

Q&A

Regulation of Member of Board of Governors Number 22/20/PADG/2020 on Settlement for Bilateral Transactions Between Indonesia and Japan Using Rupiah and Yen through Bank.

1. What is the meaning of Local Currency Settlement (LCS) framework using Rupiah and Yen?

- Local Currency Settlement (LCS) Using Rupiah and Yen means settlement of bilateral transactions by business entities in Indonesia and Japan using rupiah and yen.
- Example: the settlement of trade between Indonesia and Japan may be conducted in rupiah through the bookkeeping method, however the rupiah settlement is still conducted in Indonesia. Conversely, if the trade between Indonesia and Japan is conducted in Yen, the transaction is settled in Japan.

2. How is the implementation of LCS framework between Indonesia and Japan?

- Appointed Cross Currency Dealer (ACCD) is a bank appointed by the authority of both countries to facilitate LCS implementation through opening of Yen account and rupiah account in each country.

3. Is it possible for Indonesian ACCD Bank to receive an opening of more than 1 (one) Rupiah SNA at Japanese ACCD Bank?

- Indonesian ACCD Bank may only accept opening of 1 (one) Rupiah SNA from each Japanese ACCD Bank (one-to-many relationship).
- Example: Bank X as Japanese ACCD Bank opens Rupiah SNA at Bank A as Indonesian ACCD Bank; therefore, Bank X may not open another Rupiah SNA at Bank A. However, Bank X may open Rupiah SNA at another Indonesian ACCD

Bank as long as Rupiah SNA held at each Indonesian ACCD Bank is only 1 (one) account.

4. Is it possible for Indonesian ACCD Bank to open more than 1 (one) Yen SNA at Japanese ACCD Bank?

- Indonesian ACCD Bank may only open 1 (one) Yen SNA at each Japanese ACCD Bank (one-to-many relationship).
- Example: Bank A as Indonesian ACCD Bank opens Yen SNA at Bank X as Japanese ACCD Bank, so that Bank A may not open another Yen SNA at Bank X. However, Bank A may open Yen SNA at another Japanese ACCD Bank as long as Yen SNA held at each Japanese ACCD Bank is only 1 (one) account.

5. What is the balance of Rupiah SNA that must be maintained by Japanese ACCD Bank at Indonesian ACCD Bank?

- The aggregate balance of Rupiah SNA of each Japanese ACCD Bank at Indonesian ACCD Bank is limited to the highest amount of Rp1,000,000,000,000 (one trillion rupiah) at the end of the Day.

6. What if the at-the-end-of-the Day balance in Rupiah SNA of Japanese ACCD Bank exceeds the predetermined nominal amount?

- Rupiah SNA balance may exceed the amount of Rp1,000,000,000,000 (one trillion rupiah) at the end of the Day provided that Indonesian ACCD Bank receives the document from Japanese ACCD Bank evidencing that the excessive Rupiah SNA balance will be used to pay any of the following:
 - i. Underlying Transaction between Indonesia and Japan; or
 - ii. investment in financial instruments in rupiah,on the following Day.

7. What are financial instruments prohibited from being invested for management of Yen SNA balance and Yen Sub-SNA balance?

- Deposit;
- Savings;
- Deposit certificate; or
- Any other equivalent form.

8. ACCD Bank may facilitate financial activities and financial transactions with LCS customers. What are financial activities and financial transactions which may be conducted by ACCD Bank?

Financial Activities:

- opening of Rupiah SNA and Yen SNA;
- opening of Rupiah Sub-SNA and Yen Sub-SNA;
- fund transfer; and
- Financing.

Financial Transactions:

- Tod, tom, spot transactions;
- Forward transactions;
- Swap transactions;
- other transactions determined based on agreement between Bank Indonesia and the Japanese authority.

9. Is there any financial transaction threshold?

- Transactions in rupiah against yen in the form of spot or forward in a nominal amount higher than the equivalent to USD25,000.00 (twenty-five thousand US dollars) per transaction must be proven by Underlying Transaction documents.

10. Is it possible for Indonesian ACCD Bank to provide financing in Yen to Indonesian LCS Customer?

Indonesian ACCD Bank may provide financing in Yen in the following forms:

- trade financing; and/or
- direct investment financing.

11. How does Indonesian ACCD Bank make squaring position?

- on a net basis; or
- on a gross basis.

12. What are LCS underlying transactions between Indonesia and Japan which may be conducted by LCS customers?

- Current account transactions between Indonesian LCS Customer and Japanese LCS customer in any of the following forms:
 - i. all trade of goods and services between Indonesia and Japan;
 - ii. all primary income transactions including:
 1. income and payment transactions of employee compensation; and
 2. investment income from:
 - a. direct investment;
 - b. portfolio investment; and/or
 - c. other investments.
 - iii. All secondary income transactions including:
 1. income and payment in government sector;
 2. income and payment in other sectors, including remittance; and
 3. other similar transactions,but excluding grant, gifts, donations, and/or the similar;

- All direct investment activities between Indonesian LCS Customer and Japanese LCS customer in any of the following forms:
 - i. investment between Indonesian LCS Customer and Japanese LCS customer with minimum equity ownership of 10% (ten percent); or
 - ii. intercompany loan in the same group; or
 other Underlying Transactions.

13. Is it possible to settle a financial transaction for LCS framework by netting?

- Settlement of transactions in Rupiah against Yen may be conducted in netting for:
 - i. rollover;
 - ii. early termination;
 - iii. unwind/cancel up.

14. If Indonesian exporter/importer needs trade and investment financing from Indonesian ACCD Bank, from which sources may the ACCD Bank's financing come from?

- Trade financing may be provided through:
 - i. transactions in rupiah or foreign currency against yen through swap transactions with another Indonesian ACCD Bank and/or Japanese ACCD Bank; and/or
 - ii. direct borrowing in yen from another Indonesian ACCD Bank and/or Japanese ACCD Bank.

15. What documents may be used as the evidence of LCS transactions?

- Final Underlying Transaction documents (firm commitment); or
- Underlying Transaction documents in an anticipatory basis.

16. Is it a must for ACCD bank to issue LCS price quotation?

- Indonesian ACCD Bank is required to issue a price quotation in Yen against Rupiah.
- Price quotation determination must:
 - i. reflect the fair price in the foreign exchange market; and
 - ii. be hittable.

17. Is there any reporting obligation for ACCD Bank?

- Indonesian ACCD Bank is required to prepare and submit:
 - i. report; and/or
 - ii. report correction,of financial activities and Financial Transactions in relation to LCS implementation to Bank Indonesia.
- A periodic report includes the following 7 forms:
 - foreign exchange transactions;
 - open position of yen transactions in Yen SNA;
 - position of Yen SNA balance;
 - fund transfer;
 - position of balance and transaction history of Yen Sub-SNA;
 - position of Financing; and
 - balance and transaction history of Rupiah SNA owned by Japanese ACCD Bank,

which constitute data within 1 (one) reporting period namely from the first until the last day of the corresponding month.

- Incidental reports are in the following forms:

- balance and transaction history of Rupiah Sub-SNA owned by Japanese LCS Customer at the Japanese ACCD Bank; and
- other reports if deemed necessary.