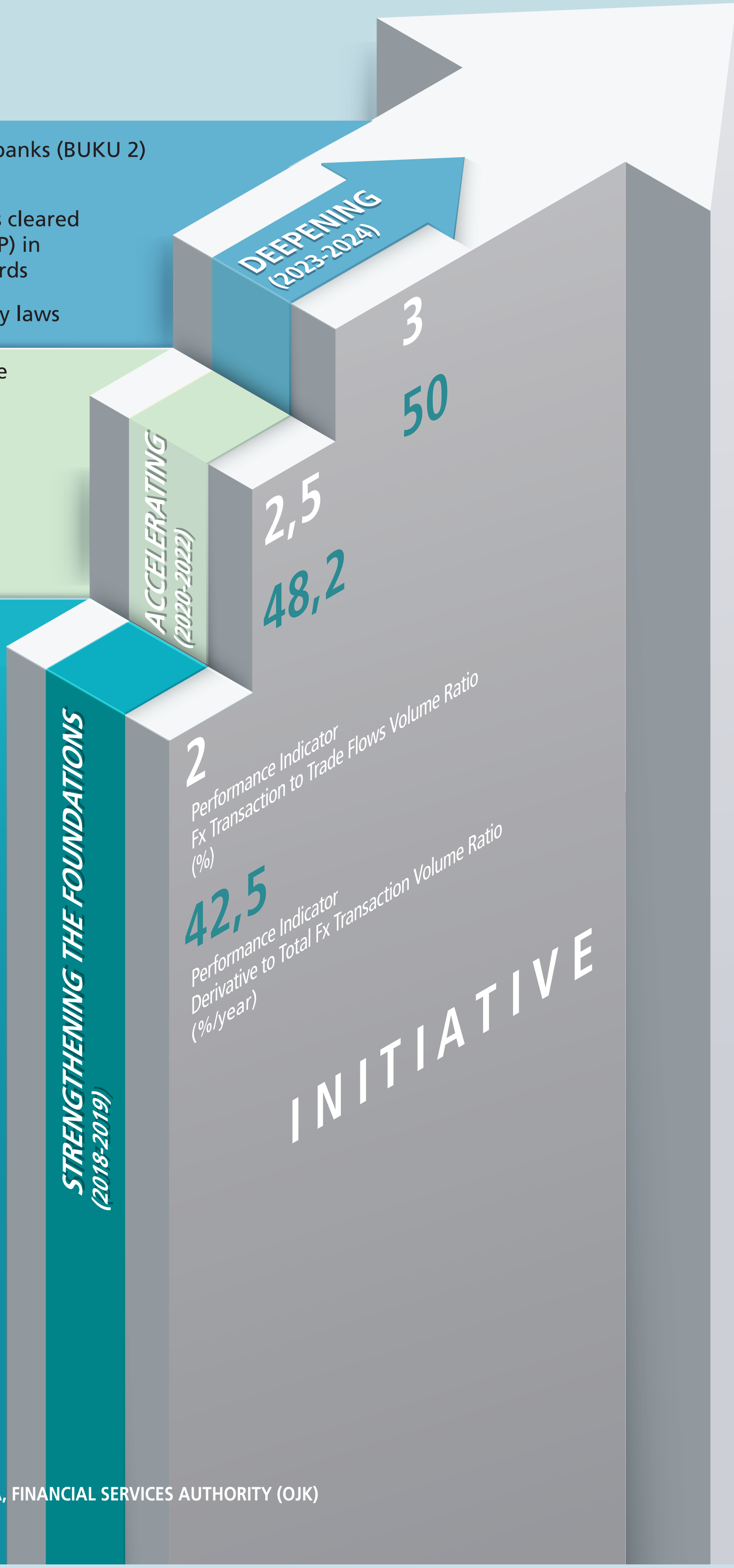
3 SALIENT CHALLENGES

- Suboptimal use of derivatives for hedging purposes
- Cost of hedging remains high
- Suboptimal supply-demand structure

- Expand the use of foreign exchange banks (BUKU 2) in foreign exchange transactions
- Expand the products and transactions cleared through the central counterparty (CCP) in accordance with international standards
- Coordinate refinements to bankruptcy laws

- Optimise the role of foreign exchange brokers
- Develop the USD/IDR futures market
- Create ETP and central counterparty (CCP) interconnectivity
- Review and coordinate derivative tax regulations

- Expand the hedging practices of nonbank corporations
- Build international cooperation regarding the use of local currencies settlement scheme
- Develop hedging instruments
- Establish a central counterparty (CCP) for derivative transactions
- Develop ETP for foreign exchange transactions
- Review regulatory harmonisation to support implementation of close-out netting
- Conduct education and socialisation activities



SOURCE: **MINISTRY OF FINANCE, BANK INDONESIA, FINANCIAL SERVICES AUTHORITY (OJK)**

Spot transactions continue to dominate the foreign exchange market in Indonesia despite a growing portion of derivative transactions for hedging purposes

Foreign exchange market instruments continue to develop into more complex derivative instruments and are no longer limited to plain vanilla products (spot, forward or swap)

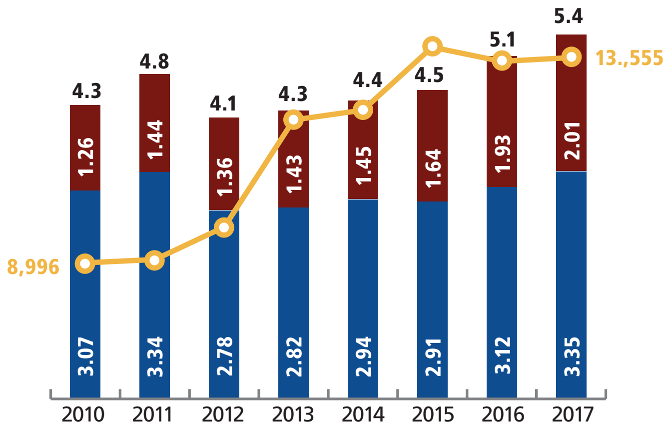
Foreign exchange market liquidity is improving, as indicated by a narrower USD/IDR bid-ask spread

3.6 Foreign Exchange Market

SINCE Since the crises in 1998 and 2008, the foreign exchange market in Indonesia has continued to develop. Transaction volume has increased from around USD2-3 billion per day in 2010 to USD5.4 billion recorded at the end of 2017 (Graph 3.6.1). Nevertheless, spot transactions dominate the foreign exchange market in Indonesia, accounting for more than 60% of the total, with derivative transactions accounting for the remainder (Graph 3.6.2).

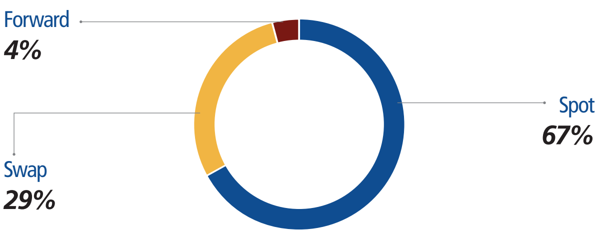
Graph 3.6.1. AVERAGE DAILY TRANSACTION VOLUME FROM 2010 TO 2017

(Billion Dollar US)



SOURCE:: **BI, BLOOMBERG**

Graph 3.6.2. COMPOSITION OF FOREIGN EXCHANGE MARKET TRANSACTIONS FROM 2010-2014



SOURCE: **BI**

Over the past five years, the portion of derivative transactions to total foreign exchange transactions has improved from 32% in 2013 to 38% in 2017, driven by corporate proclivity to utilise derivative transactions for hedging purposes. On the other hand, corporate propensity towards derivatives has also been influenced by regulations that require the private sector to apply prudential principles to external debt management through compulsory hedging at indebted nonbank corporations, coupled with mandatory rupiah use within the territory of the Republic of Indonesia.

Based on the instruments, foreign exchange transactions over the past three years have developed beyond plain vanilla products (spot, forward or swap) towards more complex derivatives such as cross-currency swaps and structured products, namely Call Spread Options (CSO).

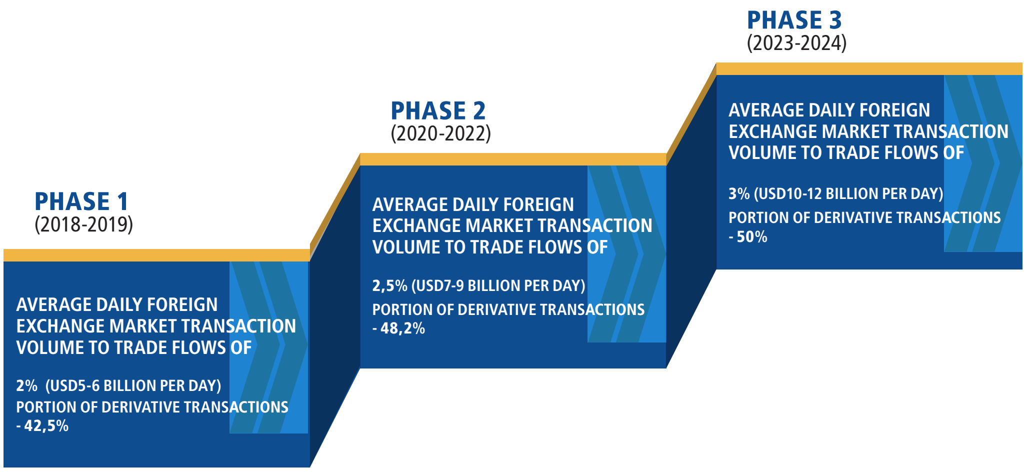
Interest in CSO transactions has stemmed from greater cost efficiency, for example a 1-month CSO has an annualised cost of 0.5-3% compared to 4.5% for a plain vanilla derivative transaction, such as a forward. At the end of 2017, of the 20 banks eligible to perform CSO transactions (BUKU 3 and 4 banks), only nine banks have been licensed to offer CSO instruments to their customers. In terms of value, CSO transactions continued to track an upward trend in 2017 but remained comparatively low (Graph 3.6.3).

Regarding efficiency, domestic foreign exchange market liquidity has shown solid gains. Pricing is more efficient, as evidenced by the narrower USD/IDR bid-ask spread over the past five years to reach around Rp5 per quotation (Graph 3.6.4).

3.6.1. FOREIGN EXCHANGE MARKET DEVELOPMENT STRATEGY AND TARGETS

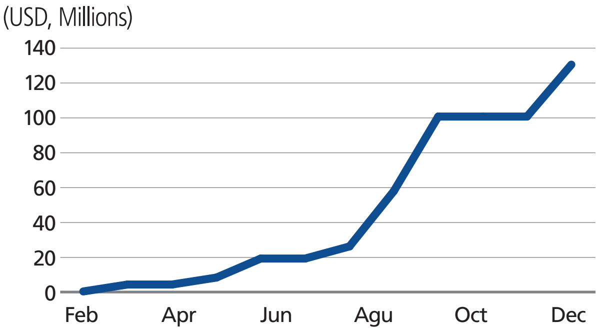
Foreign exchange market development is oriented towards the achievement of two targets, namely the average daily foreign exchange market transaction volume to exports and imports in one year and the portion of derivative transactions to total foreign exchange transactions. The strategy to accomplish those targets is based on three pillars.

Figure 3.6.1. NATIONAL FOREIGN EXCHANGE MARKET DEVELOPMENT TARGETS



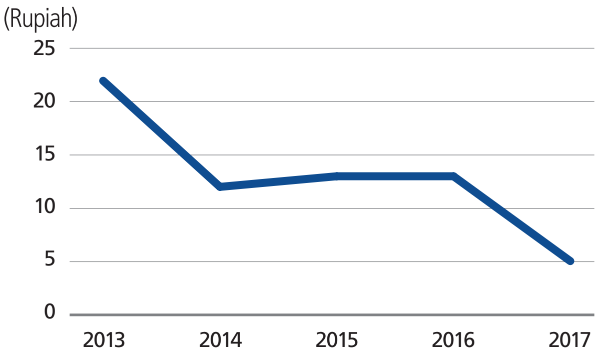
SOURCE: **BI**

Graph 3.6.3. VALUE OF OUTSTANDING CSO (2017)



SOURCE: **BI**

Graph 3.6.4. BID-ASK SPREAD



SOURCE: **BI**

PILAR I: SOURCE OF ECONOMIC FINANCING AND RISK MANAGEMENT

- Development of Structured Product Derivative Instruments

  The authorities' policies to stimulate hedging transactions has effectively reduced the concentration of transactions in the spot market, shifting to the derivatives market, as shown by the growing portion of derivatives transactions in the foreign exchange market. The next priority is to improve the structure of the derivatives market to minimise the gap between supply and demand in the spot market through development of various derivative instruments in the form of structured products. This will afford the banking industry additional flexibility to offer hedging facilities to its customers.

  The future policy direction is focused, therefore, on mapping structured products that could support hedging transactions to improve the foreign exchange market structure, for example through swap-linked investments and dual currency investments.

- Development of Local Currency Settlement (LCS)

  The domination of foreign currencies, especially the US dollar, in international trade has exposed the rupiah to shocks because the demand is concentrated in respective currency. Consequently, a strategy is required to reduce such dependence, possibly through the use of Local Currency Settlement (LCS).

  The future policy orientation is focused on mapping and increasing transaction volume amongst bank appointed cross currency dealers (ACCD) for the current LCS scheme, while expanding the scheme to Indonesia's other major trading partners. This policy is expected to reduce the domination of major global currencies, such as the US dollar and euro, in terms of international trade, thereby bolstering rupiah exchange rate stability.

- Development of Foreign Exchange Derivative Transactions through an Exchange

  There currently remains a significant portion of foreign exchange market players in Indonesia that conduct hedging transactions in offshore markets, such as the non-deliverable forwards (NDF) market. To increase the liquidity of the onshore foreign exchange market and reduce offshore derivative transactions, market development is required that provides greater flexibility. One way is to develop the USD/IDR futures market, which has similar characteristics to the NDF market.

  The future policy direction, therefore, is focused on reviewing the mechanisms, business models and standards of FX futures against the rupiah as well as preparing the regulations required for implementation.

PILAR II: FINANCIAL MARKET INFRASTRUCTURE DEVELOPMENT

- Financial Market Iindrastructure Development
  Based on G20 recommendations, member countries are required to reform OTC derivatives, including the clearing of standard derivatives through a central counterparty (CCP). The onshore foreign exchange market currently lacks a CCP as a clearing house for OTC derivative transactions. The establishment of a CCP would advance foreign exchange market development by eradicating the need for margin collateral and reducing the risk weight of banks engaged in derivative transactions cleared through the CCP.

  The future policy direction is focused on: (i) compiling a roadmap of CCP establishment; (ii) preparing pilot projects; and (iii) fully implementing the CCP for OTC derivatives. In the long term, the use of CCP may be extended to other financial market instruments in order to improve market efficiency and reduce credit risk between market players. Further elaboration of this initiative is presented in Box: **Development of a Central Counterparty (CCP) for OTC Derivative Transactions in the Money Market and Foreign Exchange Market.**

- Development of an Electronic Trading Platform (ETP)
  Another significant G20 recommendation in terms of reforming OTC derivatives is the development of an Electronic Trading Platform (ETP). The current global regulatory trend is to develop an ETP, for which clearing is performed by a central counterparty (CCP). To that end, preparations are required towards ETP development for foreign exchange transactions in the medium-long term.

  The future policy direction is focused on: (i) regulating the market operators; (ii) mapping potential ETP users and educating market players; and (iii) refining the regulations in the long term towards broader uptake of the ETP in the foreign exchange market.

PILAR III: POLICY COORDINATION, REGULATORY HARMONISATION AND EDUCATION

- Harmonisation of Tax Regulations on Foreign Exchange Market
  There remain a number of constraints in the application of tax regulations for derivative transactions, particularly in terms of the losses incurred by nonbank corporations engaged in hedging. Pursuant to Act No. 36 of 2008 concerning Income Tax (PPh), the income from derivative transactions is subject to final income tax but only applied to futures transactions processed through an exchange. Other forms of OTC derivatives, namely forward, option and swap transactions, are not subject to final income tax so that general tax provisions apply (Article 6, paragraph 1 of the Income Tax Act).

  Similar to the taxation strategies applied to other markets, the future policy direction is oriented towards strengthening coordination with the tax authorities to harmonise the tax regulations applicable to derivative transactions, in particular the tax applicable to hedging transactions for nonbank corporations.

- Education and Capacity Building for Market Players
  In relation to the education and capacity building of market players, especially in terms of using derivative instruments for hedging purposes, the future policy orientation is focused on expanding the scale and outreach of the capacity building program through regulator initiatives as well as cooperation with financial institution associations, the domestic banking industry, exporter-importer associations and other stakeholders.

Development of a Central Counterparty (CCP) for OTC Derivative Transactions in the Money Market and Foreign Exchange Market

THE NEED for central counterparty (CCP) development for OTC derivative transactions in the money market and foreign exchange market is an integral part of the post-GFC global push for OTC derivatives market reforms. One of the main causes of the global financial crisis was the high volume of unmonitored and unregulated OTC derivative transactions that disregarded prudential principles. Consequently, G20 leaders agreed three overarching policies in 2009 for implementation by the members:

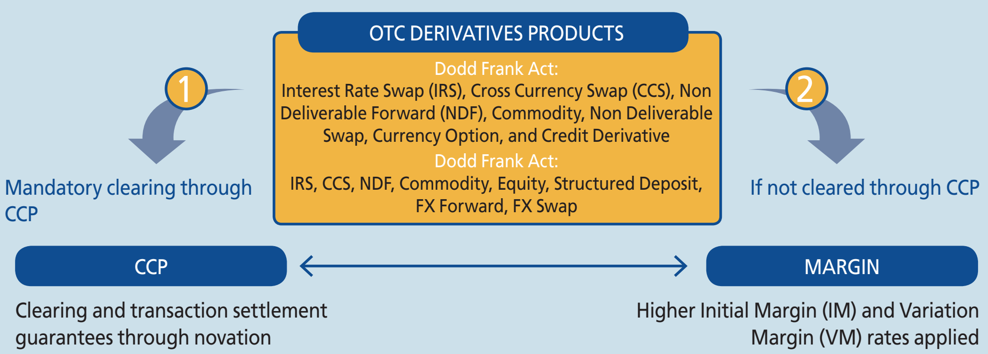
(1) Report all derivative transactions to the trade repository.
(2) Require the clearing of all standard derivative transactions through a central counterparty (CCP) or face a mandatory margin.
(3) Perform all standard derivative transactions through an exchange or Electronic Trading Platform (ETP).

The main benefits of the G20 recommendations were to improve risk management and governance of OTC derivative transactions in the financial markets. On the other hand, in addition to improving risk management of derivative transactions, OTC derivative clearing through a CCP would also increase transparency and monitoring, thereby avoiding any general adverse impact on the financial markets.

The United States adopted these reforms through a revision to prevailing laws in the form of the Dodd-Frank Act in 2010 under the supervision of the Commodity Futures Trading Commission (CFTC) and Securities and Exchange Commission (SEC). The European Union followed suit in 2012 by issuing the European Market Infrastructure Regulation (EMIR) under the auspices of the European Securities and Markets Authority (ESMA). Consequently, players of OTC derivative transactions were required to perform clearing through a CCP or face a mandatory margin.

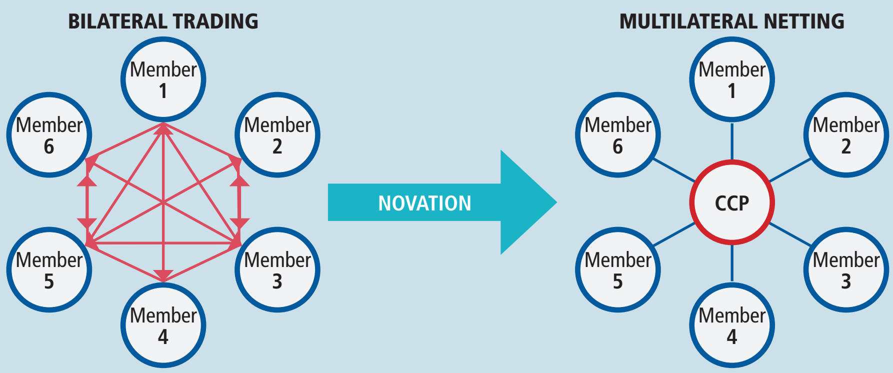
CCP development in G20 member countries must comply with the global standards regulated by ESMA to become a qualified central counterparty (CCP). Furthermore, the application of prudential principles for market players would be more beneficial if clearing was conducted by a qualified CCP due to a lower risk weight (2%) than the risk weight for interbank derivative transactions (25%). In the event that an OTC derivative was not cleared through the CCP, a mandatory margin was introduced in the United States in September 2016 and in the European Union in March 2017. Through this margin, each respective player would have to submit the initial margin and variation margin as idle funds, which is a significant disincentive to further market development.

