

INTEREST RATE CORRIDOR (STANDING FACILITIES)

(Circular of the Head of the Monetary Management Department of Bank Indonesia Number 17/39/DPM, dated November 16, 2015)

To

ALL COMMERCIAL BANKS

Following the issuance of Regulation of Bank Indonesia Number 12/11/PBI/2010 on Monetary Operation (Statute Book of the Republic of Indonesia Year 2010 Number 84, Supplement Statute Book of the Republic of Indonesia Number 5141) as already amended several times and the latest by Regulation of Bank Indonesia Number 17/ 20 /PBI/2015 (Statute Book of the Republic of Indonesia Year 2015 Number 275, Supplement Statute Book of the Republic of Indonesia Number 5764) and in the framework of strengthening transaction infrastructure of monetary operation, it is necessary to re-regulate technical provision on interest rate corridor (Standing Facilities) in a circular of Bank Indonesia as follows:

I. GENERAL

Referred to in this circular as:

1. Bank is the commercial bank as meant in the banking law in force, which undertakes business activity conventionally.
2. Monetary Operation is the implementation of monetary policy by Bank Indonesia in the framework of monetary controlling through open market operation and interest rate corridor (standing facilities).
3. Open Market Operation hereinafter abbreviated to OPT shall be transaction activity on money market, which is executed by Bank Indonesia and/or the other party in the framework of monetary operation.
4. Interest Rate Corridor (Standing Facilities) hereinafter called Standing Facilities are activities of the provision of Rupiah funds (lending facility) from Bank Indonesia to bank and the placement of Rupiah funds (deposit facility) by bank at Bank Indonesia in the framework of monetary operation.
5. BI-Rate is interest rate of policy reflecting stance of monetary policy stipulated by Bank Indonesia and announced publicly.
6. Securities are securities issued by Bank Indonesia and state securities used in the transaction of

Standing Facilities that meet criteria and requirements for the transaction of lending facility as meant in the provision of Bank Indonesia ruling criteria and requirements for securities, participants, and brokerage institutions in monetary operation.

7. Bank Indonesia Certificate hereinafter abbreviated to SBI is securities in the rupiah, which is issued by Bank Indonesia as short-term debenture.
8. Deposit Certificate of Bank Indonesia hereinafter abbreviated to SDBI is securities in the rupiah, which is issued by Bank Indonesia as short-term debenture which may only be traded between banks.
9. State Securities hereinafter abbreviated to SBN are state debenture and state sharia securities.
10. State Debenture hereinafter abbreviated to SUN is securities in the form of debenture in the Rupiah or foreign currency, whose interest and principal payment is guaranteed by the Republic of Indonesia in accordance with the validity period thereof, as meant in the law in force.
11. State Sharia Securities hereinafter abbreviated to SBSN, or may be called Sukuk Negara, is SBN issued on the basis of the sharia principle, in the Rupiah or foreign currency, as evidence of the participation in asset of SBSN as meant in the law in force.
12. State Bond is SUN maturing over 12 (twelve) months with the coupon and/or the payment if interest by discount.
13. State Treasury Note hereinafter abbreviated to SPN is SUN maturing up to 12 (twelve) months with the interest payment by discount.
14. Zero Coupon Bond hereinafter abbreviated to ZCB is state bond without bond with the interest payment by discount.
15. Retail State Bond hereinafter abbreviated to ORI is state bond on maiden market, which is sold to individual Indonesian citizen.
16. Bank Indonesia-Real Time Gross Settlement System, hereinafter called BI-RTGS System is infrastructure used as an electronic fund-transfer instrument having settled real time per transaction individually as meant in the provision of Bank Indonesia ruling transaction, administration of securities and real time settlement of funds.
17. Bank Indonesia-Scripless Securities Settlement System hereinafter abbreviated to BI-SSSS is infrastructure used as administration instrument of transaction with Bank Indonesia and financial market transaction as well as the administration of securities, which is executed electronically, as meant in the provision of Bank Indonesia ruling transaction, administration of securities and real time settlement of funds.

