

## Q&A

Bank Indonesia Regulation Number 22/12/PBI/2020 on

Settlement for Bilateral Transactions Using Local Currencies Through Bank

1. What does Local Currency Settlement (LCS) framework mean?

- Local Currency Settlement (LCS) means settlement of a bilateral transaction between two countries which is conducted in the respective currency of each country where the settlement is conducted within their jurisdiction.
- Example: trade settlement between Indonesia and Japan may be undertaken in rupiah, but the rupiah settlement must be conducted in Indonesia. Conversely, if the trade between Indonesia and Japan is undertaken in Yen, the settlement must be conducted in Japan.

2. How is the implementation of LCS framework?

- Appointed Cross Currency Dealer (ACCD) means a bank appointed by the authority of both countries to facilitate LCS implementation through opening of accounts in the Partner Country's currency in each country.

3. What is the background of LCS cooperation between Bank Indonesia and the Authority of other Partner Countries?

- USD domination in the domestic financial market remain high as reflected by the dominant use of USD in bilateral transactions between Indonesia and different countries. The high dependency on

USD may affect the increasing vulnerability of Indonesia's economy to global shocks.

- This cooperation is also made to encourage the wider use of local currencies (rupiah, ringgit, baht, and yen) for local currency settlements between Indonesia and Malaysia, Thailand, and Japan.
- It is based on the existing trade and investment relations under a Memorandum of Understanding (MoU) signed by each country's authority. In addition, Thailand, Malaysia, and Japan are among the top ten main trade partners of Indonesia.

4. How is operation of ACCD banks regulated in Indonesia?

- In operation as an ACCD, banks in Indonesia must refer to this Bank Indonesia Regulation and Regulation of Member of Board of Governors.
- In addition, in carrying on activities and transactions related to LCS, ACCD banks also must comply with the operating guidelines (OG) specified by Bank Indonesia and the authority of partner countries.

5. How is the appointment of ACCD banks conducted by the authorized authority?

- To facilitate the LCS framework operation, Bank Indonesia, Bank Negara Malaysia, Bank of Thailand, and Japan Ministry of Finance have appointed several banks which meet the key criteria to facilitate bilateral transactions.

- The appointed banks must, among others, meet these criteria: resilient and sound in each country, experienced in facilitating trade between the two countries, has business relationship with banks in the two countries, and has customer basis and wide network of branch offices in the origin country.

6. Can the appointment of ACCD Bank in Indonesia be terminated?

The termination of appointment of a Bank as an Indonesian ACCD Bank may be conducted:

- based on a joint evaluation result between Bank Indonesia and Partner Country's authority;
- in the event that the business license of the Indonesian ACCD Bank is revoked by the authorized authority;
- in the event that the Indonesian ACCD Bank executes a corporate action and the Indonesian ACCD Bank is not the result of the corporate action; or
- based on the request of the Indonesian ACCD Bank.

7. What kind of LCS Underlying Transactions which may be used by LCS customers?

- current account transactions between Indonesian LCS Customer and Partner Country's LCS customer in the following forms:
  - i. all trade of goods and services between Indonesia and Partner Country;
  - ii. all primary income transactions includes:

1. receipt 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 includes:
    1. receipt and payment of government sector;
    2. receipt and payment of other sectors, including remittance; and
    3. other similar transactions,  
but excluding grant, gift, donation, and/or the similar;
  - all direct investment activities between Indonesian LCS Customer and Partner Country's LCS customer in the following forms:
    - i. investment between Indonesian LCS Customer and Partner Country's LCS customer, with minimum equity ownership of 10% (ten percent); or
    - ii. intercompany loan in the same group.
8. An ACCD Bank may facilitate financial activities and Financial Transactions with LCS customers. What are financial activities and Financial Transactions which may be conducted by an ACCD Bank?

Financial Activities:

- opening of Rupiah SNA and Partner's SNA;
- opening of Partner's Sub-SNA;

- management of balance of Rupiah SNA and Partner's SNA and management of balance of Rupiah Sub-SNA and Partner's Sub-SNA;
- fund transfer; and
- Financing.

Financial Transactions:

- Tod, tom, spot transactions
- Forward transactions
- Swap transactions

9. Is the balance of Rupiah SNA and Partner's SNA limited?

- Rupiah SNA balance at Indonesian ACCD Bank is limited to certain nominal amount, Rupiah SNA balance may exceed a certain nominal amount at the end of the Day subject to certain requirements. The same applies to Partner's SNA balance.

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

- Transactions in rupiah or foreign currency against a Partner Country's currency may be settled by netting for:
  - i. rollover;
  - ii. early termination;
  - iii. unwind/cancel up.

11. In the event that an Indonesian exporter/importer needs trade and investment financing from an Indonesian ACCD Bank, from which sources may the ACCD Bank's financing come?
- Trade financing may be provided through:
    - i. transaction in rupiah or foreign currency against a Partner Country's currency through a swap transaction; or
    - ii. direct borrowing with an Indonesian ACCD Bank and/or Partner Country's ACCD Bank.
12. Is Rupiah SNA exempted from Bank Indonesia provisions for short-term offshore debt?
- Direct borrowing from a Partner Country's ACCD Bank will not be considered as a bank's short-term offshore debt as referred to in Bank Indonesia provisions for bank's offshore debt.
13. What documents may be used to prove LCS transactions?
- final Underlying Transaction documents or firm commitment; or
  - anticipatory basis Underlying Transaction documents.
14. Is it a must for an ACCD bank to issue LCS direct quotation?
- An Indonesian ACCD Bank must issue a direct quotation in a Partner Country's currency against rupiah.
  - Direct quotation determination must:
    - i. reflect the fair price in the foreign currency market; and
    - ii. be hittable.
15. In addition to the above LCS financial activities and transactions, are there any other services which may be related to LCS framework?

- An Indonesian ACCD Bank may provide certain financial activity and Financial Transaction services for the purpose of LCS implementation to be connected with features, types, services, and/or facilities of products and/or activities in payment system services.
- The services provision refers to Bank Indonesia provisions for payment system.

16. Is there any reporting obligation of an ACCD Bank?

- An Indonesian ACCD Bank is required to set up and submit:
  - i. report; and/or
  - ii. report correction,of financial activities and Financial Transactions for the purpose of LCS implementation to Bank Indonesia.