Figure 3.6.2. GLOBAL REGULATIONS CONCERNING OTC DERIVATIVE TRANSACTIONS



SOURCE: **BI**

Figure 3.6.3. NOVATION MECHANISM IN CCP



OTC derivatives are cleared through a central counterparty (CCP) using novation[1] for the bilateral transactions taken over by the CCP. The CCP functions as a centralised clearing system for OTC derivative transactions. In other words, through novation, the CCP represents a buyer for the selling party and a seller for the buying party in the derivatives market. Consequently, reliable risk management is a prerequisite.

On the other hand, bilateral OTC derivative transactions use novation for clearing through a central counterparty (CCP). Through clearing, settlement is achieved using multilateral netting, which boosts transaction efficiency.

Regarding the situation in Indonesia, the establishment of a central counterparty (CCP) for OTC derivative transactions began with formation of the CCP Derivative Task Force at the beginning of October 2017. Thereafter, the roadmap to CCP establishment in Indonesia was compiled based on milestones, including a pilot project planned for 2019 and full implementation on 2020 (figure 3.6.4).

The development and regulation of CCP in Indonesia encompasses three main areas as follows: (i) establishment of the CCP, including licensing, requirements and criteria of participants; (ii) CCP implementation covering the derivative instruments subject to mandatory clearing and the operating mechanism; and (iii) the FMI supervisory framework containing CCP. Standardised derivative instruments are subject to clearing through the CCP, including USD/IDR FX products (spot, swap, forward, cross-currency swap) and interest rate products (interest rate swap) as well as other instruments as determined by Bank Indonesia.

1 Novation is a process that transforms the original bilateral transaction into two transactions processed through the CCP.

Figure 3.6.4. CCP ROADMAP IN INDONESIA

MARCH 2018	Q2 2018	Q3 2018	Q4 2018	Q2 2019	Q4 2019
◦ Establishment of TFCCP	◦ Regulatory provisions for the CCP	◦ Preparations of draft regulations relating to CCP • Institutional arrangements and business activities of CCP • Regulation of the OTC instruments for clearing at the CCP • CCP supervision under the FMI framework	◦ CCP Blueprint and business model ◦ Formation of a core committee for CCP Establishment	◦ Establishment of Indonesian CCP ◦ Preparations for the rulebook, IT systems, human resources and other infrastructure by the CCP management	◦ CCP pilot project ◦ Instruments subject to clearing through CCP ◦ FMI supervision

SOURCE: **BI**

Islamic Financial Market

As the most populous Muslim country, Indonesia has the opportunity to pioneer global Islamic financial market development. The Government's development and deepening strategy for the Islamic financial market has already borne fruit.

VAST POTENTIAL OF ISLAMIC FINANCE IN INDONESIA

- Most populous Muslim country
- Largest global issuer of sukuk (2017)
- Third largest sukuk assets globally (2017)
- Seventh largest Islamic financial assets globally (2016)

STRATEGIES

MARKET DEVELOPMENTS

- Rapid development of Islamic financial assets
- Significant increases of government sukuk issuances
- Suboptimal Islamic money market growth
- Limited investor base

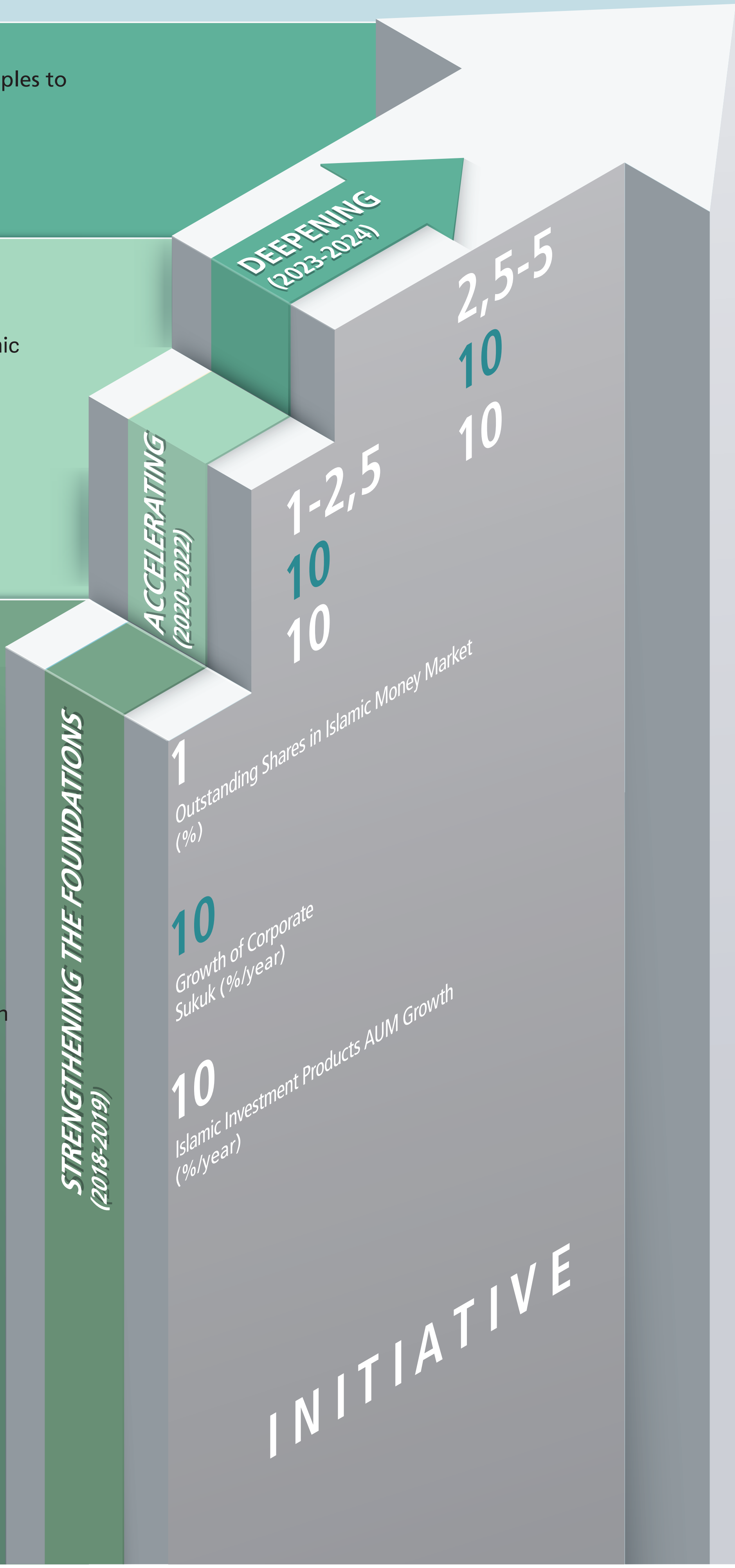
4 SALIENT CHALLENGES

- Limited variations of Islamic financial instruments
- Lack of benchmark rate for the Islamic financial market (real sector index)
- Lack of comprehensive Islamic financial market regulations
- Limited liquidity in the secondary market for Islamic financial instruments

- Apply active debt management principles to government sukuk management
- Increase and strengthen governance

- Diversify the instruments and increase sukuk liquidity
- Increase the volume of sukuk and Islamic mutual funds
- Develop variations of Islamic money market instruments
- Build coordination with global Islamic finance stakeholders
- Develop an Islamic social finance information system

- Strengthen and diversify the investor base
- Expand and increase the investor base
- Optimise Islamic social finance
- Optimise Islamic repo and hedging transactions
- Develop an investor database and information system for the Islamic financial sector
- Harmonise tax regulations
- Provide capacity building and education



SOURCE: **MOF, BI, OJK**

Government sukuk transactions are less liquid than conventional government debt securities (SUN) transactions

Shallow Islamic money market due to limited instruments available in the Islamic interbank money market (PUAS)

Corporate sukuk issuance and syariah mutual funds continues to expand but still not at par to growth in respective conventional instrumens

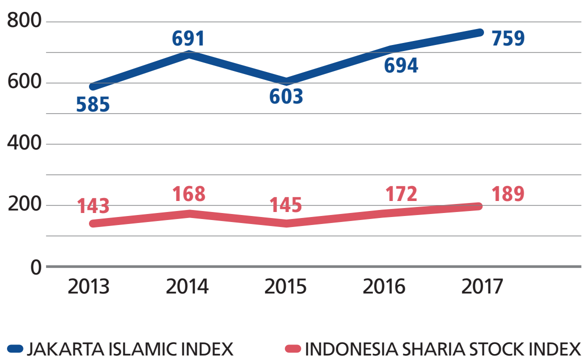
3.7 Islamic Financial Market

With the third largest population globally and a majority Muslim population, the potential investor base for Islamic financial instruments in Indonesia is large. Therefore, the Islamic financial market in Indonesia is developing rapidly, particularly the Islamic capital market, as reflected in the growing number of Islamic stocks, government sukuk, corporate sukuk and Islamic mutual funds.

Thanks to rapid growth, according to the Islamic Finance Development Report of 2017, the total assets of the Islamic financial market in Indonesia placed 7th globally with total assets valued at USD81.84 billion, improving from 9th position previously. The main driver of the improvement were sukuk issuances in 2016 worth USD14.36 billion.

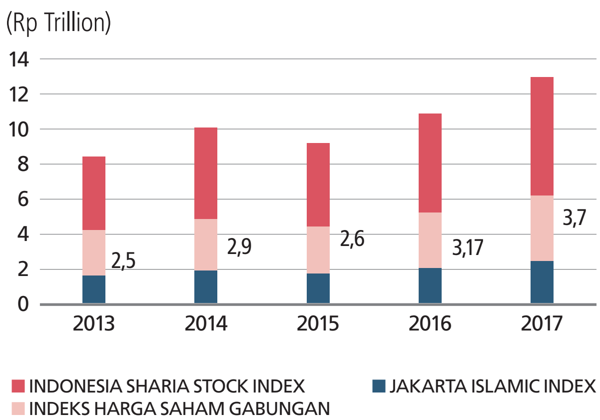
Year over year, the development of Islamic stocks has shown solid gains. Based on the Indonesia Sharia Stock Index (ISSI) and Jakarta Islamic Index (JII) over the past five years, Islamic stocks have achieved positive growth. For the period from 2013-2017, the ISSI grew 7.2%, while market capitalisation expanded by 10%, as confirmed by Graph 3.7.1 and Graph 3.7.2.

Graph 3.7.1. ISLAMIC STOCK INDEX PERFORMANCE



SOURCE: **INDONESIA STOCK EXCHANGE**

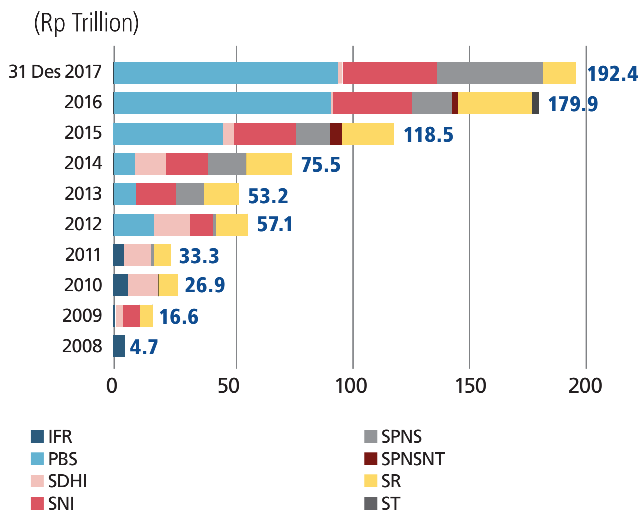
Graph 3.7.2. ISLAMIC STOCK MARKET CAPITALISATION



SOURCE: **INDONESIA STOCK EXCHANGE**

Since their launch in 2008, Government Islamic Securities (SBSN) have also performed well. Cumulatively from 2008-2017, total SBSN issuances have totalled the equivalent of Rp758.2 trillion in the domestic and global markets (Graph 3.7.3). In 2017, the value of outstanding government sukuk was equivalent to Rp551.6 trillion, accounting for 17% of total outstanding tradeable government securities (SBN).

Graph 3.7.3. GOVERNMENT SUKUK ISSUANCES FROM 2013-2017



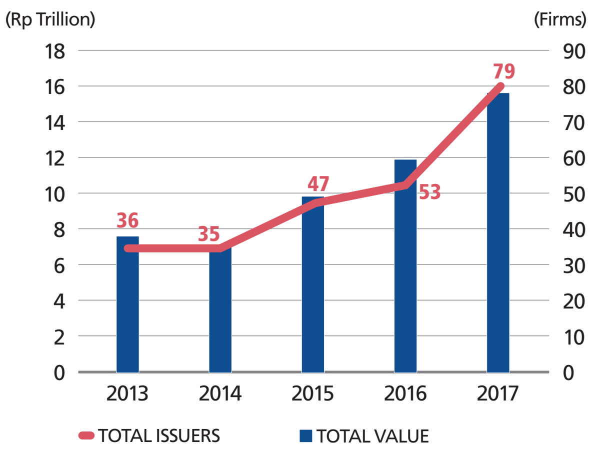
SOURCE: **FINANCIAL SERVICES AUTHORITY (OJK)**

The share of SBSN issuance has increased each year, reaching 30% of total SBN issuances in 2017. Significant growth began in the past three years, when the annual issuance value has exceeded Rp100 trillion. In 2017, the daily trade volume reached Rp1.7 trillion, with a corresponding average daily frequency of 112 transactions.

Corporate sukuk have also developed over the past five years. During the period from 2013-2017, the total value of outstanding corporate sukuk grew by 20.1% to Rp15.7 trillion (Graph 3.7.4). At the end of 2017, the mutual funds industry was the dominant institutional investor, totalling 213 entities, followed by the pension funds industry with 96 entities and the insurance industry with 47 entities.

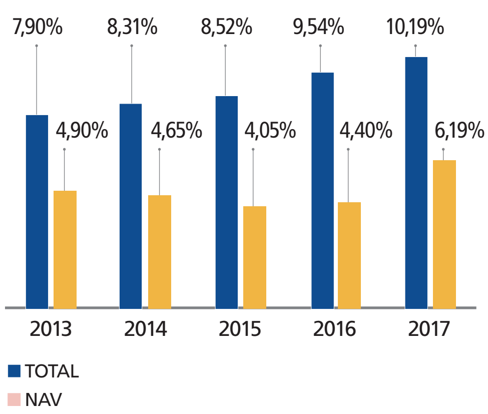
Islamic mutual funds have also posted significant gains during the past five years. From 2013-2017, total Islamic mutual funds have grown 29% to 181 mutual funds, while the Net Asset Value (NAV) has increased 31% to Rp28.31 trillion. Furthermore, a total of 63,536 investors of Islamic mutual fund units were recorded at the Indonesian Central Securities Depository (KSEI). In 2017, the portion and NAV of

Graph 3.7.4. OUTSTANDING CORPORATE SUKUK



SOURCE: **INDONESIA STOCK EXCHANGE**

Graph 3.7.5. TOTAL ISLAMIC MUTUAL FUNDS AND NAV AS A PORTION OF TOTAL MUTUAL FUNDS

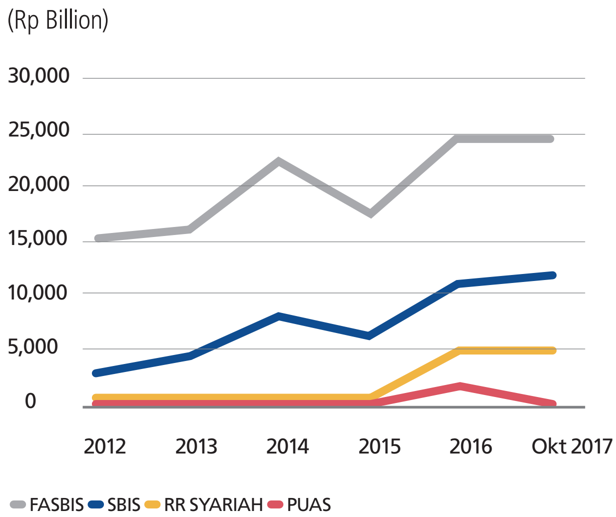


SOURCE: **INDONESIA STOCK EXCHANGE**

Islamic mutual funds to total mutual funds stood at 10.19% and 6.19% respectively (Graph 3.7.5).

In general, the Islamic money market remains comparatively shallow due to a limited number of instruments available in the Islamic interbank money market (PUAS). In addition, during periods of inadequate liquidity, Islamic banks tend

Graph 3.7.6. ISLAMIC MONEY MARKET TRANSACTIONS (DAILY AVERAGE)



SOURCE: **BANK INDONESIA**

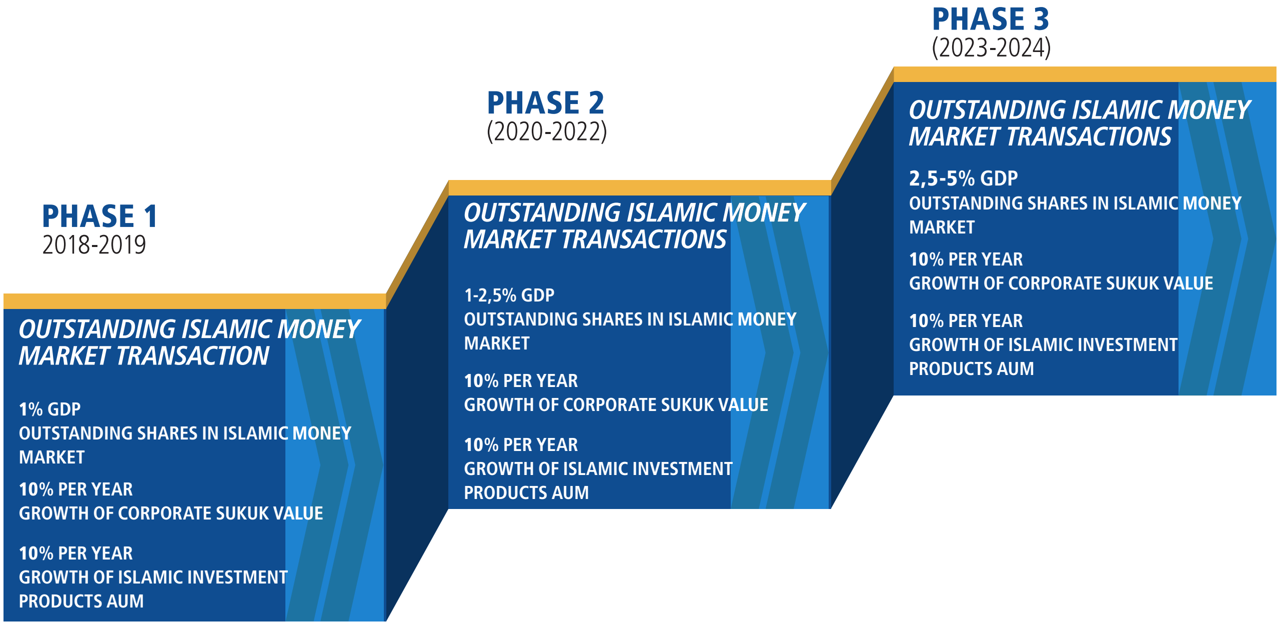
to borrow from their parent bank rather than seeking funds in the Islamic interbank money market. On the other hand, Islamic Bank Indonesia Certificates (SBIS) and the Bank Indonesia Islamic Deposit Facility (FASBIS) are the instruments preferred by the banking industry when placing their short-term funds rather than placements in the Islamic interbank money market (Graph 3.7.6).

In 2017, Islamic bank placements in the money market were dominated by Bank Indonesia monetary instruments, accounting for 79% or Rp38.6 trillion. The remainder were used for interbank transactions. In addition, Islamic banks are not yet actively utilising Bank Indonesia instruments as underlying transactions in the interbank money market.

3.7.1. ISLAMIC FINANCIAL MARKET DEVELOPMENT STRATEGY AND TARGETS

The Islamic financial market development strategy and targets will be implemented gradually through three phases under three pillars.