18. Bank Indonesia–Electronic Trading Platform System hereinafter called BI-ETP System is infrastructure used as an instrument of transaction with Bank Indonesia electronically as meant in the provision of Bank Indonesia ruling transaction, administration of securities and real time settlement of funds
19. Giro Account is giro account belonging to bank at Bank Indonesia.
20. Securities Account is account of bank at BI-SSSS in the rupiah and/or foreign currency, which is administered by Bank Indonesia in the framework of recording the ownership and settlement of transaction of securities, transaction with Bank Indonesia and/or financial market transaction.
21. Securities Settlement is an activity debiting and crediting securities account in the framework of administration.
22. Settlement of Funds is an activity debiting or crediting giro account at Bank Indonesia through BI-RTGS system in the framework of administration.
23. Delivery Versus Payment hereinafter abbreviated to DVP is a mechanism of the settlement of transaction by method wherein the settlement of securities and funds is executed simultaneously.

II. CHARACTERISTIC OF STANDING FACILITIES

1. Standing Facilities constitutes an instrument used by Bank Indonesia in the framework of injection and absorption of rupiah liquidity on money market.
2. Standing Facilities consists of:
 - a. the provision of Rupiah funds from Bank Indonesia to bank (lending facility); and
 - b. the placement of funds by bank at Bank Indonesia (deposit facility).
3. Standing Facilities are provided by Bank Indonesia on every working day of Bank Indonesia, including the limited working day of Bank Indonesia.
4. Submission of Transaction of Standing Facilities is done through BI-ETP System.
5. Period of Standing Facilities for one working day (overnight).
6. The number of day in the calculation of repurchase agreement (repo) rate or discount rate of Standing Facilities is counted on the basis of calendar days.
7. Window time of Standing Facilities is regulated as follows:
 - a. The provision of rupiah funds from Bank Indonesia to bank (lending facility) from 16.00 WIB to 18.00 WIB or other time stipulated by Bank Indonesia; and
 - b. The placement of rupiah funds by bank at Bank Indonesia (deposit facility) from 16.00 WIB to 17.30 WIB or other time stipulated by Bank Indonesia.

8. Bank Indonesia announces transaction of standing facilities through BI-ETP system and/or other facilities before the window time of Standing Facilities.
9. In the case of any change in window time, series and kind of securities, haircut, repo rate, and/or discount rate, the announcement is executed before the window time of Standing Facilities.
10. Bank is responsible for the truth of data about the requested standing facilities submitted to Bank Indonesia.
11. Bank is prohibited from submitting Standing Facilities already submitted to Bank Indonesia.
12. Bank is obliged to have account at rupiah giro account and/or securities account which is sufficient to fulfill liabilities to the settlement of Standing Facilities.
13. In the case of following the transaction, the maturity date of standing facilities being stipulated as holiday by the government, the settlement is executed on the ensuing working day without counting repo interest or discount of the addition to transaction period of Standing Facilities.
14. When Standing Facilities matures, the settlement is executed on the maturity date as from the opening of BI-RTGS system up to the time before the cut-off warning period of BI-RTGS system.
15. Bank Indonesia administers Standing Facilities at securities account in i BI-SSSS.

III. LENDING FACILITY

1. Principle of Transaction

- a. Transaction of lending facility is executed by mechanism of securities repo, namely the sales of securities by bank to Bank by requiring bank to buy back in accordance with the agreed price and period.
- b. Transaction of lending facility by mechanism of securities repo is executed by the sell and buy back principle, namely the transfer of ownership of securities (transfer of ownership).
- c. Transaction of lending facility is executed by non-auction mechanism.

2. Securities

- a. Securities which may be repurchased are SBI, SDBI and SBN with the requirements as meant in the provision of Bank Indonesia ruling criteria and requirements for securities, participants and brokerage institution in monetary operation.
- b. Securities which may be repurchased are maximally as much as the nominal value of securities owned by bank, which are recorded at securities account.

3. Repo Rate

- a. Bank Indonesia imposes repo rate on transaction of lending facility as much as BI-Rate plus specified margin.
- b. Repo rate is counted on the basis of a method wherein interest is paid later (simple interest).

4. Announcement of Lending Facility

- a. Bank Indonesia announces plan for transaction of lending facility through BI-ETP system and/or other instrument in no later than before the window time.
- b. The announcement of plan for transaction of lending facility covers among others:
 - 1) transaction instrument;
 - 2) window time;
 - 3) period;
 - 4) repo rate; and/or
 - 5) date and time of settlement.

5. Submission of Transaction

- a. Bank submits transaction of lending facility to Bank Indonesia through BI-ETP System in the stipulated window time.
- b. The submission of transaction of lending facility by Bank covers among others the nominal value, series and kind of the repurchased securities.

