





Indonesian Capital Market

Updates on ISSA Recommendation status

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Recommendation 1: Governance
Securities Systems have a primary responsibility to their users and other stakeholders. They must provide effective low cost processing. Services should be priced equitably.

Market Status	Updates
<ul style="list-style-type: none"> • Some participants (i.e., Broker & Custodian) are KSEI's shareholders. Structure of shareholders: Custodians: 36%, Brokers: 33.5%, Registrars: 4%, SROs: 16.5%, Treasury stock: 10%) • 4 (four) committees (Internal Control, Business, Rule & regulation and budget) represent the shareholders by providing suggestion and input to the board for the interest of the shareholders and the participants. • Most fees that KSEI charges to its participants are fee based. A fee charged for an instruction is fixed, irrelevant to the value of the instruction. 	<ul style="list-style-type: none"> • Complete list of KSEI shareholders and list of fees can be obtained from KSEI's web site at http://www.ksei.co.id/en • KSEI pays great attention to the improvement its communication to its participants. Announcements are sent via various electronic channels (i.e., emails, private network and public network)


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Recommendation 2: Technology - Core Processing
 Securities Systems must allow the option of network access on an interactive basis. They should cope with peak capacity without any service degradation, and have sufficient standby capabilities to recover operations in a reasonably short period within each processing day.

Market Status	Updates
<ul style="list-style-type: none"> • KSEI provides settlement service for both stock exchange and non exchange (OTC) trades. Settlement of stock exchange trades is done in two batches – morning (8.00) and afternoon (12.00). Settlement of OTC trades is done on real time basis. • The depository provides private network to its participants. Type of connections: Fiber Optic, Least line, dialed up. 	<ul style="list-style-type: none"> • Average memory and capacity allocated for operational of depository's system is less than 50%. • In year 2005, KSEI enhances its backup system to have the same capacity with its main system. KSEI tests its backup system twice a year. Average length of time to start up the backup system is less than 30 minutes.


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Recommendation 3: Technology - Messaging and Standards
 The industry worldwide must satisfy the need for efficient, fast settlement by full adherence to the International Securities Numbering process (ISO6166) and uniform usage of ISO 15022 standards for all securities messages. The industry should seek to introduce a global client and counterpart identification methodology (BIC - ISO 9362) to further facilitate straight through processing. Applications and programmes should be structured in such a way as to facilitate open interaction between all parties.

Market Status	Updates
<ul style="list-style-type: none"> • KSEI is the NNA (National Numbering Agency) for Indonesia. KSEI assigns ISIN codes (following ISO 6166) to all Indonesian securities. • Primary code that is used in the market is local code that is assign by the stock exchange. ISIN code is mostly used between brokers/custodians with their foreign clients. • BIC (ISO 9362) has not been used. 	<ul style="list-style-type: none"> • With sponsor from World Bank, a study to improve implementation of STP in Indonesian Capital Market is currently under way. The study will result in recommendation to KSEI and other SROs (Stock Exchanges and Clearing House) • KSEI is planning to improve the process of Corporate Action announcement in order to achieve STP, from the source of information (the issuers) along the way to its participants.


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Recommendation 4: Uniform Market Practices
 Each market must have clear rules assuring investor protection by safeguarding participants from the financial risks of failed settlement and ensuring that listed companies are required to follow sound policies on corporate governance, transfer of economic benefits and shareholder rights.

Market Status	Updates
Settlement of stock exchange transaction: -The Clearing House (KPEI) maintains and operates the guarantee fund -KPEI provides the SLB service to stock exchange members in order to bridge failed settlements -KPEI guarantees settlement of exchange markets. It imposes a penalty, so called ACS (Alternate Cash Settlement), to failing parties. ACS is equivalent to 125% of the highest market value between T+0 to T+3. -Registration is an integral part of Settlement that is done in form of book entry settlement at the depository	- From 2005 onward, KPEI cooperates with custodians to provide sources of lendable securities.