Figure 3.7.1. ISLAMIC FINANCIAL MARKET DEVELOPMENT TARGETS



SUMBER: **BI**

PILLAR I: SOURCES OF ECONOMIC FINANCING AND RISK MANAGEMENT

Islamic Capital Market

- Application of Active Debt Management Principles for Government Islamic Securities (SBSN)
  The legal framework for buyback and switching of government sukuk is contained in Minister of Finance Regulation (PMK) No. 19/PMK.08/2015 but current market conditions preclude such transactions from taking place. Therefore, the future policy direction is focused on applying active debt management principles to SBN management.

- Diversification of Sukuk Instruments
  Supporting Islamic financial market development and deepening as well as development financing, the portion of government and corporate sukuk will constantly be increased. The future strategy direction is focused on innovating the contract structure, underlying assets and varieties of government sukuk, while increasing the variations of corporate sukuk issuance by state-owned enterprises and Islamic financial institutions as well as developing Islamic investment products.

- Development of Islamic Mutual Funds and Increasing Sukuk Liquidity
  Although the trade volume and frequency of government and corporate sukuk have continued to increase in the secondary market, liquidity remains comparatively low. The future policy direction is: (i) to increase secondary market liquidity through Islamic repo regulations; and (ii) to increase the issuance volume of corporate sukuk.

  Policy to increase corporate sukuk volume will encourage issuances by relaxing the regulations concerning Public Offerings of Continuous Sukuk. The authorities will encourage state-owned enterprises, their subsidiaries and private companies to issue sukuk as part of the strategy to increase the volume of corporate sukuk, which will subsequently form the basis of secondary market development.

Meanwhile, policy to increase the volume of Islamic mutual funds includes reviewing and formulating regulations relating to Islamic collective investment product variations as well as encouraging development of securitisation product varieties through increasing issuances of Collective Investment Contract Islamic Asset-Backed Securities (KIK EBAS) and Islamic Asset-Backed Securities with a Participation Note (EBAS SP).

- Expansion of the Investor Base for Islamic Capital Market Products
  The development strategy is focused on increasing and expanding the investor base for Government Islamic Securities (SBSN) and corporate sukuk, encompassing institutional and retail investors. One potential institutional investor is the Haj Financial Management Agency (BPKH), which manages Haj funds to the tune of Rp100 trillion at present and is required to place funds in Islamic instruments. Other potential institutional investors include Social Security Management Agency (BPJS), Public Housing Savings Management Agency (Bapertarum), Islamic Pension Funds Industry, Islamic Insurance Industry as well as infaq and waqf management institutions.

- Development of the Islamic social financial sector
  Islamic finance in Indonesia also promotes development of the Islamic social sector (zakat, waqf and haj funds) through synergy with the commercial sector. The initiative began with the development of a sukuk linked waqf model in 2016. The model was formulated by the Indonesia Waqf Board (BWI). BWI has already prepared several waqf land locations as underlying assets for issuances of sukuk linked waqf. The future policy direction is focused on preparing additional sukuk linked waqf models to feed waqf cash into the purchase of Government Islamic Securities (SBSN) in order to finance government projects. This initiative is elaborated in the Box: **Sukuk Linked Waqf**.

Islamic Money Market

- Development of various Islamic money market instruments
  The current availability of Islamic money market instruments is limited to Interbank Mudharabah Investment Certificates (SIMA) and Sharia-Compliant Commodity Trading Certificates (SiKA). The future policy direction is focused on developing: (i) Islamic Negotiable Certificates of Deposit (NCD); (ii) Islamic repo; (ii) SIMA with wakalah and musyarakah contracts; and (4) Islamic Commercial Papers. In terms of Islamic monetary operations, Bank Indonesia will develop BI sukuk, BI sukuk repo, corporate sukuk repo, BI Islamic certificates of deposit with SBSN securitisation and waqf money certificates.

- Expansion of Investor Base for Islamic Money Market
  In terms of the investor base, the future policy direction is focused on developing domestic investors, which is expected to increase participation amongst Islamic banks, Islamic business units, state-owned enterprises and local government. Meanwhile, the participation of individual and corporate non-resident investors will be expanded to multinational organisations and institutions, such as the World Bank, Islamic Development Bank (IDB) and International Islamic Liquidity Management Corporation.

- Optimisation of Islamic Repo and Hedging Transactions
  Islamic repo and hedging transactions are required for liquidity and market risk management at Islamic financial institutions. Currently, there are 18 Islamic banks and Islamic business units signed up to the Islamic Mini MRA as a reference document for Islamic repo contracts. In addition, other supporting infrastructure has also been made available, namely Statement of Financial Accounting Standards (PSAK) No. 111 of 2017 concerning Waad.

The future policy direction is focused on developing Islamic repo and hedging transactions through regulatory amendments and capacity building for market players.

PILLAR II: FINANCIAL MARKET INFRASTRUCTURE DEVELOPMENT

- Development of the Data Information System
  a. Social and Commercial Investor Database for the Sukuk Market
  To increase existing/potential investors as well as public awareness and understanding in general, the future policy direction is focused on identifying existing and potential social and commercial investors. The availability of potential funds and the need for investment instruments will also be identified.

  b. Real Sector Benchmark Rate (real sector index)
  Market players require a credible Islamic money market benchmark rate to support various transactions in the financial markets, including for the valuation of money market instruments and investment decisions. Future policy is focused on developing a benchmark rate in the form of a real sector index that could replace the conventional interest rates that are currently used by market players as a reference of yields in the Islamic money market.

  c. Information System for the Islamic Social Finance Sector
  Differing from commercial instruments, social instrument such as sukuk linked waqf, cash waqf and social sukuk require the support of the zakat and waqf information system. The availability of such information in a database would optimise the development potential of the social finance sector similar to the feasibility of the commercial sector. The future policy direction is focused on coordination between the authorities and relevant institutions, including the Indonesia Waqf Board (BWI), National Amil Zakat Board (BAZNAS) and BPS-Statistics Indonesia, to develop the required information system.

- Strengthening Governance
  The strategy to strengthen Islamic social fund governance includes:
  a. Forming an International Working Group (IWG) on Zakat Core Principles (ZCP) and Waqf Core Principles (WCP). ZCP and WCP aim to increase the governance of Islamic zakat and waqf fund management to become more accountable and transparent.
  b. Formulate waqf core principles, technical notes and guidance notes as a reference for waqf and zakat management, thus ensuring management accountability and transparency.
  c. Strengthen the institutional arrangements and credibility of the waqf authorities responding to the increase of assets under management value.
  d. Develop zakat and waqf management and supervision guidelines.
  e. Strengthen the legal framework of the Islamic social sector.

PILLAR III: POLICY COORDINATION, REGULATORY HARMONISATION AND EDUCATION

- Strengthening Coordination in the National Committee on Islamic Finance of the Republic of Indonesia (KNKS)
  The National Committee on Islamic Finance (KNKS) was formed in accordance with Presidential Regulation (Perpres) No. 91 of 2016. The development strategy is focused on increasing coordination between the stakeholders and institutions through KNKS, thus harmonising the various policies. This strategy has also been accommodated in the Grand Strategy of KNKS.

- Harmonisation of Islamic Financial Market Regulations, Taxation, Accounting and Infrastructure
  Future policy is focused on harmonising the regulations, taxation, accounting and infrastructure in order to

accelerate Islamic financial market growth considering the disparate characteristics between the Islamic financial industry and conventional financial industry.

- Strengthening Coordination with Global Islamic Finance Stakeholders

  Future policy is focused on building coordination with and expanding the role of international institutions such as the Islamic Development Bank (IDB), International Capital Market Association (ICMA), International Islamic Liquidity Management Corporation (IILM), and various standard setting bodies, including the Basel Committee on Banking Supervision (BCBS), Islamic Financial Services Board (IFSB) and International Islamic Financial Market (IIFM) to ensure that domestic Islamic financial market development is in line with international practices.

- Education and capacity building of market players

  The need for development of human resources in the operation of Islamic finance comprises increasing the quantity and improving the quality of all parties playing an active role, including the regulator and industry players. The future strategy consists of certification program along with continuous professional education for professionals associated with Islamic finance. In addition, cooperation with universities and colleges will also be sought to conduct research on Islamic finance, while also promoting the link and match program.

  Synergy and coordination with the various stakeholders will be achieved through a variety of socialisation, promotional and educational programs regarding Islamic financial products through interactive talk shows, media advertisements and social media to distribute information and education, while also organising an exhibition of Islamic financial market products.

Sukuk Linked Waqf

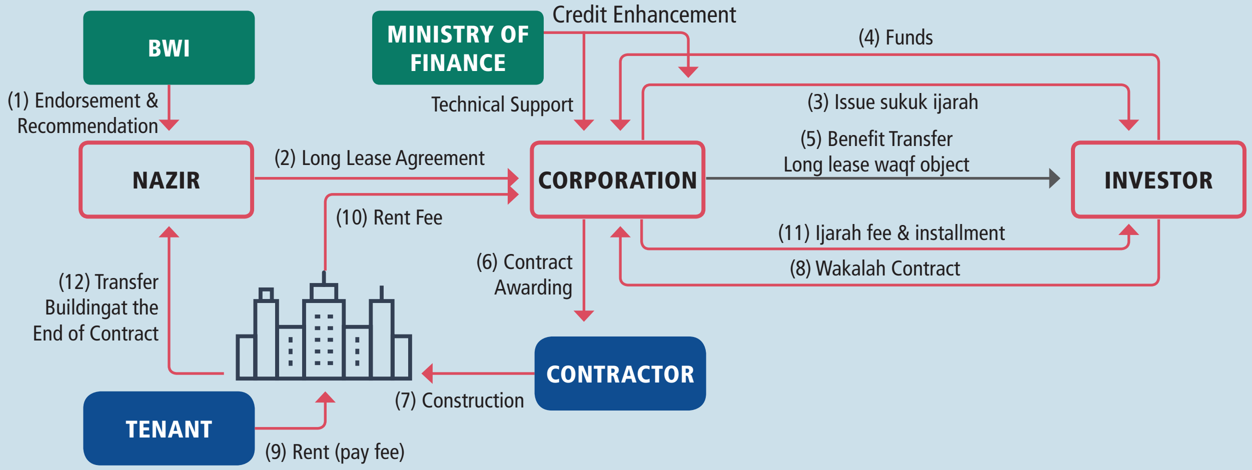
Sukuk linked waqf is an alternative financing instrument that increases the productivity of waqf land. According to the sukuk linked waqf model, certificated waqf land may be utilised as an underlying asset for sukuk issuances. Thus far, according to the general public paradigm, waqf land may not be utilised for commercial purposes. However, in broader perspective, waqf land has great potential or value to stimulate the economy.

Data from the Indonesia Waqf Board (BWI) points to around 4 million hectares of waqf land currently spread over 400 thousand locations with a value of around Rp2,050 trillion. Hitherto used for the construction of mosques, Islamic boarding schools (pesantren), orphanages and cemeteries that actually require a large annual outlay in terms of operating costs. Through sukuk linked waqf, however, infrastructure may be built on the unused land, which could subsequently be leased to generate income.

The sources of funds to build infrastructure on waqf land originate from sukuk issuances. The proceeds from the leased infrastructure or property could then by distributed and channelled into social programs for the good of the people, for example to build hospitals, pesantren and schools. At the end of the contract period, the assets are returned to the Nazir.

The idea to link waqf land to sukuk emerged because such Islamic instruments are already well established, including Project-Based Sukuk (PBS), Islamic Treasury Bills (SPNS), Retail Sukuk (Sukri), Haj Fund Sukuk and so on. Furthermore, the new instrument will help financial market deepening efforts at home. In Singapore and Kuwait, for example, waqf land may already be optimised for commercial purpose in compliance with Islamic principles.

Figure 3.7.2. SUKUK LINKED WAQF



1. BWI endorses and recommends waqf asset management to the Nazir.
2. The waqf manager (Nazir) leases the waqf land to a corporation in the long term
3. The corporation issues ijarah sukuk
   The Ministry of Finance provides credit enhancement facilities or technical support in preparation of issuing sukuk.
4. The investor transfers the funds to purchase the ijarah sukuk
5. The corporation transfers the long-term leasing rights to the investor
6. The corporation appoints a contractor to build property on the waqf land
7. The contractor builds the property
8. The investor provides wakalah to the corporation (wakeel) in order to lease the asset to a tenant
9. The tenant pays a leasing fee
10. The corporation books the leasing fee from the tenant
11. From the leasing fee received, the corporation pays the principal and ijarah fee to the investor (sukuk holder)
12. At the end of the leasing contract, the contractor releases the waqf asset and property therein as waqf

SUMBER: **BI**

7 Cross-Market Strategy Issues

The success of financial market development and deepening efforts is not only influenced by the strategies specific to each respective market but also by the cross-market development strategy.

EXPANSION OF THE INVESTOR BASE

Challenges

- Suboptimal pension fund and insurance penetration
- Pension fund investment policy does not fully reflect long-term investor characteristics
- The banking industry's role in the financial markets requires further optimisation

Development Direction

- Education and campaigns to increase pension fund and insurance penetration
- Capacity building for pension fund and insurance industry players on the investment management strategy
- Inter-institutional coordination
- Socialisation and education to expand role of banking industry in financial market

HARMONISATION OF TAX REGULATIONS

Challenges

- Disparate tax mechanisms and rates for financial market instruments/ transactions
- Potential double taxation that undermines financial market transaction efficiency

Development Direction

- Identify the existing tax issues between the tax authorities and financial market authorities
- Review prevailing regulations in light of global best practices
- Coordinate with other relevant authorities to review the regulatory harmonisation required to further develop financial instruments

INVESTOR PROTECTION AND EDUCATION

Challenges

- Inadequate investor protection and low financial literacy

Development Direction

- Strengthen investor protection regulations and infrastructure as well as implement the national financial literacy program

REGULATION OF TRANSACTION SYSTEM OPERATORS

Challenges

- Increasing use of electronic systems for financial transactions
- Lack of regulations concerning the provision of financial transaction systems

Development Direction

- Regulate transaction system operators
- Harmonise and coordinate with other financial market authorities

SOURCE: **MOF, BI, OJK**

IMPLEMENTATION CLOSE-OUT NETTING OR DISPUTE RESOLUTION

Challenges

- Implementation of close-out netting for derivative transactions may conflict with the Bankruptcy Act and Suspension of payment (PKPU)
- Inadequate market player understanding and lack of a legal framework to implement close-out netting for derivative transactions

Development Direction

- Amend/issue regulations to accommodate close-out netting
- Socialise the implementation of netting and close-out netting to law enforcement

STRENGTHENING ALTERNATIVE SPECIAL PURPOSE VEHICLE (SPV) SCHEMES

Challenges

- The current legal framework precludes the formation of Special Purpose Vehicles (SPV) as trustees. Only Special Purpose Companies (SPC) are permitted along with the use of Collective Investment Contracts (CIC)
- Inefficient, inconsistent and disproportionate tax treatment of SPC and CIC schemes

Development Direction

- Review specific regulations to control more efficient project bond issuances
- Review tax regulations for CIC and project bonds
- Review accounting regulations regarding the application of alternative SPV schemes

EMPOWERMENT OF FINANCIAL TECHNOLOGY (FINTECH)

Challenges

- FinTech development involves the disruption of conventional financial institutions
- Operational risk, data security, consumer protection and terrorism funding

Development Direction

- Develop the P2P Lending, payment system and financial market transaction FinTech ecosystem
- Synergise FinTech and conventional financial institutions
- Issue regulations to strengthen innovation, governance and risk mitigation
- Review the regulations in light of international best practices

The contribution of compulsory pension funds remains low, therefore the managed funds invested in the financial markets is not optimal

Pension fund penetration is low, thus the number of participants must be increased

The future role of the banking industry in the financial markets must be improved, backed by policies to stimulate intermediation through fund placements in financial market instruments

Development of retail investors is focused on strengthening investor protection and increasing education

FinTech empowerment in the financial markets aims to accelerate financial market deepening, including financial inclusion

FinTech empowerment for financial market deepening must be combined with stronger governance and consumer protection

Application of early termination and close-out netting principles may conflict with prevailing laws thus lack of clarity

The legal framework of Indonesia precludes the formation of Special Purpose Vehicles (SPV), instead permitting Special Purpose Companies (SPC) and Collective Investment Contracts (CIC)

Utilisation of CIC schemes still requires refinements to prevailing taxation and accounting laws in order to ensure the optimal benefits of Special Purpose Vehicles (SPV)

3.8 Cross-Market Development Strategy

FINANCIAL market development and deepening is not only influenced by the strategies specific to each respective market but also by the cross-market development strategy, including several related aspects. : (i) expanding the role of institutional investors, specifically the pension fund and insurance industries; (ii) taxation; (iii) regulation; and (iv) technology, which influence the success of the financial market development strategies.

3.8.1. EXPANSION OF THE INVESTOR BASE

The key determinant of financial market development and deepening success is the availability of a broad investor base, encompassing institutional and retail investors. The role of institutional investors is strategic because of their ability to mobilise the public's funds. At the end of 2017, total assets of the nonbank financial industry stood at Rp1,058 trillion, equivalent to 7.73% of Gross Domestic Product (GDP). Within the nonbank financial industry, pension funds and insurance represent the largest institutional investors based on assets in the financial markets. In addition, the banking industry is also a potential institutional investor considering the size of total assets that was recorded at Rp7,388 trillion at the end of 2017. Congruent with the banking industry's role as financial intermediaries, most assets are in the form of loans. Banks are potential investors in financial assets through utilisation of the excess liquidity available while adhering to prudential principles.

In addition to institutional investors, retail investors are just as important. The potential retail investor base is massive considering the emergence of the nascent middle class in Indonesia. Nevertheless, their current investment options are limited and they favour conventional investment products due to a lack of understanding of financial products. The overarching challenge to fund mobilisation, therefore, is increasing financial literacy.

- Pension Funds and Insurance
  a. Pension Funds

  Pension funds in Indonesia consist of compulsory and voluntary pension funds. Compulsory pension funds include: (i) the pension program for civil servants; and (ii) pension funds for formal sector workers.

  Voluntary pension funds are available to formal and informal workers through the Employer Pension Funds (EPF) and Financial Institution Pension Funds (FIPF).

  1. Pension Program for Civil Servants

     The pension program is a continuous income protection program provided by the Government to civil servants as well as army and police personnel, including state officials. The two government pension fund institutions mandated to manage pension funds are PT Taspen (Persero) and PT Asabri (Persero). The participants contribute 4.75% of their salaries (basic salary plus a fixed allowance) each month. The retirement plan applies a pay as you go (PAYG) funding scheme as presented in Table 3.8.1.

     The retirement program is a multipurpose insurance program linked to the retirement age and life insurance. In terms of the contribution, the participants contribute 3.25% of their income (basic salary plus fixed allowance) each month.

Table 3.8.1. PENSION PROGRAM CHARACTERISTICS

CHARACTERISTICS	PENSION PROGRAM			
	PUBLIC EMPLOYEES		FORMAL/INFORMAL SECTOR EMPLOYEES	
	Civil Servants	Army and Police		
	Compulsory	Compulsory	Voluntary	Compulsory
Type	Defined Benefits	Defined Benefits	Funding Fulfilment	Funding Fulfilment
Funding Scheme	*Pay as you go* (PAYG) [a)]	PAYG	*Funding*	*Funding*
Service Factor per annum	2,5%	2,5%	0% < FP ≤ 2,5%	1%
Payment Type	Monthly	Monthly	Monthly or Single Payment	Monthly
Administrator	PT TASPEN	PT ASABRI	EPF and FIPF	Social Security Management Agency (BPJS)
Employee Contribution	4.75% of basic salary and family allowance	4.75% of basic salary and family allowance	Variable	1% [c)]
Employer Contribution	None	None	0% ≤ Contribution ≤ 35% [b)]	2% [c)]
Supervision	Ministry of Finance, Audit Board of the Republic of Indonesia	Ministry of Finance, Audit Board of the Republic of Indonesia	Financial Services Authority (OJK)	National Social Security Council (DJSN), Financial Services Authority (OJK), Audit Board of the Republic of Indonesia

NOTES:

a. *Pay as you go*: retirement program system funded by the state budget.
b. Contribution is based on the basic salary.
c. As of December 2017, contributions are payable up to a ceiling of Rp7,703,500.

