Frequently Asked Questions (FAQs)
Implementation of the Minimum Secondary Reserve Requirement
(29th September 2009)

1. What is the background and goal of the minimum secondary reserve requirement?
   a. The impacts of global economic and financial fluctuations have the potential to undermine bank liquidity in both rupiah and foreign exchange. In order to overcome these impacts and minimize risk that can affect bank system stability, Bank Indonesia considered the need to provide greater liquidity flexibility through, among others, amending the minimum reserve requirement.
   b. The prevailing secondary reserve requirement encourages banks to manage their liquidity more propitiously, which instills and maintains market confidence. In addition, better liquidity management is expected to bolster the banking sector and strengthen resilience against future economic challenges.

2. What is the magnitude of the mandatory rupiah reserves required by banks?
   The rupiah reserve requirement is 7.5% of rupiah deposits consisting of:
   i. Primary reserves totaling 5% of rupiah deposits; and
   ii. Secondary reserves amounting to 2.5% of rupiah deposits.

3. When does the rupiah reserve requirement come into effect?
   The primary reserve requirement became effective on 24th October 2008; meanwhile the secondary rupiah reserve requirement will come into effect
on 24th October 2009, exactly one year after the introduction of the primary reserve requirement.

4. **What are the perceived impacts of the secondary reserve requirement of bank liquidity?**
   Implementation of the secondary reserve requirement is expected to have a minimal impact on bank liquidity. This is based on the fact that since October 2008 to July 2009, the bank ownership ratio of BI Certificates, Treasury Bonds and excess reserves to deposits was, on average, 27%; well above the mandatory 2.5%.

5. **What are the fulfillment criteria for the rupiah reserve requirement?**
   The primary reserve requirement can only be fulfilled using the balance of the bank’s current account held at Bank Indonesia, meanwhile the secondary reserve requirement can be met through BI Certificates, Treasury Bonds and/or excess reserves (current account held at BI in excess of the primary reserve requirement).

6. **What are the criteria for BI Certificates and Treasury Bonds to meet the rupiah denominated secondary reserve requirement?**
   a. All BI Certificates of varying tenure periods are applicable for use as secondary reserves. Meanwhile, other OMO instruments such as FASBI and Fine-Tuning Contraction are **NOT** suitable for the secondary reserve requirement.
   b. All types of Treasury Bonds (SUN) pursuant to Act No. 24/2002 regarding SUN and Sharia Government Bonds (SBSN) in accordance to Act No. 19/2008 SBSN are applicable for use as secondary reserves.
c. All categories of SUN ownership by banks, for example trading, available for sale, or held to maturity\(^1\) are suitable for use as secondary reserves.

7. How does this affect the status of BI Certificates or Treasury Bonds guaranteed or repurchased on the money market or by Bank Indonesia?
   a. All repurchased BI Certificates and Treasury Bonds (repo sell and buy back) can be used by the purchasing bank to meet the secondary reserve requirement.
   b. BI Certificates and Treasury Bonds guaranteed as collateralized repo are NOT applicable.

8. How are BI Certificates and Treasury Bonds evaluated towards the secondary rupiah reserve requirement?
   a. All BI Certificates and Treasury Bonds used for the secondary reserve requirement are given their market value as indicated by BI-SSSS. This is applicable to all categories (trading, available for sale, or held to maturity).
   b. BI Certificate and Treasury Bond data is calculated using the final position of the day, namely at the cut off from the BI-SSSS system.

9. How are secondary rupiah reserve placements handled?
   a. Similar to the primary reserve requirement, the secondary reserve requirement is operated daily.
   b. Fulfillment of the secondary reserve requirement is calculated by comparing total BI Certificates, Treasury Bonds and/or excess

\(^1\) Excluding, however, non-tradable SUN and SBSN.
reserves at the end of each day in one reporting period against average daily deposits in the same reporting period with the two previous reporting periods.

c. Fulfillment of the secondary reserve requirement in the form of BI Certificates and Treasury Bonds placed by banks temporarily consists of excess reserves stored in the bank’s current account held at Bank Indonesia.

10. **What sanctions will be imposed on banks violating the minimum rupiah reserve requirement?**

Banks failing to meet the rupiah reserve requirement will incur penalties equaling 125% of the 1-day average overnight JIBOR interest rate on the day of violation and for each subsequent day of violation.

11. **When will sanctions be introduced for banks violating the rupiah reserve requirement?**

   a. Sanctions regarding failure to meet the primary reserve requirement have been in place since 24\textsuperscript{th} October 2008, whereas sanctions for the secondary reserve requirement are effective as of one working day subsequent to implementation on 24\textsuperscript{th} October 2009.

   b. Sanctions will not be imposed on banks that are allocated an allowance incentive as stipulated in Bank Indonesia regulations under the bank consolidation framework.