6. Announcement of Transaction Result

After the window time is closed, Bank Indonesia announces result of transaction of lending facilities by the following methods:

- a. individually to Bank through BI-ETP system, among others, the value of the accepted transaction and repo rate; and
- b. totally through BI-ETP system, among others the accepted nominal value and repo rate.

7. Settlement of Transaction

- a. First leg settlement
 - 1) Bank Indonesia executes the first leg settlement on the transaction date (same day settlement) at the beginning of pre cut-off period of BI-RTGS system.
 - 2) The first leg settlement is executed through BI-RTGS System and BI-SSSS by mechanism of Delivery Versus Payment (DVP) per transaction (gross to gross) as follows:

- a) The settlement of securities, by debiting securities account as much as the nominal value of the re-purchased securities.
 - b) The settlement of funds, by crediting Rupiah giro account as much as the value of the first leg settlement.
 - c) The calculation of the value of the first leg settlement is as meant in the provision of Bank Indonesia ruling criteria and requirements for securities, participants and brokerage institutions in monetary operation.
- 3) In the event that bank has no kind and series of securities at securities account, which is sufficient to fulfill settlement liabilities thus causing the failure to the first leg settlement, BI-SSSS automatically cancels the transaction of lending facility.
 - 4) Due to the cancellation of the transaction of lending facility as meant in point 3), Bank is subject to the sanction as governed in Regulation of Bank Indonesia regarding Monetary Operation.
 - 5) Related to the calculation of the quantity of the cancellation of lending facility transaction in the framework of the imposition of sanction in the form of the suspension of participation in monetary operation, in the case of the failure of the first leg settlement being more than once in one day, the quantity of the cancellation of transaction is counted once.
- b. Second Leg Settlement
- 1) On the maturity date of lending facility (second leg), BI-SSSS automatically executes second leg settlement as from the opening of BI - RTGS System up to the time before cut-off warning period of BI-RTGS system.
 - 2) The second leg settlement is executed through BI-RTGS System and BI-SSSS by transactional DVP mechanism per transaction (gross to gross) as follows:
 - a) The settlement of funds, by debiting Rupiah giro account as much as the value of the second leg settlement, which is counted as follows:

$$\begin{array}{rcl}
 \text{Value of} & & \text{Value of} & & \text{Repo Rate} \\
 \text{Second-leg} & = & \text{First-leg} & + & \text{Lending Facility} \\
 \text{Settlement} & & \text{settlement} & & \text{Facility}
 \end{array}$$

Remarks:

$$\begin{array}{ccccccc} \text{Repo Rate of} & & \text{Value of} & & & & \\ \text{Lending} & = & \text{First-leg} & \times & \text{Repo} & \times & \text{Period} \\ \text{Facility} & & \text{Settlement} & & \text{Rate} & & 360 \end{array}$$

- b) The settlement of securities, by crediting securities account as much as the nominal value of the repurchased securities.
- c) The calculation of the value of second leg settlement is as governed in the provision of Bank Indonesia regarding Criteria and Requirements for securities, participants and brokerage institution in monetary operation.
- 3) In the event that bank has no funds at rupiah giro account, which is sufficient to fulfill the second leg settlement liabilities up to the time before the cut-off warning period of BI-RTGS system thus aborting the second leg settlement, BI-SSSS automatically cancels the transaction of lending facility (second leg).
- 4) In the case of the cancellation as meant in point 3), upon the second leg, Bank Indonesia debits Rupiah giro account as much as payment liabilities to repo rate of lending facility.
- 5) Due to the cancellation of the transaction of lending facility as meant in point 3), Bank is subject to the sanction as governed in Regulation of Bank Indonesia regarding Monetary Operation.
- 6) Related to the calculation of the quantity of the cancellation of lending facility transaction in the framework of the imposition of sanction in the form of the suspension of participation in monetary operation, in the case of the failure of the first leg settlement being more than once in one day, the quantity of the cancellation of transaction is counted once.

8. Failure of Second Leg Settlement

In the case of bank failing to execute the second leg settlement, the repurchased securities are treated as follows:

- a. In the case of securities being securities issued by Bank Indonesia, Bank Indonesia settles the securities before maturing (early redemption) automatically through BI-SSSS.
- b. In the case of securities constituting SBN, the transaction is treated as outright sales transaction.