SOURCE: **OJK**

The Retirement Funds managed by PT Taspen and Asabri totalled Rp118.56 trillion in 2017 (Graph 3.8.1).

In addition to the aforementioned retirement programs, there are also the Retirement Security and Retirement Savings programs that are paid in lump-sum to the participants.

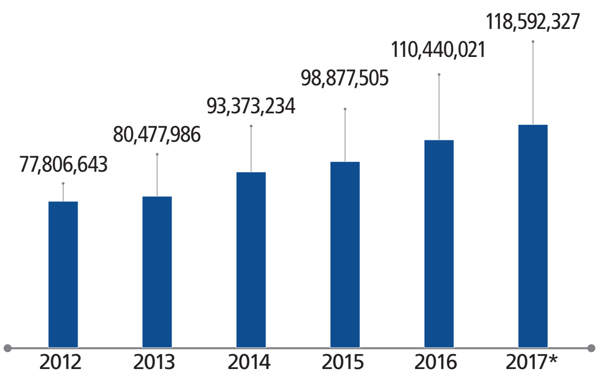
1. Old Age Security (OAS) and Pension Guarantees for Formal Sector Workers Old Age Security (OAS) and Pension Guarantees are social security programs for workers employed in the formal sector.
   The funds are managed by the Social Security Management Agency (BPJS). Pursuant to Act No. 40 of 2004 concerning the National Social Security System, OAS is a compulsory program for all employees. In addition to OAS and Pension

Table 3.8.2. CHARACTERISTICS OF OLD AGE SECURITY/RETIREMENT SAVINGS

CHARACTERISTIC	OLD AGE SECURITY/RETIREMENT SAVINGS	
	PUBLIC SECTOR	FORMAL SECTOR
Name	Retirement Savings	Old Age Security
Manager	TASPEN (for civil servants) and ASABRI (for army and police personnel)	Social Security Management Agency (BPJS)
Payment Type	Lump Sum	Lump Sum
Employee Contribution	3.25%	2%
Employer Contribution	-	3.70%

SOURCE: **FINANCIAL SERVICES AUTHORITY (OJK)**

Graph 3.8.1. OLD AGE SECURITY – TASPEN AND ASABRI (RP, MILLIONS)



*) Preliminary Data

SOURCE: **FINANCIAL SERVICES AUTHORITY (OJK)**

Guarantees, BPJS also provides a workplace accident security plan and life insurance.

OAS and BPJS assets have grown by an average of 15.1% per annum over the past four years, valued at Rp249.0 trillion on 31st December 2017. Since July 2015, the government has required employers to participate in the retirement security program, the impact of which has seen an increase from Rp2.38 trillion in December 2015 to Rp25.29 trillion in December 2017.

2. Voluntary pension program for formal and informal sector workers

   The voluntary pension program from formal and informal sector workers is facilitated through Employer Pension Funds (EPF) and Financial Institution Pension Funds (FIPF). There are currently 213 Employer Pension Funds and 23 Financial Institution Pension Funds, valued at Rp260.89 trillion on 31st December 2017. That development represents growth averaging 11% over the past five years, which is not far removed from the nominal pace of economic growth in Indonesia.

   Specific to the voluntary pension programs, growth has experienced the following constraints:

   a. The presence of other compulsory programs managed by BPJS, Taspen and Asabri.
   b. The public's inclination towards a lump sum payment rather than monthly payments.
   c. The priority of community that incline for other more urgent basic necessities.
   d. Competition from similar products in the banking and life insurance industries.

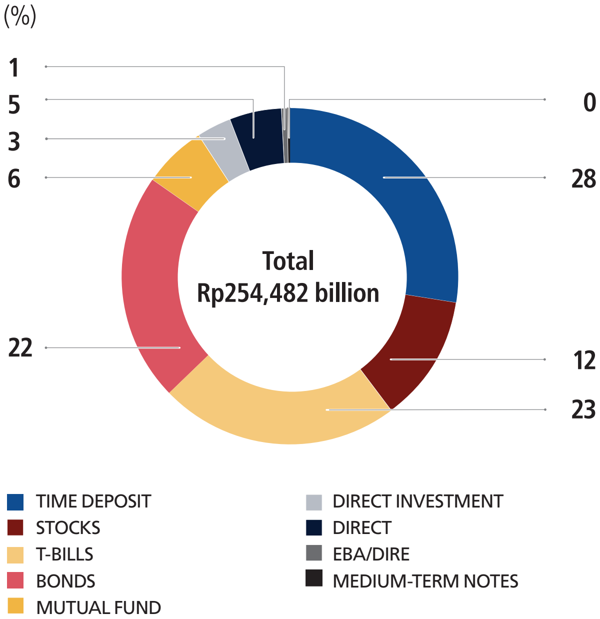
In general, the development of managed conventional and Islamic pension funds remains constrained by the following factors:

- The funds accumulated from the employees' contributions to the compulsory and voluntary pension programs are comparatively low because: (i) the contribution is based on the basic salary; and (ii) the contribution as a percentage of the salary is relatively small.
- The penetration of voluntary and compulsory pension programs in still low at around 30%. The reason is comparatively low financial literacy and public awareness of the benefits of pension programs. In 2016, financial literacy in pension fund benefit stood at 10.16%.
- The normal retirement age used by employers does not take into consideration the life expectancy of the Indonesian population, which has been increasing year over year. For example, life expectancy in Indonesia has increased from 68.6 years in 2004 to 70.8 in 2015 and is predicted to reach 72.2 years by 2035.
- Tax incentives for the managed funds of pension programs do not encompass all variations of investment instruments that may be managed by pension funds. Currently, only a few investment varieties are eligible for the tax incentives.
- Regulation of the pension system and post-employment benefits program in Indonesia is not integrated.

b. Insurance

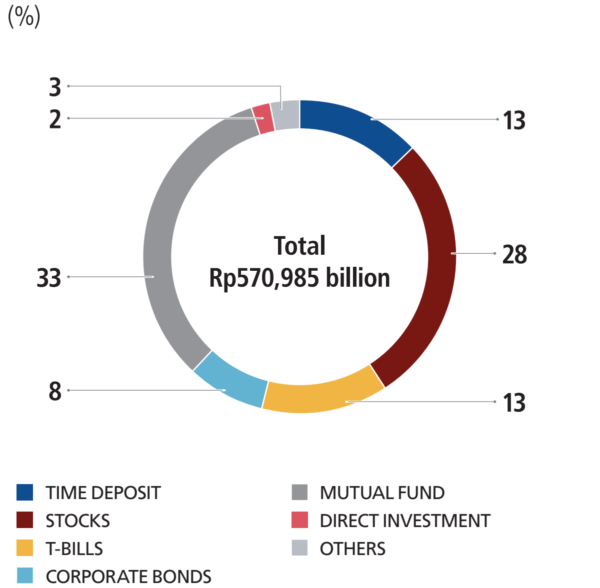
The insurance industry in Indonesia is divided into three segments based on operating activity, namely general insurance, life insurance and reinsurance. As legal entities, the insurance industry is made up of limited companies, cooperatives and joint ventures. In terms of the assets managed, life insurance is the dominant industry.

Graph 3.8.2. ALLOCATION OF EMPLOYER PENSION FUNDS AND FINANCIAL INSTITUTION PENSION FUNDS IN 2017



SOURCE: **FINANCIAL SERVICES AUTHORITY (OJK)**

Graph 3.8.3. INSURANCE AND REINSURANCE INDUSTRY PLACEMENTS



SOURCE: **FINANCIAL SERVICES AUTHORITY (OJK)**

In terms of the players, a total of 79 general insurance companies were registered at the end of 2017, with assets totalling Rp133.32 trillion and annual premiums of Rp65.43 trillion. Indonesian's spend an average of Rp254,600 per year on general insurance products. On the other hand, there were 61 life insurance companies registered at the end of 2017, with assets totalling Rp546.43 trillion and annual premiums of Rp195.18 trillion. Indonesian's spend an average of Rp759.500 per year on life insurance products. Finally, a total of seven reinsurance companies were registered at the end of 2017, with assets totalling Rp19.89 trillion and annual premiums of Rp16.81 trillion.

- Insurance and Pension Fund Development Strategy

  The national insurance and pension fund industries must be developed to fulfil their roles as domestic institutional investors in the future development of the financial markets. Several strategies will be implemented to ensure that pension fund and insurance companies play a greater role in the financial markets as follows:

Table 3.8.3. EMPLOYEE AND EMPLOYER CONTRIBUTIONS TO BPJS SOCIAL SECURITY PROGRAM

BENEFIT	EMPLOYER CONTRIBUTION	EMPLOYEE CONTRIBUTION	TOTAL
Pension	2	1	3
Old Age Security	3,7	2	5,7
Workplace Accident Coverage	0,24 - 1,74	0	0,24 - 1,74
Life Insurance	0,3	0	0,3
TOTAL	**6,24 - 7,74**	**3**	**9,24 - 10,74**

SOURCE: **FINANCIAL SERVICES AUTHORITY (OJK)**

a. National Education Campaign to Increase Pension Fund and Insurance Penetration

In terms of voluntary pension funds, the participants totalled just 4,395,045 in 2016, which is a tiny percentage of the workforce, including the self-employed, permanent employees as well as workers, totalling 70,223,078.

To overcome the problem of low penetration, the future policy direction is focused on a broad but integrated campaign explaining the benefits of the pension system and programs. The campaign will also cover the contributions, which can be deducted from gross income, thus lowering income tax.

b. Capacity Building for Pension Fund and Insurance Companies concerning the Investment Management Strategy

Another issue concerning pension funds is the investment management strategy that fails to reflect the maturity profile of the assets and liabilities. Compulsory pension funds tend to place their managed funds into long-term instrument such as stock and bonds, including sukuk and mutual funds. Nevertheless, placements in term deposits and money market instruments are also large. Similar dynamics also affect investment placements for voluntary pension funds. When compared to EPF in Malaysia, placements in short-term instruments only account for around 5% of total managed funds.

In contrast, the insurance industry tends to favour short-term instruments, such as term deposits or certificates of deposit, in line with prevailing asset liability management (ALM) practices. As of 31st December 2017, total investments of the insurance and reinsurance industry in term deposits and money market instruments reached 9.72% of total managed funds (Graph 3.8.3).

a. Coordination with Relevant Authorities to conduct a Rigorous and Integrated Review of Pension System Regulations
The contribution of OAS and pension guarantee participants is currently around 3%, which is low compared to similar products in other countries, for instance Malaysia. The total contribution of employees to the Employee Provident Fund (EPF) in Malaysia is 23-24%, with employers contributing 12-13% and the employees contributing 11% of their salaries.

With a 23-24% contribution, EPF in Malaysia collects around RM5 billion per month, or USD1.2 billion (Rp16.6 trillion), which far exceeds the Rp4 trillion per month collected by Social Security Management Agency (BPJS). Furthermore, the total assets of EPF in Malaysia amount to around USD200 billion (Rp2,711 trillion), which is nearly one-quarter of Indonesia's GDP, compared to the assets of BPJS totalling just Rp262.5 trillion.

To overcome the problem of low OAS and pension contributions, the future policy direction is oriented towards progressively increasing the contributions or employee savings based on income. The authorities will also consider

Table 3.8.4. COMPARISON OF SOCIAL SECURITY PROGRAMS IN MALAYSIA AND INDONESIA

DESCRIPTION	EMPLOYEE PROVIDENT FUND	SOCIAL SECURITY MANAGEMENT AGENCY
Total Population	32 million (2017)	250 million (2017)
Total Participants	Total Members: 14.98 million	Total Members: 19.56 million
	Active Employees: 9.96 million	Formal Sector: 18.98 million
	Active Employers: 544 million	Informal Sector: 0.28 million
		Active Employers: 0.30 million OAS;
Composition of Premium Contributions	Salary ≤ RM5,000 Employee 11% - Employer 13%	JHT: Employee 2.0% - Employer 3.7%
		JPN: Employee 1.0% - Employer 2.0%
	Salary > RM5,000 Employee 11% - Employer 12%	JKK: Workplace Accident: 5 Tariffs (Employer) (Perpres No. 44 of 2015 concerning Workplace Accidents and Life Insurance)
		JKM: 0.3% Employer
Total Premiums Collected	RM5 million per month (Equivalent to USD1.2 billion/Rp16.6 trillion)	Rp48.63 trillion per year (Audited in 2016) (Equivalent to Rp4 trillion per month)
Total Assets	USD200 miliar (Rp2.711 triliun)	Total: Rp262.5 trillion Including JKM: Rp18.97 trillion, JP: Rp12.19 trillion and OAS: Rp217.62 trillion

SOURCE: **FINANCIAL SERVICES AUTHORITY (OJK)**

providing tax incentives on the investment funds managed in the pension funds industry, while synergising the regulations to avoid burdening the employers.

- Banking Industry

The overarching role of the banking industry in terms of economic development is to disburse funds as loans to the public. Over the past few years, however, the role of the banking industry as an investor in money market and capital market instruments has increased year on year, induced by various policies and incentives issued by the regulator, including secondary reserve requirements, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Through such policies, the banks have been able to fulfil prudential principles on one hand and stimulate financial market development on the other.

In addition, the banks have become active traders of government securities (SBN) in the secondary market as primary dealers. Such transactions have been facilitated by the requirement for banks to act as primary dealers in order to create a liquid secondary SBN market. Nevertheless, the activity of non-primary SBN dealer banks in the secondary market still has the potential for further development.

Implementation of the Macroprudential Intermediation Ratio (RIMP) by the authorities may also bolster bank placements in financial market instruments issued by business entities, not only through loans. This policy is expected to deepen the corporate bond market because the banks may invest in certain securities issued by economic players.

Strategy to Expand the Role of the Banking Industry

One potential strategy to expand the banking industry's role in the corporate bond market is to encourage active engagement in the secondary corporate bond market. As discussed in Chapter 3.2 Corporate Bonds, the relevant authorities will increase the role of EBUS (debt securities and sukuk) intermediaries. Through the policy, banks that meet certain criteria will be licensed to act as EBUS intermediaries. In addition, the banks are also therefore potential investors in conventional and Islamic financial market instruments, including Commercial Securities and structured products such as asset-backed securities in the form of participatory notes (EBA-SP), while fulfilling the prevailing prudential criteria and regulations.

- Retail Investors

Retail investors are individuals purchasing securities in the capital market in their own interest, the total of which is considerably less than institutional investors. Retail investors invest in securities through securities companies, mutual funds, banks as selling agents of government securities (SBN) and other companies.

The number of retail investors in the capital market in Indonesia has achieved significant growth year over year. The emergence of retail investors has played an important role in capital market development in several countries, particularly where the population is already financial literate. Although the investment value is comparatively small, the potential accumulation of funds from retail investors is very large considering the large Indonesian population.

Retail Investor Development Strategy

Efforts to develop retail investors include:

a. Use of an e-book building system;
b. Development of an allocation and rationing mechanism for securities that regulates a pooling allotment;
c. Mutual use of Know Your Customer (KYC) information collected by one financial services institution to other financial services institutions, also known as third-party KYC;
d. Use of information technology to open securities accounts and fund accounts, thus reaching the regions

a. lacking a securities company or branch;
b. Development of an equity crowdfunding platform.

3.8.2. INVESTOR PROTECTION AND EDUCATION

- Investor Protection

  Consumer protection (including investors) in the financial services sector is required to expand the investor base. Consumer protection will increase consumer and public confidence in the financial services industry. Furthermore, consumer protection is also focused on improving the negotiation power of consumers when using financial products and services, thus drawing the attention of financial services institutions.

  To that end, the relevant authorities have already formulated the Financial Consumer Protection Strategy (SPKK), including mapping the measures required to support consumer protection moving forward based on four pillars as follows:

  a. Consumer Protection Infrastructure
     Infrastructure development policy consists of:
     1. Providing communication channels that are accessible to consumers and the public;
     2. Expanding the role of the regulator to actively monitor the handling of consumer complaints, while conducting analyses and formulating consumer protection policies sustainably;
     3. Implementing responsive and effective financial consumer complaint handling and dispute resolution through Internal Dispute Resolution (IDR) at financial services institutions;
     4. Providing reliable and trustworthy Alternative Dispute Resolution Institutions (LAPS) for consumers in the financial services sector; and
     5. Providing a comprehensive consumer protection information system and database in the interests of the consumers, public and financial services institutions.

  b. Regulations
     Future policy is focused on directing financial services institutions to apply consumer protection principles in order to create market discipline in the financial services sector. In addition, regulatory harmonisation shall be achieved while paying due consideration to the characteristics of each respective sector in the financial industry and prevailing adopted technology.

  c. Market Conduct Oversight
     Market conduct oversight policy encompasses supervision of a consumer-oriented culture in the financial services industry, including potential fragilities that could incur consumer losses

  d. Education and Communication
     This policy is elaborated further in the following section, entitled Increasing Education.

- Increasing Education

  One determinant of expanding the investor base is to increase the education offered to investors, particularly retail investors. Based on the National Financial Literacy and Inclusion Survey conducted periodically by the Financial Services Authority (OJK), the literacy index in Indonesia tracked an improving trend from 21.8% in 2013 to 29.7% in 2016. Despite the improvement, the public are still not sufficiently confident to exploit financial products and services. Understanding the features and benefits of financial products and services has not been fully offset by understanding the risks, costs and liabilities as users of financial products and services.

The strategy to increase financial literacy consists of: (i) financial education; and (ii) development of adequate infrastructure to support financial literacy amongst consumers and/or the public. The embodiment of which is contained in the National Financial Literacy Strategy (Revisited, 2017) based on three strategic programs as presented in Figure 3.8.1.

3.8.3. HARMONISATION OF TAX REGULATIONS

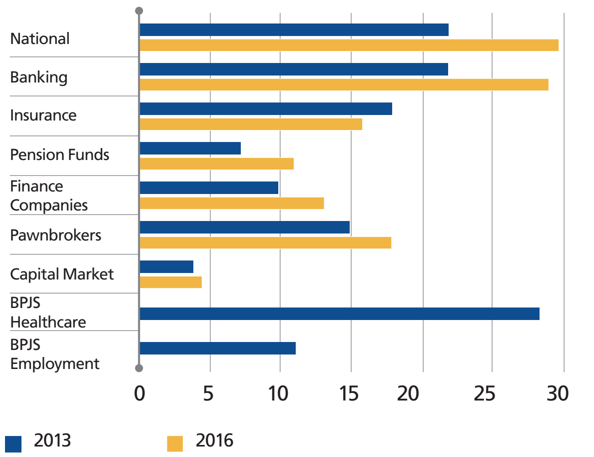
Taxation is an important determinant of financial market development. The imposition of taxes will influence investor or market player propensity to transact. An explicit, transparent and simple in tax system provides market players with the convenience to transact in the financial markets. Furthermore, an unambiguous and simple tax system also facilitates greater transaction efficiency because the financial intermediaries and market infrastructure used can accommodate the electronic treatment of tax liabilities.

The tax system for financial instruments/transactions must be well designed to avoid potential market distortions in terms of the transactions or prices. The approach must optimise potential state revenues on one hand but must also be simple to apply. On the other hand, the tax system for financial instruments/transactions must also be oriented towards the long term to help develop the financial markets. Some financial instruments/transactions are still under development, which requires more accommodative taxes in order to accelerate the development.

There are several aspects of tax regulation that demand attention to help stimulate financial market development, including the following:

- Final and Non-Final Income Tax (PPh) Systems
  Based on the deduction and collection system, income tax (PPh) can be separated into final and non-final. The current income tax system for various financial instruments/transactions is based on consideration to simplify tax administration, the characteristics of the financial instruments/transactions as taxable objects as well as the classification of institutions as the tax subject.

Graph 3.8.4. FINANCIAL LITERACY AND INCLUSION SURVEY RESULTS IN 2013 AND 2016



SOURCE: **FINANCIAL SERVICES AUTHORITY (OJK)**

Figure 3.8.1. NATIONAL FINANCIAL LITERACY STRATEGY FRAMEWORK (REVISITED, 2017)

SOURCE: **FINANCIAL SERVICES AUTHORITY (OJK)**

For example, stock trading transactions in the stock exchange are subject to final income tax in order to simplify and support smooth transaction settlement, considering that stocks are continuously being traded. Such tax treatment is supported by accommodative market infrastructure and the availability of transaction data. On the other hand, final and non-final income tax are also applied based on classification of institutions of the tax object, for instance income tax on the discount rate of money market instruments. Banks are subject to non-final income tax, while other nonbank financial institutions are typically subject to final income tax.