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Recommendation 4: Uniform Market Practices (Continued)

Market Status	Updates
Corporate Action Processing: -There are specific rules that regulate the announcement and completion of Corporate Action -Corporate Action announcement is disbursed by the company/issuer, stock exchange and depository -KSEI handles both mandatory and voluntary corporate actions	<ul style="list-style-type: none"> • KSEI makes available all CA announcements in its website at http://www.ksei.co.id/en. All announcements are available in the website on the same day KSEI receives the announcement from the issuers. • The market is indicating the need for the depository to also provide IPO services.

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Recommendation 5: Reduction of Settlement Risk
 The major risks in Securities Systems should be mitigated by five key measures, namely:

- the implementation of real delivery versus payment
- the adoption of a trade date plus one settlement cycle in a form that does not increase operational risk.
- the minimisation of funding and liquidity constraints by enabling stock lending and borrowing, broad based cross collateralisation, the use of repos and netting as appropriate
- the enforcement of scripless settlement
- the establishment of mandatory trade matching and settlement performance measures.

Market Status	Updates
<ul style="list-style-type: none"> • The settlement of OTC trades are following BIS model 1, while the settlement of exchange trades are following BIS model 3. • Settlement of OTC trades can be done on the same day. Settlement of exchange trades is done on T+3. • All transactions (stock exchange and OTC) are settled in scripless (book entry) settlement. 	<ul style="list-style-type: none"> • The implementation of RTGS system by the central Bank that finished in 2003 makes it easier to achieve true DVP. • It is planned on the Master Plan of Indonesian Capital Market that settlement of exchange trades in year 2006 is done on T+2.


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Recommendation 6: Market Linkages
 Convergence of Securities Systems, both within countries and across borders, should be encouraged where this eliminates operational risk, reduces cost and enhances market efficiency.

Market Status	Updates
<p>- KSEI is linked electronically and real time with the clearing house, the payment system (via its payment banks) and its participants (Brokers & Custodians).</p>	<ul style="list-style-type: none"> • KSEI is the depository for equities, corporate bonds and other debt instruments. Central Bank is the central registry of government bonds. There has been an initiative from KSEI and Central bank to make a market linkage between the two institutions. • KSEI and CDP (Singapore Depository) is continuing the exploration to have a cross border linkage between the two markets. Studies and try outs have been done to access one system from other market.


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Recommendation 7: Investor Protection
 Regulators in each country should review whether locally domiciled institutions have a process in place that enables them to comply with the laws and regulations of the countries where their investments are placed. In turn, foreign investors should always be treated in like fashion to indigenous investors, especially in respect of their rights to shareholder benefits.

Market Status	Updates
<ul style="list-style-type: none"> Foreign ownership is not differentiated to that of domestic ownership. Individual foreigner who is staying more than 183 days in Indonesia will be subjected to the same tax rate as the domestic investor. Double taxation treaties are applied by KSEI to foreign investors who have certificate of domiciles. Distribution of cash dividend and interest payment is made at the same day for both domestic and foreign investors. 	<ul style="list-style-type: none"> Sales and income proceeds can be repatriated that is subject to central bank regulation.

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Recommendation 8: Legal Infrastructure
 Local laws and regulations should ensure that there is segregation of client assets from the principal assets of their custodian and no claim is possible on client assets in the event of custodian bankruptcy or a similar event. Regulators and markets, to further improve investor protection, should work:

- to ensure clarity on the applicable law on cross border transactions
- to seek international agreement on a legally enforceable definition of finality in a securities transaction
- to ensure that local law fully protects the rights of beneficial owners
- to strengthen securities laws both to secure the rights of the pledgee and the protection accorded to client assets held in Securities Systems.

Market Status	Updates
<ul style="list-style-type: none"> KSEI regulation requires securities companies and custodians to open sub accounts for deposit of securities and funds in order to segregate their own asset with their client asset. According to Bapepam regulation, in case of the liquidation of a custodian, the liquidator must return securities that are posted in the securities accounts to the account holders. Final and irrevocable DVP is the principle of KSEI system 	<p>With the implementation of sub accounts, KSEI is able to produce shareholder list at any time.</p>

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