- b. The nominal value of every deposit facility transaction is minimally Rp1,000,000,000 (one billion rupiah) and the rest with fraction Rp100,000,000 (one hundred million rupiah).

5. Announcement of Transaction Result

After the window time is closed, Bank Indonesia announces result of deposit facility transaction with the provision as follows:

- a. individually to bank through BI-ETP system, among others the value of transaction which is won and discount rate; and
- b. totally through BI-ETP system, among others, the accepted nominal value and discount rate.

6. Settlement of Transaction

a. Settlement of transaction

- 1) Bank Indonesia settles deposit facility on the transaction date (same day settlement) at the beginning of the pre cut-off period of BI-RTGS System;
- 2) The settlement of deposit facility by mechanism of the settlement of transaction per transaction (gross to gross) by debiting Rupiah Giro account as much as the transaction value of deposit facility of the said bank.
- 3) In the case of bank not having funds at Rupiah giro account sufficient to fulfill liabilities to the settlement of deposit facility thus aborting the settlement, BI-SSSS automatically cancels the transaction of deposit facility.
- 4) Due to the cancellation of the transaction of deposit facility as meant in point 3), Bank is subject to the sanction as governed in Regulation of Bank Indonesia regarding Monetary Operation.
- 5) Related to the calculation of the quantity of the cancellation of deposit facility transaction in the framework of the imposition of sanction in the form of the suspension of participation in monetary operation, in the case of the failure of the first leg settlement being more than once in one day, the quantity of the cancellation of transaction is counted once.

b. Settlement of Maturity of deposit facility

On the maturity date of deposit facility, Bank Indonesia settles deposit facility as much as the nominal value of deposit facility by crediting rupiah giro account.

V. PROCEDURES FOR IMPOSING SANCTION

1. In the case of bank failing to fulfill liabilities upon the settlement thus aborting the transaction as meant in point III.7.a.3), point III.7.b.3) and point IV.6.a.3), Bank is subject to sanction in the form of :

- a. written warning with a copy made available to Financial Service Authorities; and
 - b. payment liabilities as much as 0.01% (one per mile) of the transaction value of the said bank, which is declared null, minimally Rp10,000,000 (ten million rupiah) and maximally Rp100,000,000 (one hundred million rupiah).
2. In the case of transaction having second leg, the failed transaction value as meant in point 1.b is the value of transaction upon the first leg.
 3. The written warning as meant in point 1.a is submitted in one working day following the cancellation of transaction.
 4. The imposition of payment liability as meant in point 1.b is done by debiting Rupiah giro account in one working day following the cancellation of transaction.
 5. Due to the cancellation of transaction of monetary operation, covering transaction of open market operation and transaction of standing facilities, which is the third times in a period of 6 (six) months, besides the sanction as meant in point 1, bank is also subject to the suspension of participation in monetary operation for 5 (five) working days consecutively.
 6. The suspension of participation in monetary operation as meant in point 4 is applied one working day following the cancellation of transaction.

Example of the imposition of sanction in the form of the suspension of participation in monetary transaction is as meant in the attachment which constitutes an integral part of this circular.

VI. TRANSITIONAL PROVISION

The transactions executed following the enforcement of this circular, which constitute a part of the transactions already executed before this circular comes into force, still abide by the provision as meant in Circular of Bank Indonesia Number 12/17/DPM dated July 6, 2010 on Interest Rate Corridor (Standing Facilities) as already amended by Circular of Bank Indonesia Number 15/31/DPM dated August 27, 2013 until the transactions mature.

VII: CONCLUSION

With the enforcement of this circular:

1. Circular of Bank Indonesia Number 12/17/DPM dated July 6, 2010 on Interest Rate Corridor (Standing Facilities); and
 2. Circular of Bank Indonesia Number 15/31/DPM dated August 27, 2013 on the Amendment to Circular of Bank Indonesia Number 12/17/DPM dated July 6, 2010 on Interest Rate Corridor (Standing Facilities),
- Are revoked and declared null and void.

The circular comes into force as from November 16, 2015.

For public cognizance, the circular is published by placing it in State Gazette of the Republic of Indonesia.

This is for your attention.

BANK INDONESIA,

sgd.

DODDY ZULVERDI

THE HEAD OF THE MONETARY MANAGEMENT DEPARTMENT

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