The final and non-final tax systems make it difficult for market players as tax subjects to estimate and plan their tax obligations. On the other hand, differences in the income tax system for secondary transactions of various financial instruments also undermines certain financial market development. Future income tax policy relating to the financial markets should be based on simplifying tax administration, accelerating the financial markets and facilitating a liquid secondary market.

- Different Income Tax Rates based on Tax Subject
  Currently, tax rates on income derived from bonds differ depending on the investor (type of tax subject). Such an approach could distorts instrument prices and segments secondary market transactions. For example, tax rates on interest income and capital gains from bonds are differentiated based on the type of investor as the tax subject (Table 3.8.5).

  Differentiating investors as the tax subject segments secondary market transactions, which could undermine further market development. Future tax policy is focused, therefore, on harmonising income tax rates amongst the different tax subjects by applying balanced and fair rates to all tax subjects.

- Potential Double Taxation
  Potential double taxation is another constraint to financial market development. Double taxation might occurs from misinterpretation of the tax regulations as well as incomplete and unclear tax regulations. Potential double taxation primarily affects financial instruments that arise from the securitisation process, for instance collective investment contracts - asset-backed securities, collective investment contracts - real estate investments and collective investment contracts – DINFRA, including sharia-compliant instruments.

Under such schemes, various taxes are applicable when the assets are transferred to the collective investment contract (CIC), such as value added tax (VAT) and other taxes. When the CIC receives cash flow from the servicer, the cash flow received is subject to income tax. Finally, the beneficiary investor may also be subject to general income tax if unable to explicitly demonstrate that final tax has already been paid on the CIC income.

The potential issue of double taxation also affects repo transactions, particularly nonbank financial institutions that are subject to final income tax. Repo transactions are often perceived as two different transactions and, therefore, potentially subject to double income tax: once in the first leg and then again in the second leg of the transaction.

Future tax policy is focused on improving clarity on all financial instruments tax calculation and consistent implementation in each case, therefore avoid misinterpretation of the prevailing tax regulations. Furthermore, continuous education will be offered to the authorities, tax office employees and market players concerning financial market transactions and instruments in order to consolidate understanding and avoid misinterpretation.

Harmonisation of the tax regulations will pay due regard to achievement of the state revenue target and financial market development.

In the near term, regulatory harmonisation is focused on identifying the issues between the financial market authorities and the industry, aligning perceptions of prevailing regulations and reviewing potential solutions that may be implemented immediately. In the long term, the regulations will be amended in line with international best practices, thus ensuring the financial markets in Indonesia can compete with the financial markets elsewhere.

Moving forward, the relevant authorities will intensify coordination in relation to the imposition of tax and regulatory harmonisation as required in line with the innovation of new financial instruments, including those without an explicit tax scheme. Such policy is expected to effectively coordinate the innovation of financial instruments and tax mechanisms, thus reducing ambiguity in the implementation.

3.8.4. FINANCIAL TECHNOLOGY (FINTECH) EMPOWERMENT

Financial technology (FinTech) is the utilisation of technology in the financial system to create new and innovative products, services, technology and/or business models. Despite the risk of financial system disruption, FinTech development could also meet public demand for funding,

Table 3.8.5. TAX RATES APPLICABLE TO DEBT SECURITIES

TAX	DEBT INSTRUMENT	INSTITUTION/INVESTOR	TAX RATE
Interest Income	Government Bonds/ Sukuk	Domestic banks, approved pension funds	Not collected
		Domestic Mutual Funds	5%
		Other Domestic Investors	15%
		Non-resident investors	20% or based on Double Taxation Avoidance Agreement (DTAA)
	Corporate Bonds/Sukuk	Domestic banks, approved pension funds	Not collected
		Domestic Mutual Funds	5%
		Other Domestic Investors	15%
		Non-resident investors	20% or based on Double Taxation Avoidance Agreement (DTAA)
Capital Gain	All Debt Securities	Domestic Investors	15%
		Non-resident investors	20% or based DTTA

NOTES:

a. Banks: Income from bonds combined with other incomes are subject to (non-final) income tax; Pension Funds: Bond interest income is exempt from tax object status

b. Mutual Funds: Income tax rate of 5% from 2014-2020 and then 10% from 2021

SOURCE: **FINANCIAL SERVICES AUTHORITY (OJK)**

Table 3.8.6. TAX RATES APPLICABLE TO COLLECTIVE INVESTMENT CONTRACTS (CIC)

<table>
<tr><th rowspan="2" colspan="2">INSTRUMENT</th><th rowspan="2">INCOME</th><th colspan="2">TAX</th></tr>
<tr><th>MUTUAL FUND OR CIC</th><th>INVESTOR</th></tr>
<tr><td rowspan="2" colspan="2">CIC - Real Estate Investments</td><td rowspan="2">Dividend/Interest/ Lease Income</td><td>Transfer of Asset: 10% VAT + 0.5% Income Tax on transfer of land and buildings</td><td rowspan="2">Exempt</td></tr>
<tr><td>Receipt of Income from Lease: Final Income Tax of 10%</td></tr>
<tr><td rowspan="2">CIC – Private Equity Funds (RDPT)</td><td>Bonds</td><td>Coupon</td><td>5% Income Tax and 25% Corporate Income tax</td><td>Exempt</td></tr>
<tr><td>Equity</td><td>Dividend</td><td>Article 23, Income Tax = 15% and 25% Corporate Income tax</td><td>Exempt</td></tr>
<tr><td colspan="2">CIC - Asset-Backed Securities (ABS)</td><td>Dividend/Coupon</td><td>10% Income Tax and 25% Corporate Income tax</td><td>20% Final Income Tax</td></tr>
<tr><td colspan="2">Private Equity Funds (RDPT)</td><td>Coupon</td><td>5% Income Tax</td><td>Exempt</td></tr>
<tr><td>Mutual Funds</td><td>Equity</td><td>Dividend</td><td>Article 23, Income Tax; 15%</td><td>Exempt</td></tr>
</table>

NOTES:

a. Relaxation of tax requirements for instruments with underlying debt securities until 2020

b. Income tax on transfer of assets not in the form of receivables or debt securities

SOURCE: **OJK**

stimulate micro and small enterprises as well as increase financial inclusion. This is due to flexibility precipitated by digital financial innovation to enable financing without backing of collateral. Consequently, FinTech can provide financing schemes through financial services. To minimise the adverse effects and ensure maximum public benefit, FinTech businesses must advocate good governance and consumer protection.

Peer-to-peer lending, payment systems, equity crowdfunding, market aggregators, investment advisors, insurance agents, investment managers and other financial market supports are the forms of FinTech currently enjoying rapid growth. Considering the proliferation of FinTech use in terms of financing and payment transactions, the authorities issued OJK Regulation (POJK) No. 77/POJK.01/2016 concerning Information Technology-Based Lending Services and Bank Indonesia Regulation (PBI) No. 19/12/PBI/2017 concerning the Implementation of Financial Technology.

The value of FinTech transactions in Indonesia reached a total of USD18.6 billion in 2017, up 24.6% on the previous year and dominated by digital payments (99%). Furthermore, the value of FinTech transactions is predicted to increase to USD21.4 billion in 2018 in line with the expansion of several FinTech companies. In terms of peer-to-peer (P2P) lending, total financing has reached Rp2.6 trillion and 259,635 borrowers. There are currently 180 companies offering payment platforms using financial technology.

- Development Strategy

  The future policy direction to empower FinTech is focused on:

  a. Compiling a digital innovation development roadmap as development and regulatory guidelines for FinTech. In this context, financial services institutions are expected to increase synergy by creating investment opportunities in FinTech companies or establishing FinTech business lines.

b. Issuing regulations concerning digital financial innovation in the financial services sector in order to mitigate the risks associated with the payment systems, financial system stability, data security and integrity as well as consumer protection.
c. Issuing regulations concerning the P2P lending FinTech industry to protect consumers and maintain financial system stability free from money laundering and terrorism funding practices.
d. Developing FinTech to support targeting market segments with limited direct access to equity, through equity crowdfunding, P2P lending, venture capital and so on.
e. Developing a FinTech P2P lending ecosystem in Indonesia consisting of e-KYC, credit scoring, digital signature and e-stamp in order to improve speed, security and user convenience, including implementation of a regulatory sandbox. The authorities will back cooperation between FinTech P2P lending and other financial services institutions, including the banks, capital market and finance companies.
f. Utilising FinTech to sell retail government securities (SBN) online and channel funds through cooperation with relevant government ministries and institutions.
g. Reviewing the empowerment of digital financial innovators by establishing a special body to oversee digital financial innovation in line with the principles of market discipline.

3.8.5. IMPLEMENTATION OF CLOSE-OUT NETTING OR DISPUTE RESOLUTION

Market players exposed to currency risk are required to hedge through derivative transactions. Furthermore, market players require agreements in order to hedge, typically using the Master Agreement of the International Swaps and Derivatives Association (ISDA). Likewise, for repo transactions, the authorities require market players to transact based on a Global Master Repurchase Agreement (GMRA). The ISDA Master Agreement and GMRA stipulate that if one party fails to meet its obligations, close-out netting shall be used consisting of early termination, valuation and netting.

In Indonesia, netting implementation is regulated by Article 1427 of the Civil Code. Law No. 37 of 2004 concerning Bankruptcy and Suspension of Payment also permits netting as stipulated in Article 51. Nevertheless, the Bankruptcy and Suspension of Payment law states that the bankrupt assets are no longer managed by the transacting party but by a curator. Consequently, the principles of early termination and close-out netting for derivative transactions could be implemented before the bankruptcy decision and approved by the parties based on an agreement with an underlying transaction. Nonetheless, after the court has declared bankruptcy, close-out netting may only be applied based on the consideration of the curator.

- Development Strategy
  a. Socialisation and Education
  The policy direction is focused on aligning perceptions of netting and close-out netting in Indonesia, particularly law enforcement.
  b. Amendment/Promulgation of Regulations to Accommodate Close-Out Netting
  Future policy direction is focused on amending or promulgating regulations that enact close-out netting for certain transactions, including derivatives, repo and securities lending as well as based on certain contracts, such as the Indonesia Derivatives Master Agreement (PIDI), ISDA Master Agreement and Global Master Repurchase Agreement (GMRA).

3.8.6. STRENGTHENING ALTERNATIVE SPECIAL PURPOSE VEHICLE (SPV) SCHEMES

The concept of SPV schemes is commonplace in international financial markets to issue investment instruments with the benefit of ring-fencing the sponsor company and deleveraging the assets of the sponsor company. In terms of implementation in the domestic market, the concept of forming a Special Purpose Vehicle (SPV) cannot be applied for project bonds and securitisation considering that SPV in the form of trusts are not recognised legally in Indonesia. Consequently, the most common approach used by market players seeking the benefits of SPV in Indonesia is to form an SPC or use collective investment contract (CIC) schemes.

SPC and CIC-ABS have a number of inherent weaknesses. Distinct from SPV in the global financial markets, CIC is a taxable subject. The accounting principles applicable to CIC do not permit off-balance sheet entries, which is one of the key motivations of financing through SPC and securitisation. Financial Accounting Standard (SAK) No. 7, which is the general accounting guidelines used in Indonesia, requires consolidated financial statements for the SPV, referred to as a special purpose entity (EBK) in the SAK, to sponsor company.

- Development Strategy

  A number of development strategies and initiatives are required to strengthen the SPV framework, including harmonisation of the legal and tax frameworks as well as the accounting practices for alternative Special Purpose Vehicle (SPV) schemes applicable to the domestic markets as follows:

  a. Review the specific regulations to facilitate efficient project bond issuances;
  b. Review amendments to CIC tax regulations to be more efficient; and
  c. Review the accounting regulations for alternative SPV schemes that allow off-balance sheet CIC activities and do not require consolidated financial statements with the sponsor company.

3.8.7. REGULATING TRANSACTION INFRASTRUCTURE PROVIDERS

The electronification of financial market transactions is progressing with rapidity. A study by Greenwich Associates on the use of electronic systems for different asset classes opined that an increase had occurred in transactions of standardised assets through electronic systems in 2015, namely IRS, repo and certificates of deposit (CD) transactions. In the context of the foreign exchange market, the use of electronic systems was found to be most prevalent for standard FX spot transactions, accounting for 70% of the total, followed by forward and option transactions with 55% and swap transactions with 40%.

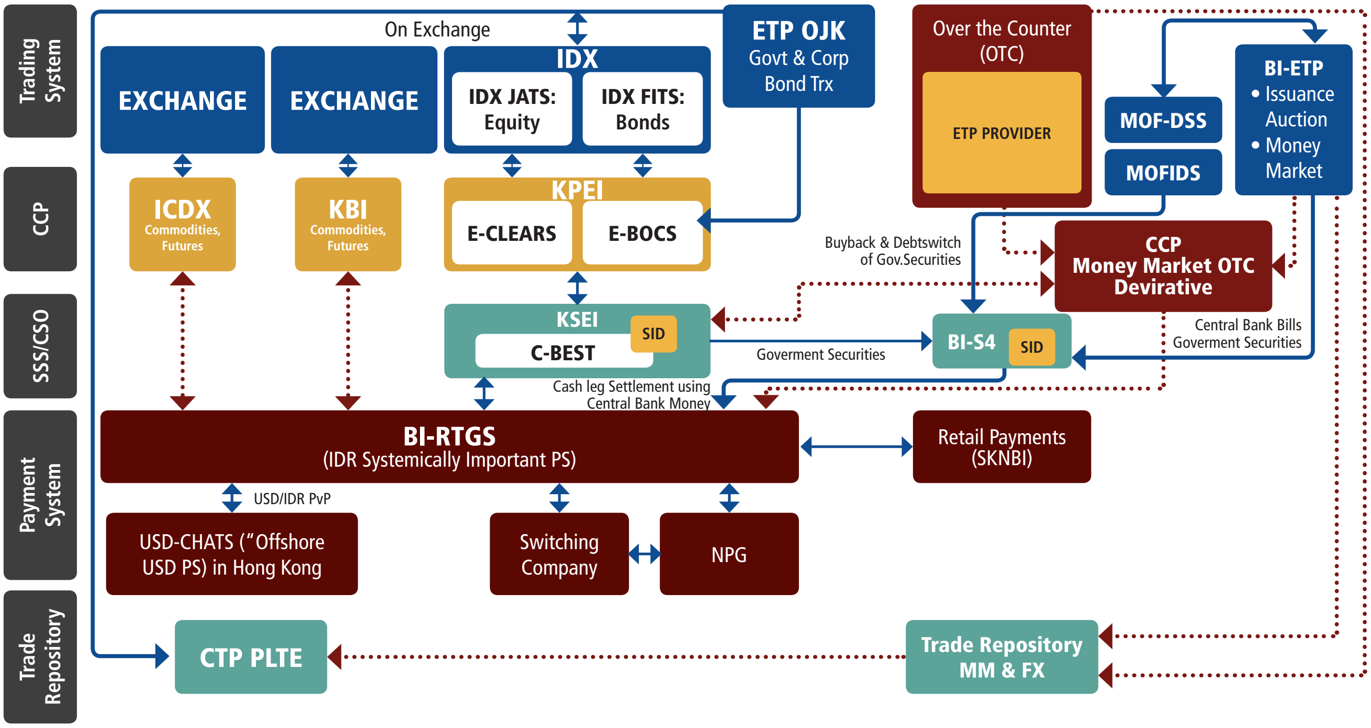
In Indonesia, the use of electronic systems by market players for financial market transactions is increasing. The infrastructure used for such transactions include the Bank Indonesia-Electronic Trading Platform (BI-ETP), OJK-ETP through the Indonesia Stock Exchange, other private ETP providers as well as systematic internalisers (banks and foreign banks) as illustrated in Figure 3.8.2. In the case of ETP providers, market players typically utilise the messaging services offered by the two dominant global providers.

In addition to transactions through electronic systems, over-the-counter (OTC) interbank transactions in the domestic market are also conducted through inter-dealer brokers, which offer Telephone Trading Information Systems (TTIS) but lack electronic systems. In terms of utilising electronic systems, Indonesia is yet to regulate electronic transactions similar to what are available in other peer countries and emerging market economies.

- Development Strategy

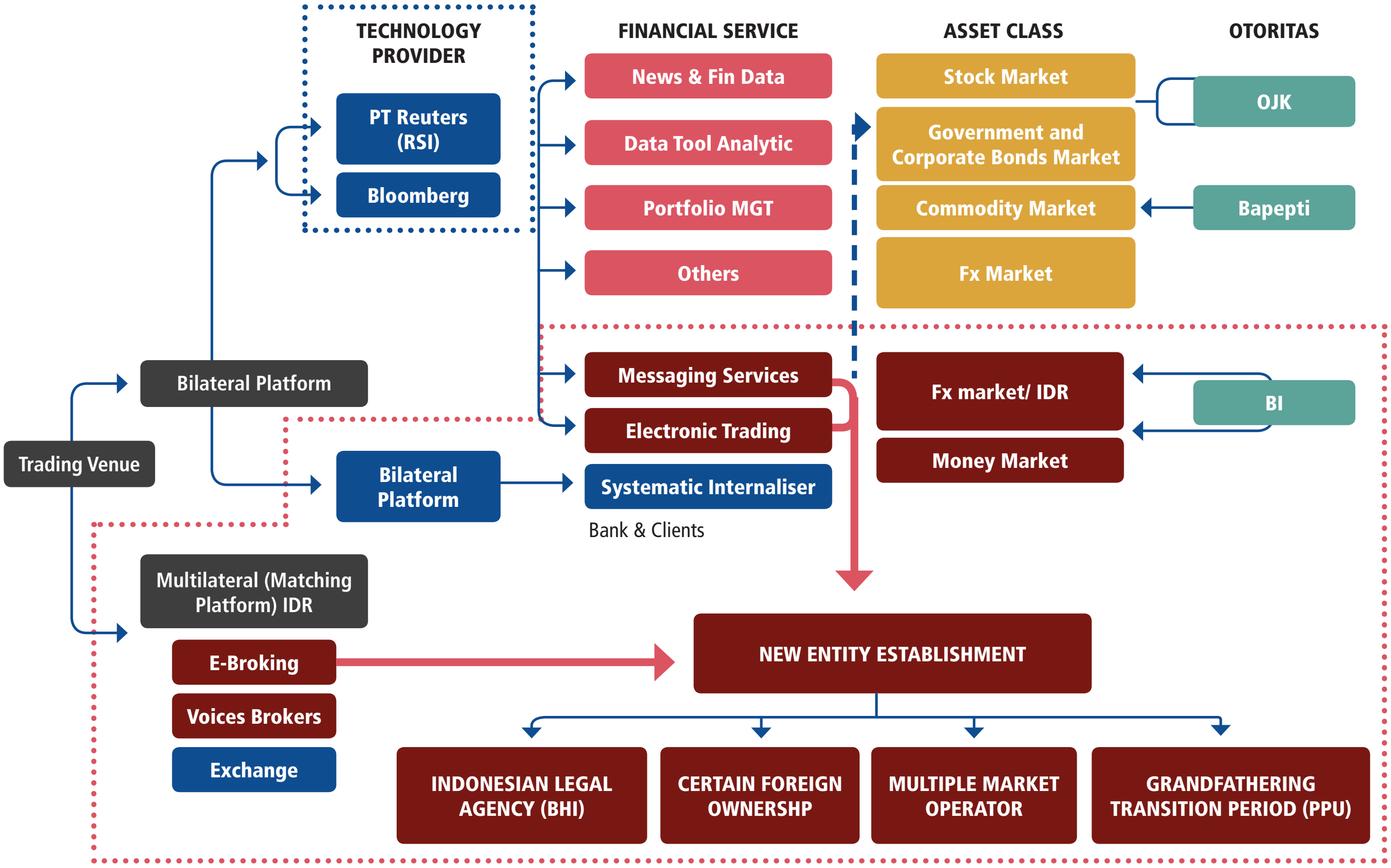
  The future policy direction is oriented towards regulating market operators in order to maintain money market and foreign exchange market integrity, create a fair, orderly, transparent, liquid and efficient money market and foreign exchange market, as well as integrate financial market infrastructure in line with international best practices. The respective authority for each financial market is coordinating to harmonise the regulations due to nature of provider that offer various transaction services in the money market, foreign exchange market and bond market.

Figure 3.8.2. FINANCIAL MARKET INFORMATION SYSTEM ECOSYSTEM IN INDONESIA



SOURCE: **BANK INDONESIA**

Figure 3.8.3. REGULATORY CONCEPT FOR TRANSACTION PROVIDERS



SOURCE: **BANK INDONESIA**

Pension Fund Capacity Development in Malaysia: Lessons Learned

THE current state of the pension funds industry in Malaysia is similar to that in Indonesia, namely that pension funds managed by the Ministry of Finance totally dominate the market due to the compulsory participation of formal sector workers. Meanwhile, private pension funds have experienced a sunset period due to difficulties in terms of increasing the number of participants. Furthermore, the concept of pension fund management has shifted from defined benefits to defined contributions.

There are two pension funds under Ministry of Finance management in Malaysia, namely the Kumpulan Wang Simpanan Kerja (KWSP) and the Kumpulan Simpanan Wang Persaraan (KWAP). KWSP is better known as the Employee Provident Fund (EPF), which is mandated to manage private sector pension funds, including foreign companies in Malaysia. Meanwhile, KWAP manages the pension funds of government employees.

In terms of managed fund, EPF is currently the largest institutional investor in Malaysia's financial markets, while in terms of assets, EPF is the seventh largest in the world. The managed funds of EPF currently stand at USD200 billion thus could functions as a stabiliser when shocks befall the financial markets.

A number of factors have spurred EPF development in terms of the number of participants and the funds managed as follows:

1. A high participation rate
   In 2017, of the total Malaysian population of around 30 million, around 50% were registered as EPF participants.
2. Integrated Database between the Ministry of Manpower, Immigration Office and EPF
   The database of existing companies facilitates enforcement, namely that companies with more than seven employees must register their employees with EPF.
3. Large employee and employer contributions
   The contributions are as follow:
   Salary ≤ RM5,000 per month, employee contribution is 11% and employer contribution in 13%.
   Salary > RM5,000 per month, employee contribution is 11% and employer contribution in 12%.
   With such large contributions, the EPF accumulates around RM5 billion per month, equivalent to USD1.25 billion.
4. EPF program flexibility: conventional and sharia-compliant.
5. Transparent asset management and access to participant accounts
   The participants can refer to the EPF financial statements on a monthly basis, with access to an online application, to check the balance and yield of the pension fund.
6. Fund management governance as follows: (i) medium-term target return; (ii) investment decision-making through a board of directors and investment committee; and (iii) stable minimum dividend target to cover 2.5% inflation.
7. Voluntary Private Retirement Scheme (PRS) option in addition to the mandatory Old Age Savings. Striving to encourage public participation, Malaysia's Government provides additional incentives for each new PRS account opened.

The policies instituted by the Malaysian Government should be considered for the national pension fund development strategy in Indonesia to induce participation. Furthermore, the investment policy should be oriented towards supporting economic development.

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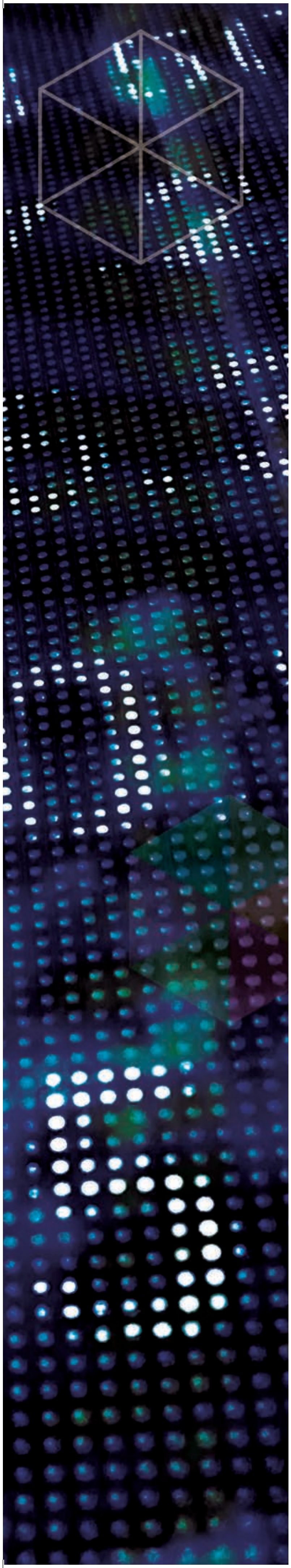
3.570-3.610
932.20
13.120
+1.020
12.060-13.340
22.700
22.050-22.800
9.350
+0.050
+0.538%
9.220-9.380
216.42M
162.27M
1.23B


22.50
112.00
-0.42%
234.00
-2.05%
239.00
4.28%
14.50



4

SOURCES OF INFRASTRUCTURE DEVELOPMENT FINANCING

9 Instrument Variations Supporting Infrastructure Financing

The financial market authorities have compiled various strategies to develop financial instruments, thereby backing development financing that entails large costs. Of the various strategies, there are nine potential instruments to support infrastructure development financing.

ASSET-BACKED SECURITIES

Advantages

- Ease balance sheet leverage burden

Prerequisites for Development

- Strengthened SPV Scheme and tax regulatory harmonization

PROJECT BONDS

Advantages

- Promote financing flexibility that accommodate infrastructure project payoff profile, for instance longer tenor and cash flow characteristics

Prerequisites for Development

- Refined regulation on project bonds issuance and strengthened credit enhancement scheme

MANDATORY CONVERTIBLE BONDS

Advantages

- Lower coupon payments that commensurate characteristic of project cash flow while still provide return to investor,
- Debt to equity conversion precipitate lower leverage profile

Prerequisites for Development

- Robust tax scheme

SOURCE: **MOF, BI, OJK**

IDR-LINKED BONDS

Advantages

- Expands the global investor base without exposing the issuers to currency risk.

Prerequisites for Development

- Robust tax scheme and government backing.

INFRASTRUCTURE INVESTMENT AND REAL ESTATE FUNDS

Advantages

- Expands the institutional investor base seeking exposure to infrastructure assets.

Prerequisites for Development

- Efficient tax schemes and education for the investors.

GREEN BONDS

Advantages

- Targets investors with a particular mandate seeking exposure to environmentally friendly (green) infrastructure projects.

Prerequisites for Development

- Identification of green infrastructure projects and education for the investors.

WAQF-LINKED SUKUK

Advantages

- Lower interest rates on infrastructure funding because the financing originates from waqf funds.

Prerequisites for Development

- Coordinated accumulation of waqf funds.
- Education for the public and Nadzir on placing waqf funds in sukuk.
- Regulatory amendments.

SUKUK-LINKED WAQF

Advantages

- Optimises unproductive assets, such as waqf land, as the underlying assets of sukuk issuances.

Prerequisites for Development

- Inventory of waqf assets and public education.

IJARAH ASSETS TO BE LEASED SUKUK

Advantages

- Provides flexibility to project originators to commission and rent infrastructure assets under construction.

Prerequisites for Development

- Harmonisation of the tax regulations and education for the investors.

Infrastructure development requires a large accumulation of funds. Therefore, state-owned enterprises or private corporations mandated to develop infrastructure projects cannot merely rely on internal cash flow but must also seek external funding sources.

Limited funding support from the state budget and restrained financing capacity from the banking industry forces state-owned enterprises and private corporations to seek innovative funding. Other affecting factors include constraints to conventional funding through bank loans because of the mismatch between long-term infrastructure project investment and short-term bank deposits. Innovative funding entails several capital market instruments.

Chapter III of the Financial Market Development Strategic Action Plan (SAP) contains various conventional and sharia-compliant funding initiatives for review, the benefits of which would support infrastructure development.

4.1 Securitisation of Asset-Backed Securities

4.1.1. SECURITISATION OF ASSET-BACKED SECURITIES

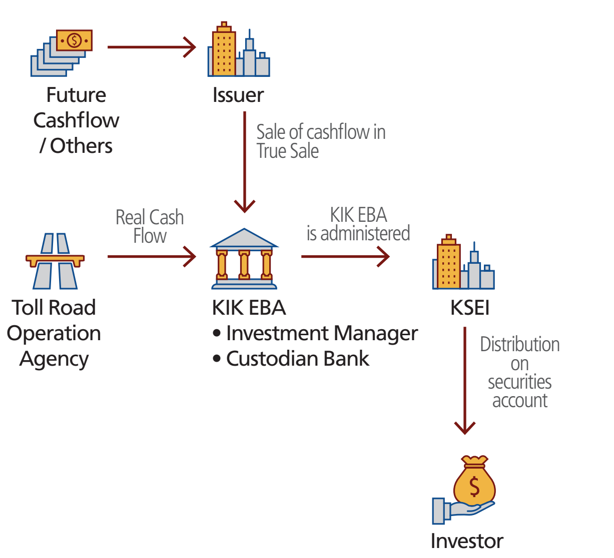
The securitisation process of Collective Investment Contracts - Asset-Backed Securities (KIK-EBA) begins with the transfer or sale of financial assets by the originator in the form of receivables or securities to the investment manager. The investment manager subsequently signs an agreement with a custodian bank and offers the KIK-EBA to investors. After cash flow from the securitised asset is realised, the originator will periodically submit the cash flow to the collective investment contract, which is passed on to the investor or contract holder (Figure 4.1.1).

In addition to KIK-EBA, another variation of securitisation is available through asset-backed securities in the form of participatory notes (EBA-SP). EBA-SP are comparatively limited in terms of housing financing in the secondary market (Figure 4.1.2).

Advantages:

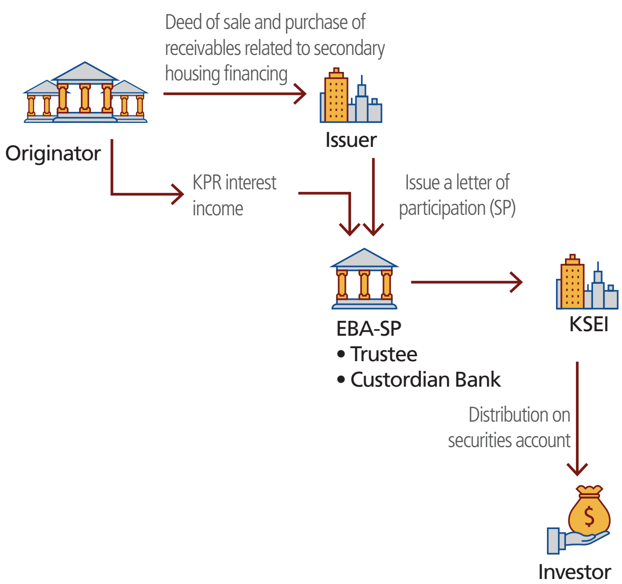
- The originator receives cash flow for new infrastructure projects.
- The originator may repay outstanding bank loans previously used for a greenfield project.
- Although the originator is recorded as the fund beneficiary of the securitised EBA, the liabilities might be not recorded in the debt service coverage ratio (off-balance sheet) because the instrument is non-interest bearing.
- Compared to conventional funding, such as bond issuances, securitised EBA reduce pressure to increase leverage on the corporate balance sheet.

Figure 4.1.1. KIK-EBA SCHEME



SOURCE: **BI, OJK**

Figure 4.1.2. KIK-EBA SP SCHEME



SOURCE: **BI, OJK**

Prerequisites for Development:

- Liquid primary and secondary debt security markets to ensure active KIK-EBA trading and high transaction volume.
- Solid alternative SPV schemes.
- Efficient taxation.
- The imposition of tax on the securitisation of future cash flow must be more efficient, for instance in terms of the VAT object. Concerning income tax, the authorities will review schemes to reduce the disincentives of potential double taxation or apply special rates during the initial development of the investor base for KIK-EBA and EBA-SP.

4.1.2. PROJECT BONDS

Project bonds are repaid exclusively from project cash flows. In general, project bonds are issued by SPVs in the form of trustees. Nevertheless, because the Indonesian legal system does not recognise trustees, project bonds are typically issued by SPCs.

Advantages:

Flexibility in the funding structure commensurate with the underlying project. With project bonds, the need for specific project funding, such as a long-term funding tenor, fixed interest rate or a bespoke principal and interest repayment structure in line with the project cash flow, can be accommodated.

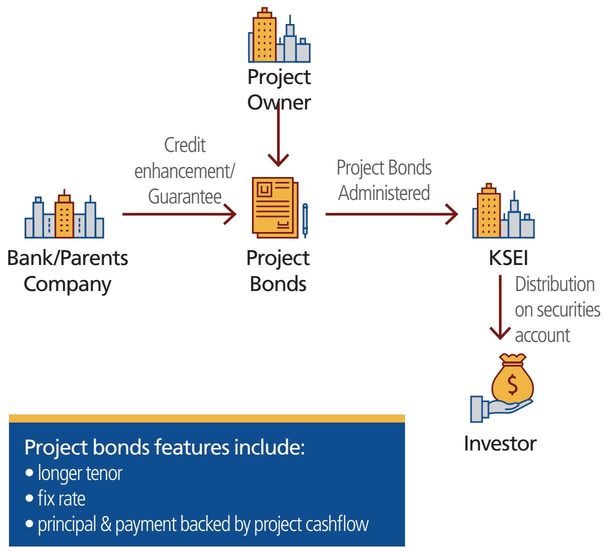
Prerequisites for Development

- Provision of credit enhancements from the project owner (sponsor company) or other financial institution that is more credible in order to strengthen credibility and reduce interest expenses.
- Specific regulations for project bonds and a solid SPV scheme.

4.1.3. MANDATORY CONVERTIBLE BONDS (MCB)

MCB are structured bonds that have a required conversion or redemption feature into equity either on or before the contractual conversion date, usually after the project is operational. Initially, the investor will receive a comparatively low coupon until the MCB is converted into equity. After conversion, the MCB investor receives an additional higher return from the dividend payment. To set-off lower coupon disadvantages, conversion price of the stock will be set lower than the anticipated market price to entitle bond holders adequate capital gain.

Figure 4.1.3. PROJECT BONDS SCHEME



SOURCE: **BI, OJK**

Advantages:
- Converting the bond into equity reduces leverage.
- High return for the investor at the beginning of the project.
- Project funding may be adjusted to the long tenor and company cash flow profile at the beginning of the project.

Prerequisites for Development:

Solid MCB regulations and tax rules to ensure greater issuer and investor efficiency.

4.1.4. IDR-LINKED BOND

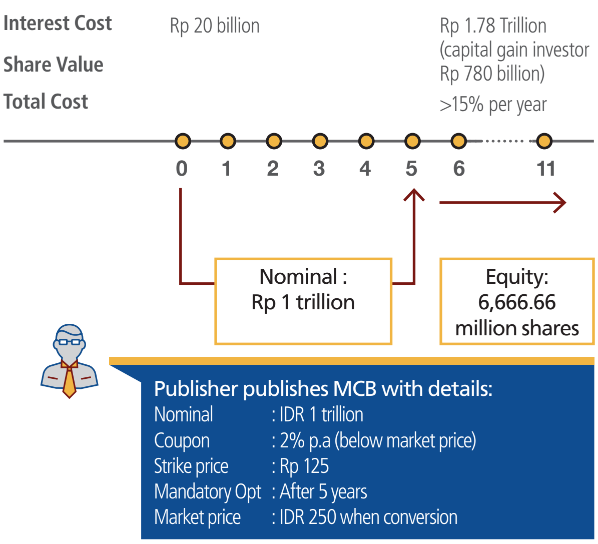
IDR-linked bonds are global bonds issued by Indonesian companies operating internationally denominated in rupiah and registered at an offshore stock exchange. In general, the underlying documentation refers to Regulation S or 144A. Companies offering IDR-Linked bonds are not exposed to currency risk because the obligations remain denominated in rupiah despite the international nature of the bond.

Advantages:
- Tapping new investors.
- No exposure to currency risk for the issuer.

Prerequisites for Development:
- Efficient taxation

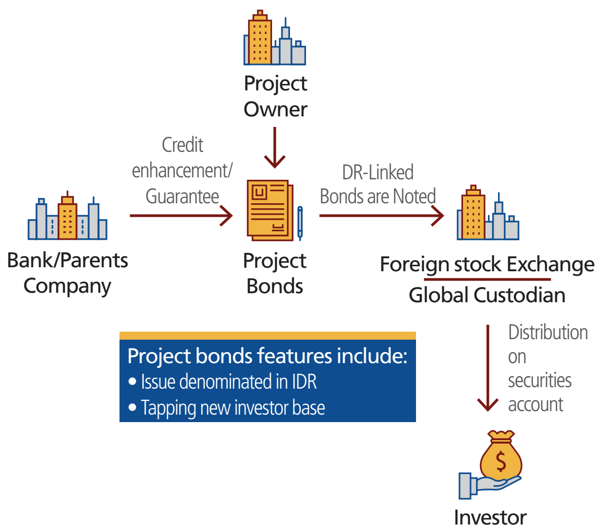
  The issuer bears the comparatively high tax expense and

Figure 4.1.4. ILLUSTRATION OF MANDATORY CONVERTIBLE BOND



SOURCE: **BI, OJK**

Figure 4.1.5. IDR-LINKED BONDS SCHEME



SOURCE: **BI, OJK**

offering cost of the IDR-linked bond. A final income tax rate of 20% of the coupon is applied. Double taxation is a possibility if the buyer is a domestic entity due to limited tax administration for financial instruments issued offshore. In this case, the authorities would need to coordinate and refine the treatment of tax for such instruments, thus creating a level playing field and efficient offering costs, while also drawing the attention of investors.

4.1.5. COLLECTIVE INVESTMENT CONTRACTS (KIK) - PRIVATE EQUITY FUNDS (RDPT), REAL ESTATE INVESTMENTS (DIRE) AND INFRASTRUCTURE INVESTMENT FUNDS (DINFRA)

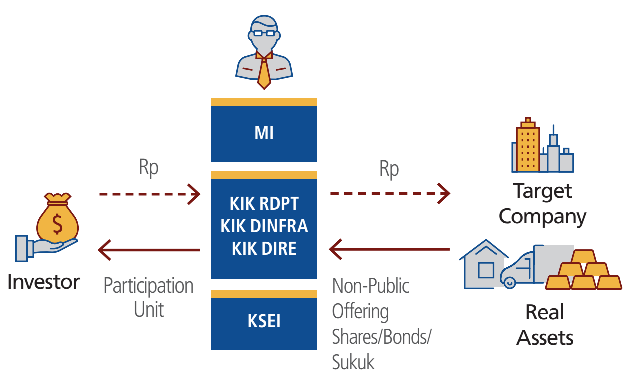
The RDPT/DINFRA scheme is similar to mutual funds but with different underlying assets and offering mechanisms. The three KIK instruments may be used to draw funds from institutional investors to infrastructure projects.

Advantages:
Relevant for institutional investors or professionals invested in conventional financial assets looking to diversify into infrastructure assets.

Prerequisites for Development:

- Efficient Tax Treatment
  The tax regulations require harmonisation for the further development of RDPT, DIRE and DINFRA products. Regulatory harmonisation is required to eliminate potential double taxation on the same cash flow. The authorities will coordinate to implement efficient and consistent tax regulations amongst the various collective investment contracts with similar characteristics.
- Education for Investors
  One challenge currently faced is a lack of investor understanding regarding DINFRA/DIRE products. Therefore, the authorities will cooperate with the stakeholders to enhance investor understanding, particularly institutional investors, through a series of focused and targeted education programs.

Figure 4.1.6. INVESTMENT/INFRASTRUCTURE FUND SCHEME



SOURCE: **BI, OJK**

4.1.6. GREEN BOND

Green bonds are an alternative capital market financing instrument for infrastructure projects with a positive environmental benefit. Such instruments are attractive to investors with an impact investing mandate.

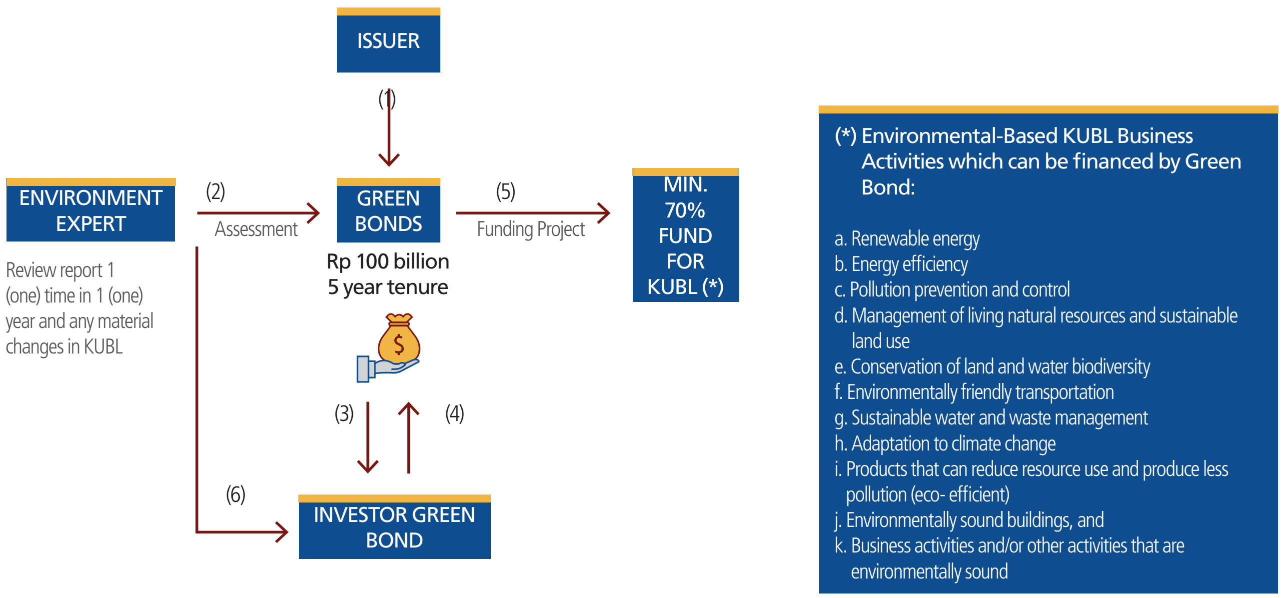
Advantages:

Targets investors mandated for exposure to green infrastructure projects.

Prerequisites for Development:

- Identification of underlying green projects funded through the state budget.
- Education of market players.

Figure 4.1.7. GREEN BONDS ISSUANCE



SOURCE: **BI, OJK**

4.2 Sharia-Compliant Products

4.2.1. WAQF-LINKED SUKUK

Waqf funds could be utilised to buy government sukuk or corporate sukuk in order to finance public and private infrastructure projects, with the returns used to support zakat institutions. There are currently two business models for waqf-linked sukuk development as follows:

A. Business Model 1:

NOTES:

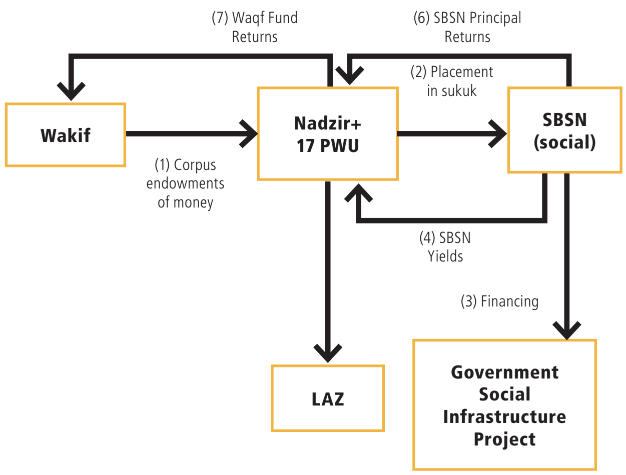
1. The Waqif transfers the waqf funds to the Nadzir.
2. The waqf funds are invested in Government Islamic Securities (SBSN).
3. The proceeds from selling the SBSN are used by the government to fund social projects.
4. The return from the SBSN is paid to the Nadzir.
5. The Nadzir transfers the return to the Amil Zakat Institution (AZI) as shodaqoh (social funds).
6. Upon maturity, the government repays the SBSN principal to the Nadzir.
7. The Nadzir returns the waqf principal to the Waqif.

B. Bisnis Model 2:

NOTES:

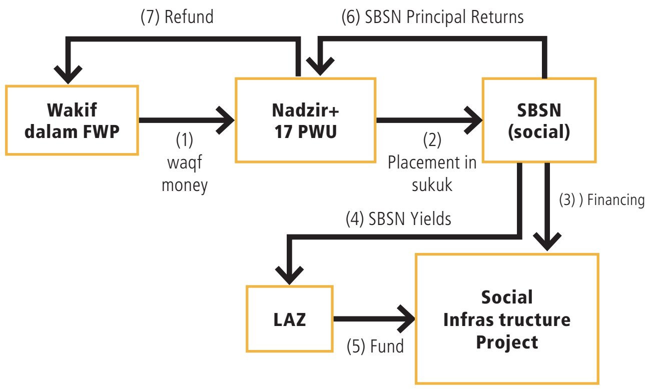
1. As part of the Productive Waqf Forum (FWP), the Waqif transfers the waqf funds to the Nadzir.
2. The waqf funds are invested in Government Islamic Securities (SBSN).
3. The SBSN are used to fund a social project developed through coordination between the government and Amil Zakat Institution (AZI).

Figure 4.2.1. WAQF-LINKED SUKUK – BUSINESS MODEL 1



SOURCE: **BI, OJK**

Figure 4.2.2. WAQF-LINKED SUKUK – BUSINESS MODEL 2



SOURCE: **BI, OJK**

4. The return on the SBSN is transferred to the Amil Zakat Institution (AZI).
5. The Amil Zakat Institution (AZI) uses the return to fund the project.
6. Upon maturity, the government repays the SBSN principal to the Nadzir.
7. The Nadzir returns the principal waqf to the Waqif.

ADVANTAGES:

Government:

- The waqf sector contributes to government project development via SBSN purchases.
- Via the Nadzir, waqif are new investors in the sukuk market (SBSN).

Amil Zakat Institution (AZI):

- Synergy between the waqf and zakat sectors.
- Zakat institutions receive social funds (shodaqoh) for social projects/activities.
- The social projects/activities of AZI and government projects have a multiplier effect on the economy (commercial and social sectors).

Waqif:

- Temporary utilisation of waqf funds for the community through social project financing.
- The funds are returned to the waqif upon maturity.

PREREQUISITES FOR DEVELOPMENT

- Pooling of waqf funds, as waqf funds are not concentrated
- Regulatory amendments.
- Education for the public.

4.2.2. SUKUK-LINKED WAQF

According to the sukuk-linked waqf model, certificated waqf land may be used as the underlying asset for sukuk issuances. Through sukuk-linked waqf, infrastructure may be built on unproductive waqf land to be leased and generate a return. The funds used to build the infrastructure on the waqf land would originate from sukuk issuances. The sukuk-linked waqf business model is presented in the Box: Sukuk-Linked Waqf in Chapter 3.7 – Islamic Financial Markets.

PREREQUISITES FOR DEVELOPMENT :

- Inventory the waqf assets
- Refine the regulations
- Educate the public

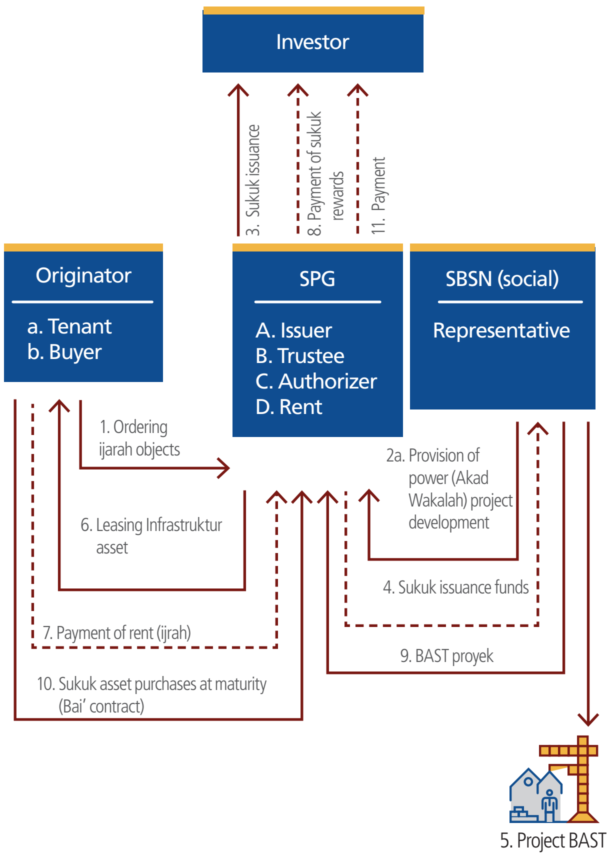
4.2.3. IJARAH ASSETS TO BE LEASED SUKUK

This scheme may be used to fund commercial infrastructure. According to the scheme, the originator may lease future (infrastructure project) assets in line with the construction phase. The development model for Ijarah assets to be leased sukuk is as follows:

NOTES:

1. The originator commissions the SPC to construct infrastructure assets.
2. The SPC instructs the contractor to construct the infrastructure assets according to a wakalah contract.
3. The SPC issues and sells the Ijarah assets to be leased

Figure 4.2.3. IJARAH ASSETS TO BE LEASED SUKUK MECHANISM



SOURCE: **BI, OJK**

sukuk to the investor.

4. The proceeds of the sale are transferred by the SPC to the contractor to construct the infrastructure project.
5. The contractor constructs the infrastructure project.
6. The SPC enters an Ijarah assets to be leased sukuk contract with the originator.
7. The originator pays the ujroh to the SPC during the construction phase.
8. The SPC transfers the return on the sukuk to the investor.
9. After construction has been completed, the contractor hands over the infrastructure asset to the SPC accompanied by a Handover Letter (BAST).
10. The originator purchases the infrastructure asset from the SPC in accordance with a Bai' contract.
11. The proceeds of the sale are used by the SPC to repay the principal sukuk.

ADVANTAGES :

- A large outlay is not required from the originator to construct the project.
- From the investor's perspective, the fixed return received from the leasing cost has been previously agreed between the originator and the SPC.

PREREQUISITES FOR DEVELOPMENT :

- Harmonisation of the tax regulations
- Education offered to the investors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3.570-3.610
13.120
+1.020
22.700
9.350
+0.050
+0.538%
9.220-9.380
932.20
1.23B
216.42M
162.27M


22.50
12.00
234.00
239.00
4.29%
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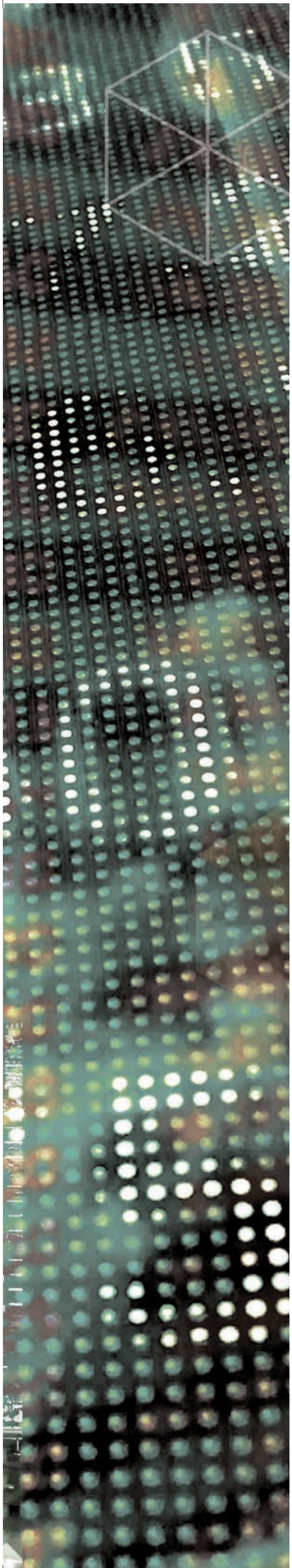

5 APPENDIX

5.1 Government Bond Market

	STRENGTHENING THE FOUNDATIONS 2018-2019	ACCELERATING 2020 - 2022	DEEPENING 2023 - 2024
KPI	**Government Bond Turnover: 4.82**	**Turnover Govt bonds: 5.02**	**Turnover Gov bonds: 5.11**
Pillar 1	• Develop online Retail SBN distribution channels • Encourage local government to issue municipal bonds/sukuk • Develop government bond derivatives (Indonesia Government Bond Futures - IGBF) • Develop thematic bonds	• •Optimise issuances of infrastructure debt securities to support priority sector funding • Optimise issuances of green bonds to support sustainable funding • Optimise issuances of municipal bonds/sukuk	• Optimise issuances of debt security variations
Pillar 2	• Expand participation in the Bond Stabilisation Framework (BSF) • Develop the Electronic Trading Platform (ETP)	• Optimise the ETP system for government bonds	• Expand ETP utilisation
Pilar 3	• Harmonise tax regulations in the financial sector (including uniform rates and calculation mechanisms) • Optimise the trading role of financial services institutions • Continuous education and socialisation efforts	• Harmonise tax regulations in relation to uniform rates and calculation mechanisms • Continuous education and socialisation efforts	• Continuous education and socialisation efforts

5.2 Pasar Obligasi Korporasi

	STRENGTHENING THE FOUNDATIONS 2018 – 2019	ACCELERATING 2020 - 2022	DEEPENING 2023 - 2024
KPI	**Growth of Corporate Bond Issuance Value: 20% per year**	**Growth of Corporate Bond Issuance Value: 20% per year**	**Growth of Corporate Bond Issuance Value: 20% per year**
Pilar 1	• Simplify the public offering process for debt securities • Develop project bonds to support infrastructure funding in priority sectors • Develop green bonds to support sustainable funding • Develop the role of EBUS intermediaries • Develop debt securities for state-owned enterprises and village-owned enterprises (BUMD), including subsidiaries, as well as for small and medium enterprises (SMEs) • Develop instruments offered to professional investors and instruments offered through private placements	• Develop debt securities offered through private placements • Develop municipal bonds • Optimise project bonds to support infrastructure funding in priority sectors • Optimise issuances of green bonds to support sustainable funding • Expand the role of EBUS intermediaries to increase corporate bond market liquidity	• Optimise issuances of debt security variations

	STRENGTHENING THE FOUNDATIONS 2018 – 2019	ACCELERATING 2020 - 2022	DEEPENING 2023 - 2024
Pillar 2	• Apply e-registration for public offerings • Develop electronic book building for public offerings • Develop Electronic Trading Platform (ETP) infrastructure and regulations for corporate bonds (complemented with regulations concerning Alternative Market Operators) • Develop the repurchase agreement (repo) market (market standards and triparty repo)	• Implement electronic book building for public offerings • Optimise the ETP system for corporate bonds • Integrate the pre-trade and post-trade ETP for corporate bonds	• Expand ETP utilisation
Pillar 3	• Harmonise tax regulations in relation to uniform rates and calculation mechanisms • Continuous education and socialisation efforts	• Harmonise tax regulations in relation to uniform rates and calculation mechanisms • Continuous education and socialisation efforts	• Harmonise tax regulations in relation to uniform rates and calculation mechanisms • Continuous education and socialisation efforts

5.3 Stock Market

	STRENGTHENING THE FOUNDATIONS 2018 – 2019	ACCELERATING 2020 - 2022	DEEPENING 2023 - 2024
KPI	• **Additional issuers: 45** • **Additional investors: 370,000**	• **Additional issuers: 50** • **Additional investors: 850,000**	• **Additional issuers: 35** • **Additional investors: 600,000**
Pilar 1	• Encourage stock offerings by small and medium enterprises (SMEs) • Develop intermediaries through Regional Securities Companies and stratification, including settlement agents and account operators • Encourage state-owned enterprises and village-owned enterprises (BUMD) to conduct public offerings • Develop equity crowdfunding policy • Develop alternative securities funding • Simplify the account opening process through third-party KYC principles. • Expanding the marketing network for securities through cooperation with financial services institutions and other parties	• Develop the equity derivatives market • Implement securities company stratification, including general clearing members • Optimise the benefits of securities funding	• Optimise the derivatives market • Develop general clearing members • Expand securities funding services

	STRENGTHENING THE FOUNDATIONS 2018 – 2019	ACCELERATING 2020 - 2022	DEEPENING 2023 - 2024
Pillar 2	• Apply e-registration for public offerings • Develop electronic book building for public offerings • Increase the secondary market capacity and efficiency (apply T3 to T2)		
Pillar 3	• Coordinate polices relating to taxation • Education and socialisation efforts directed towards issuers and investors	• Continuous education and socialisation efforts • Increase the credibility of issuers • Improve the competence of capital market supporting professions and supporting financial institutions	• Continuous education and socialisation efforts

5.4 Structured Products Market

	STRENGTHENING THE FOUNDATIONS 2018 – 2019	ACCELERATING 2020 - 2022	DEEPENING 2023 - 2024
KPI	**AUM Growth of Structured products: 10% per year**	**AUM Growth of Structured products: 10% per year**	**AUM Growth of Structured products: 10% per year**
Pillar 1	• Facilitate the establishment and development of real sector-based investment products • Strengthen risk management for structured products	• Expand the distribution channels for structured products through cooperation with institutions or companies with access to broad networks	• Optimise the distribution channels for structured products in order to expand the investor base
Pillar 2	• Develop an Investment Management Industry Centre • Provide an integrated TAPERA and investment management industry information system.	• Develop an Investment Management Industry Information Centre for the stakeholders	• Optimise the investment management industry information system in terms of investment management product transactions • Integrate the investment management industry information system with the customer securities system to facilitate reporting to the customers
Pillar 3	• Harmonise tax regulations for structured products, including uniform rates and calculation mechanisms • Education and socialisation on structured products, including mutual funds and other investment products	• Education and socialisation on structured products, including mutual funds and other investment products	• Education and socialisation on structured products, including mutual funds and other investment products

5.5 Money Market

	STRENGTHENING THE FOUNDATIONS 2018-2019	ACCELERATING 2020 - 2022	DEEPENING 2023 - 2024
KPI	**Outstanding Transactions: 3-4% of GDP**	**Outstanding Transactions: 4-6% of GDP**	**Outstanding Transactions: 6-8% of GDP**
Pillar 1	• Increase interbank and other repo market transaction activity • Increase variations of short-term debt securities for the private sector • Increase interest rate derivative transaction activity (IRS) • Increase the capacity and capabilities of intermediaries (PPU and PE)	• Expand participation of nonbank financial institutions in money market instruments and their derivatives (IRS) • Strengthen the role of intermediaries (PPU and PE) • Develop securitisation-based debt securities	• Develop non-IRS interest rate derivative products • Expand the role of domestic market players to mitigate the role of non-resident investors • Strengthen securitisation-based debt securities
Pillar 2	• Formulate money market yield curve as a reference rate for risk-free assets • Develop the ETP transaction system and trade repository in the money market	• Formulate money market yield curve for risky assets • Integrate money market infrastructure system from pre-trade to reporting • Strengthen the dissemination of pricing information	• Expand CCP coverage to money market products • Integrate the financial market trade repositories in Indonesia
Pillar 3	• Resolve the tax issues to provide clarity and uniform tax regulations for all market players • Provide capacity building on repo transactions and implement socialisation activities for short-term debt instruments • Implement treasury certificates for market players	• Resolve the tax issues (transactions, PU instruments and their derivatives) • Provide capacity building and socialisation for money market instruments • Implement treasury certificates for the banking industry	• Provide capacity building and socialisation for money market products and interest rate derivatives • Resolve the tax issues (transactions, PU instruments and their derivatives)

5.6 Foreign Exchange Market

	STRENGTHENING THE FOUNDATIONS 2018 – 2019	ACCELERATING 2020 - 2022	DEEPENING 2023 - 2024
KPI	**Average daily FX volume: 2% of trade flows Composition of derivatives: 42.5% of turnover**	**Average daily FX volume: 2.5% of trade flows Composition of derivatives: 48.2% of turnover**	**Average daily FX volume: 3% of XM Derivatives Composition of derivatives: 50% of turnover**
Pillar 1	• Expand the hedging role of nonbank corporations against foreign exchange exposure • Build international cooperation to use local currency settlement (LCS) and direct trading • Develop hedging instruments, such as swap linked to deposits and call spread options	• Promote the use of alternative hedging instruments, such as swap linked investment, call spread options and cross-currency swaps • Develop the USD/IDR futures market • Optimise the role of PPU to support derivative transactions	• Develop diverse foreign exchange market derivative instruments • Expand the role of BUKU 2 banks in terms of foreign exchange transactions
Pillar 2	• Expand the use of PIDI/ISDA agreements • Establish a central counterparty (CCP) • Develop the ETP transaction system and trade repository in the foreign exchange market	• Optimise ETP for derivative transactions • Increase use of the CCP as a central clearing house for derivatives • Improve ETP and CCP interconnectivity • Meet the standards as a qualified CCP	• Expand the products and increase the transactions cleared through the internationally accredited CCP
Pillar 3	• Resolve tax regulations relating to foreign exchange transactions to support market development • Provide education and socialisation • Review and amend existing regulations to support close-out netting	• Review and coordinate the tax regulations for derivatives	• Amend bankruptcy regulations for full implementation of close-out netting

5.7 Islamic Financial Market

	FASE PENGUATAN PONDASI 2018 – 2019	FASE PERCEPATAN 2020 - 2022	FASE PENDALAMAN 2023 - 2024
KPI	• Outstanding share of Islamic money market: 1% of GDP • Growth of corporate sukuk value: 10% per year • AUM growth of Islamic investment products: 10% per year	• Outstanding share of Islamic money market: 2.5% of GDP • Growth of corporate sukuk value: 10% per year • AUM growth of Islamic investment products: 10% per year	• Outstanding share of Islamic money market: 2.5-5% of GDP • Growth of corporate sukuk value: 10% per year • AUM growth of Islamic investment products: 10% per year

	STRENGTHENING THE FOUNDATIONS 2018-2019	ACCELERATING 2020-2022	DEEPENING 2023-2024
Pillar 1	1. Islamic capital market development ● Diversify government sukuk instruments (innovate contract structure, underlying assets and types of instrument) and increase government sukuk liquidity (trade volume and frequency) ● Increase corporate sukuk volume and Islamic mutual funds ● Prepare implementation of active debt management principles for government sukuk ● Expand and increase the investor base (including haj funds/BPKH) 2. Development of sukuk-based financing models and optimisation of Islamic social finance through issuances of sukuk to finance social projects ● Develop the Islamic money market to support liquidity management ● Develop Islamic money market instruments (including Islamic monetary instruments) ● Strengthen the investor base ● Develop Islamic liquidity management ● Optimise Islamic repo and hedging transactions	1. Islamic money market acceleration ● Increase variations of corporate sukuk by state-owned enterprises and Islamic financial institutions ● Develop Islamic investment products (Islamic ABS, Islamic DIRE, including sukuk linked Islamic mutual funds) in order to boost financial inclusion ● Strengthen and diversify the investor base for government sukuk and corporate sukuk, including retail investors, towards greater financial inclusion ● Optimise social funds through sukuk issuances (social sukuk) ● Encourage Islamic institutions and organisations to optimise alternative investment and financing sources through Islamic securities 2. Increase Islamic monetary integration based on government sukuk 3. Development of global Islamic financial markets	1. Islamic money market deepening ● Apply active debt management principles for government sukuk ● Optimise the role of foreign players as issuers in the developing sukuk market ● Ensure Islamic investment products play a role in financial inclusion ● Ensure Islamic social finance plays a dominant role in supporting development financing 2. Development of an active, liquid and deep Islamic money market as well as Islamic monetary instruments that are mutually supportive with fiscal instruments 3. Indonesia to play a significant role and contribute to the global Islamic financial markets

	STRENGTHENING THE FOUNDATIONS 2018-2019	ACCELERATING 2020-2022	DEEPENING 2023-2024
Pillar 2	3. ETP Development and strengthen Islamic financial market infrastructure • Develop data information system • Develop commercial and social investor database for sukuk market • Provide a competitive pricing benchmark (real sector index) 4. Information system development for Islamic social finance 5. Increase and Strengthen governance (standardisation, code of conduct, etc)	4. ETP implementation and Strengthening of Islamic financial market infrastructure 5. Information system data implementation: • Expand commercial and social investor database for sukuk market • Implement the real sector index as the benchmark rate • Develop information systems for Islamic social finance 6. Increase and Strengthen governance (standardisation, code of conduct, etc)	4. An active and integrated ETP between Islamic and conventional financial markets, coupled with international standard Islamic financial market infrastructure 5. Active information system and data for the social and commercial sectors to support Islamic finance 6. Application of governance (standardisation, code of conduct, etc)
Pillar 3	6. Increase coordination with stakeholders and institutions through the National Committee on Islamic Finance of the Republic of Indonesia (KNKS) 7. Harmonisation of Islamic financial market regulations and supervision 8. Increase coordination with global Islamic finance stakeholders (IDB, IFSB, ICMA, IILM, IIFM, AAOIFI and so on 9. Develop the competencies of Islamic financial market regulators and players 10. Provide education and build awareness of Islamic financial products for members of the public and market players 11. Strengthen Islamic financial market research and assessments	7. Sound coordination between the authorities through KNKS towards policy actions for Islamic finance 8. Harmonisation of Islamic financial market regulations and supervision 9. Accelerating coordination between domestic regulators and players with international stakeholders 10. Established certification of Islamic finance players 11. Educated public, government and market players on Islamic financial markets 12. Research and assessments already play an important role in Islamic financial market development	7. Established coordination between the authorities through KNKS towards policy actions for Islamic finance 8. Harmonisation of Islamic financial market regulations and supervision 9. Established coordination between stakeholders in Indonesia and global market players and regulators 10. All Islamic financial market players certificated 11. Optimal public backing, including research, for Islamic financial market development

GLOSSARY

TERM	DEFINITION
CFTC	An independent United States government agency that regulates futures contracts (futures and options)
Active debt management principle	Approach in managing state sukuk actively by reducing debt risks or debt costs, for example Through swaps, repurchase/buyback, or debt switches
Alternative market organizers	An entity prothat provide system and infrastructure to market participants for Securities trading
Asabri	State owned enterprises engaged in social insurance and pension payments specifically for army soldiers, members of the national police, civil servants of the republic of indonesia,
Asset Backed Securities (EBA)	Financial instrument of which payoff provided by set of from underlying asset in forms of commercial securities such as credit card receivables, commercial receivables, including housing loans, car loans, debt securities guaranteed by the government, and cash flow
Asset management company	Companies that carry out asset management activities for the purpose of obtaining Profits
Asset-liability management	A process of planning, organizing, and supervising through collection, processing, Analysis, reporting, and setting strategies for assets and liabilities to minimize risks, including liquidity risk, interest rate risk, exchange rate risk and operational risk, in supporting the bank's acquisition of profit
Association of government securities intermediaries (himdasun)	Government bond intermediaries association consisting of banks and securities companies, aims to promote fair and transparent market prices
Awarded bids	The number of bids won over a number of offers/orders submitted at the bond auction
Bank for international settlement (bis)	International institutions that promote international monetary and financial Cooperation based in basel, switzerland
Bank Indonesia Sharia Certificate (SBIS)	Short-term securities based on sharia principles in Rupiah currency issued by Bank
Bank indonesia sharia deposit facility (fasbis)	Deposit facilities provided by bi to commercial banks to place their funds in bi under the circumstance of sharia standing facilities
Benchmark Rate	Interest rate reference used to set other interest rates
Bond	A statement of debt from the bond issuer to the bondholders along with a promise to repay the principal and interest coupons at the payment due date
Bond Futures	Derivative financial products that require the contract holder to buy or sell bonds on a specific date at a predetermined price
Bond Issuance	Issuance of fixed income type securities to the general public
Brownfield	Investments in existing/ongoing facilities that already generates cash flow
Central Counterparty (CCP)	Entity acting as clearing organizers, transaction guarantor,and risk management provider in financial markets transaction aiming to reduce systemic risk
Certificate of Deposit	Type of deposits of which its certificate ow ownership is transfereable
Clearing Guarantee Institution (LKP)	An entity conducting clearing service and guarantees for exchange transaction settlement, includes the process of generating rights and obligations arising from the exchange transaction
Close-Out Netting	A derivative transaction settlement method, where the transacting party can offset financial obligation from each other in condition of contract termination, by calculation of mark to market position and settlement by net payment.

TERM	DEFINITION
Collective Investment Contract (KIK)	Contracts between investment managers and custodian banks that bind participation unit holders for which investment managers authorized to manage collective investment portfolios and custodian banks authorized to operate collective administration and custody on behalf of them.
Commodity Futures Trading Commission	
Concession Rights	Negotiation contracts between companies and governments where companies are given the right to manage certain business projects under government jurisdiction
Corporate Bonds	Bonds issued by certain entities/business entities
Cross-Currency Swaps	Contract/agreement between two parties to exchange principal and interest rates for two different currencies for a certain period
Custodian bank	A unit in commercial banks licensed by financial services authority (ojk) to carry out custodial function (storage) activities as well as cooperate with investment managers to help administer administration, supervise and maintain mutual fund assets (safe keeping)
Customer Fund Account	Banks account on behalf customer's name, which is opened by a securities broker Or other party according to the regulations, which administers the client's securities account based on the authorization of the customer.
Debt and Sukuk Securities (EBUS)	Securities characterized as debt/sukuk of which securities owner is entitled to payment of principal and interest and other rights as stipulated in agreement
Debt securities and sukuk trading intermediaries (ppe ebus)	An entity that conducts business activities to sell and buy debt and sukuk
Debt Service Coverage Ratio (DSCR)	Ratio that measures the adequacy of available cash flows to serve principal and interest obligation
Deposit and Settlement Institution (LPP)	An entity conducting central clearing and custodian services for
Derivative instruments	Financial instrument with a value that is reliant upon or derived from an underlying asset or group of assets, ie.; interest rates, exchange rates, commodities, equity, etc.
Domestic Commercial Securities (SBK)	Government Securities (SUN) and government Sharia Securities (SBSN) issued in the Securities issued by non-bank corporations in the form of promissory notes and up to 1 (one) year period of maturitur and being registered at Bank Indonesia
E-Book Building	Activities to process bidding interest from investors electronically
Electronic Trading Platform (ETP)	Infrastructure to support electronic-based financial instrument trading
Employer Pension Fund (DPPK)	Pension funds established by employers for their own employees
Equity crowdfunding	Online-based fundraising /offering scheme where investors invest funds and Obtain a percentage of shares from the company or certain project
European market infrastructure regulation (emir)	Regulation that stipulates the requirements and standards for otc derivative contracts and establishes general rules for central clearing counterparties and Rade repositories
European securities and market authorities (esma)	The european union independent authority (eu) is an independent eu authority that contributes to enable the stability of the european union's financial system by enhancing the protection of investors and promoting stable and orderly financial markets.
Financial inclusion	A part of financial deepening program to empower people at the bottom of pyramid (Low and irregular income, living in remote areas, disabled people, blue collar workers, And marginalized communities) to be able to access formal financial products and Services such as saving & deposits, money, transfers, retail loan and personal insurance

TERM	DEFINITION
Financial stability board (fsb)	An international body formed by g-20 countries to promote international financial Stability through information exchange and international cooperation
Floating rate notes (frn)	Debt instruments with a variable/floating interest rates
Forward rate agreement (fra)	Foreign exchange between two counterparties, where the buyer is borrowing (And the seller is lending) a notional sum at a fixed interest rate (the fra rate) And for a specified period of time starting at an agreed date in the future.
Fund scheme	Funding schemes used in infrastructure financing
Fx swap	Agreement to exchange currencies between two parties in specified date in the future
Global master repo agreement (gmra)	Model legal agreement published by the international capital market association (icma),designed for parties transacting repo
Government Bonds	Bonds issued by the central government
Government Sukuk	Securities (bonds) issued by the government of the Republic of Indonesia based on sharia principles
Government Bond Futures Contract (KBSUN)	Futures contracts to hedge and and maintain the risk of investment in government bonds (SUN)
Government Securities (SBN)	Government Securities (SUN) and Government Sharia Securities (SBSN)
Green bonds	Debt securities whose proceeds are issued to finance business activities or infrastructure projects that are environmental-friendly.
Greenfield	Investment at the early stage of projects that do not generate cash flow.
Hajj Financial Management Agency (Bpkh)	Institutions that conduct
Hedging	A risk management strategy used in mitigating potential of loss from fluctuations in the asset prices or unexpected business risks.
Idr-linked bonds	Debt securities denominated in rupiah, with settlements in usd, being offered and administered on the global market
Ijarah asset to be leased sukuk	Government securities based on sharia principles function as certificate of ownership on underlying ijarah object of sukuk
Incoming bids	Bidding/orders placed for the securities auction
Indonesia	
Indonesia government bond future (igbf)	Fixed-income derivatives which require the contract holders to purchase or sell a indonesia govt. Securities on a specified date at a predetermined price.
Indonesian Clearing and Guarantee Corporation (KPEI)	An institution that conduct clearing activities and a guarantee function for exchange transaction settlements
Indonesian derivative master Agreement (pidi)	A standardized derivative master agreement used by local players in indonesia
Indonesian retail bonds (ori)	Government bonds offered to individuals or indonesian residents through an
Indonesian sharia stock index (issi)	Composite index of islamic stocks listed on the indonesia stock comrpices Registered in the list of sharia securities (des) issued by ojk
Indonesian waqf board	An independent state institution formed based on law number 41 Of 2004 concerning waqf with the aim of developing nazhir to manage waqf assets more productively
Infaq and Waqf Management Agency	An entity conducting infaq and waqf management

TERM	DEFINITION
Infrastructure Investment Fund (DINFRA)	Collective investment scheme aiming to pool fund to be invested in infrastructure-related asset class
Insurance	Agreement between the insurer and the insured, which requires the insured to pay a premium to provide compensation for the risk of loss, damage, death, or loss of expected profits, which may be suffered due to an unexpected event (insurance)
Inter-Bank Interest Rate (JIBOR)	The weighted average of Indicative rate based on contributor banks' submission that reflect the interbank borrowing and lending rate
Interbank Commodity Trading Certificate Based on Sharia Principles (SiKA)	An entitiy appointed to settle the payment transaction between the seller and the buyer
Interbank money market	Short-term inter-bank lending and borrowing activities carried out through electronic Communication networks
Interbank Mudarabah Investment Certificate (SIMA)	Units (UUS) which are used as short-term investment with mudharabah contracts traded in PUAS
Interest rate swap (irs)	Contract between two parties to exchange fixed and floating interest rate payments for The same currency for a certain period
International Swaps and Derivatives Association (ISDA)	A member-based group that sets best practices for the global derivatives contract.
Leasedhold Rights	Righs t o utilise assets through rent contract
Limited investment fund (rdpt)	The type of mutual fund investment used to raise funds from professional investors And invested in non-listed securities or portfolios that might directly related to the project, eg real sector, infrastructure sector and others
Liquidity Provider	An entity providing funds for third parties to serve short-term liquidity needs
List of Clearing Proceed (DHK)	An electronic document that contains details on the rights and obligations of securities and/or the cash for each clearing member in the context of settlement of exchange transactions, including the amount of guarantee fund contribution
Mandatory Convertible Bonds (MCB)	Convertible bond with embedded mandatory conversion or redemption feature. Either on or before a contractual conversion date, the holder must convert the mandatory convertible into the underlying common stock.
Margin Management	The method used to control the net profit margin by managing the risk arising from the changes of input or output costs
Market operator	An entity providing and organizing facilities to conduct transactions in certain markets
Master Repo Agreement (MRA)	Supervisory Agency and Financial Institution to conduct transaction of Government Securities (SUN) outside the Stock Exchange
Medium Term Notes (MTN)	A corporate debt security offered by an agent of the issuer, usually matured in 1 to 5 years and registered on Indonesian Central Securities/Custodian Depository
Mini Sharia MRA	Legal agreement domestic repo transactions issued by a party that has obtained an operating license from the Capital Market Supervisory Agency and Financial Institution to conduct transaction of Government Securities (SUN) outside the Stock Exchange

TERM	DEFINITION
Musyarakah	Financing based on the agreement between two parties or more for a particular business, where each party contributes funds and the risks/return will be shared based on predefined agreement
Mutual fund securities selling agent (aperd)	Entity that sells mutual fund securities is based on a agreement with investment manager
Net Asset Value (NAB)	The value of a mutual fund that calculated by deducting the fund's liabilities from the market value of all of its shares and then dividing by the number of issued shares.
Non-bank financial industry (iknb)	Industry that offer financial services, but do not hold banking licenses and cannot accept Deposits. Insurance companies, brokerage firms, and companies offering microloans are Examples of non-bank financial institutions.
Otc derivative	Contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary.
Over the counter (otc)	Financial transaction conducted out of the exchange
Overnight index swap (ois)	The index used as a reference for interest rate hedging transactions with a tenure Under 1 year
Pension Plan (JHT)	Benefits of cash paid at lump-sum when participants enter retirement period, die, or experience total permanent disability
Plain vanilla	Plain vanilla characterizes basic or standard version of a financial derivative which generally only have 1 (one) underlying asset and simplecontract features (for example: options, futures, swaps)
Post trade	The process conducted after the execution of financial transactions
Pre trade	The process conducted before the execution of financial transactions
Private placement	The placement of certain capital/funds in a company through the purchase of assets/Securities where the transaction occurs in the negotiatiable market/over the counter
Project bonds	Bonds issued to finance certain projects, where coupon and interest payments are solely obtained from project cash flows with non-recourse basis
Public offering	Securities offering activities conducted by issuers to sell securities to the public
Real Estate Investment Fund (DIRE)	Collective investment scheme aiming to pool fund to be invested in real estate-related asset class
Regional Bond	Bonds issued by regional government or municipal
Regional Sukuk	Sharia securities issued by regional governments
Repurchase agreement (repo)	Type of short-term loan used in the money markets, whereby the seller of a security agrees to buy it back at a specified price and time. The seller pays an interest rate, called the repo rate, when buying back the securities
Right issue	Rights to buy additional securities (including shares and warrant) in a company made to the company's existing security holders before being offered to the public/ other parties
Rights to future revenue	Contractual rights to obtain cash flow or income that will occur in the future period
Rights to receivables	Contractual rights to obtain cash flow generated from certain receivables pledge as Underlying
Risk-Free Reference Rate (RFRs)	Rate of return of a hypothetical investment with no risk of loss, over a given period of time and generally being used as reference of financial contract

TERM	DEFINITION
S-INVEST	Integrated investment management system that integrates end-to-end investment processes from initial transaction to the reporting management,.
Secondary market	The market where previously issued securities, such as stocks and bonds, Are traded among investors
Securities Lending	Securities lending and borrowing transactions within a specified period that requires the borrower to include collateral (can be in the form of cash, other securities, or L/C)
Securities and Exchange Commission (SEC)	An independent body from the government of United States of America that has the primary responsibility for overseeing the implementation of regulations in the field of securities trading and regulating the trading market on the stock exchange
Securities Funding Institution (LPE)	An entity providing financing for securities transaction
Self Regulatory Organization (SRO)	An entity given the authority by the Act to make and set rules for its members
Sharia Commercial Bank (BUS)	Banks carry out business activities based on sharia principles, or islamic legal principles regulated in the fatwa of the indonesian ulema assembly
Sharia Deposit Certificate (SDS)	an instrument issued by banks with a fixed maturity date, specified return, can be issued in any denomination and transferrable.
Sharia insurance	Insurance scheme based on sharia principles characterized by help-to-help efforts (ta'awuni) and mutual protection (takafuli) among participants through the formation of a pool of funds(tabarru 'funds) managed according to sharia principles
Sharia interbank money market (puas)	Interbank short-term funding and lending activities based on sharia principles in both rupiah and foreign currencies
Sharia Pension Fund	Pension fund with all activities carried out based on sharia principles
Sharia repo	Repo contracts under sharia principles
Single Investor Identification (SID)	Single and unique codes issued by KSEI that are used by customers, investors, and / or other parties based on applicable regulations for conducting activities related to securities transactions and / or using other services provided by KSEI or by other parties based upon KSEI approval or applicable regulation
Social security administrator (bpjs)	An entity established to organize social security programs in indonesia According to law number 40 of 2004 and law number 24 of 2011
Social security administrator employment (bpjs ketenagakerjaan)	Public programs that provide protection for workers to overcome certain socio--economic risks and their implementation using social insurance mechanisms
Special Purpose Vehicle (SPV)	A subsidiary company with a limited purpose or operation, and the legal status it's asset or liabilities is separate from the parent company
Structured Product	Non-conventional financial products structured in such a way based on the particular needs and objectives of a customer
Sukuk	Sharia securities of equal denomination representing individual ownership interests in a portfolio of eligible existing or future assets and represent an inseparable or undivided part (syuyu'/undivided share), over the underlying asset
Third Party Funds (DPK)	Funds collected by banks, consisting of demand deposits, savings and time deposits
Waqf Linked Sukuk	Fixed income instruments issued based on sharia principles using waqf assets as underlying collateral
	Intermediary with a low investment subscription value