

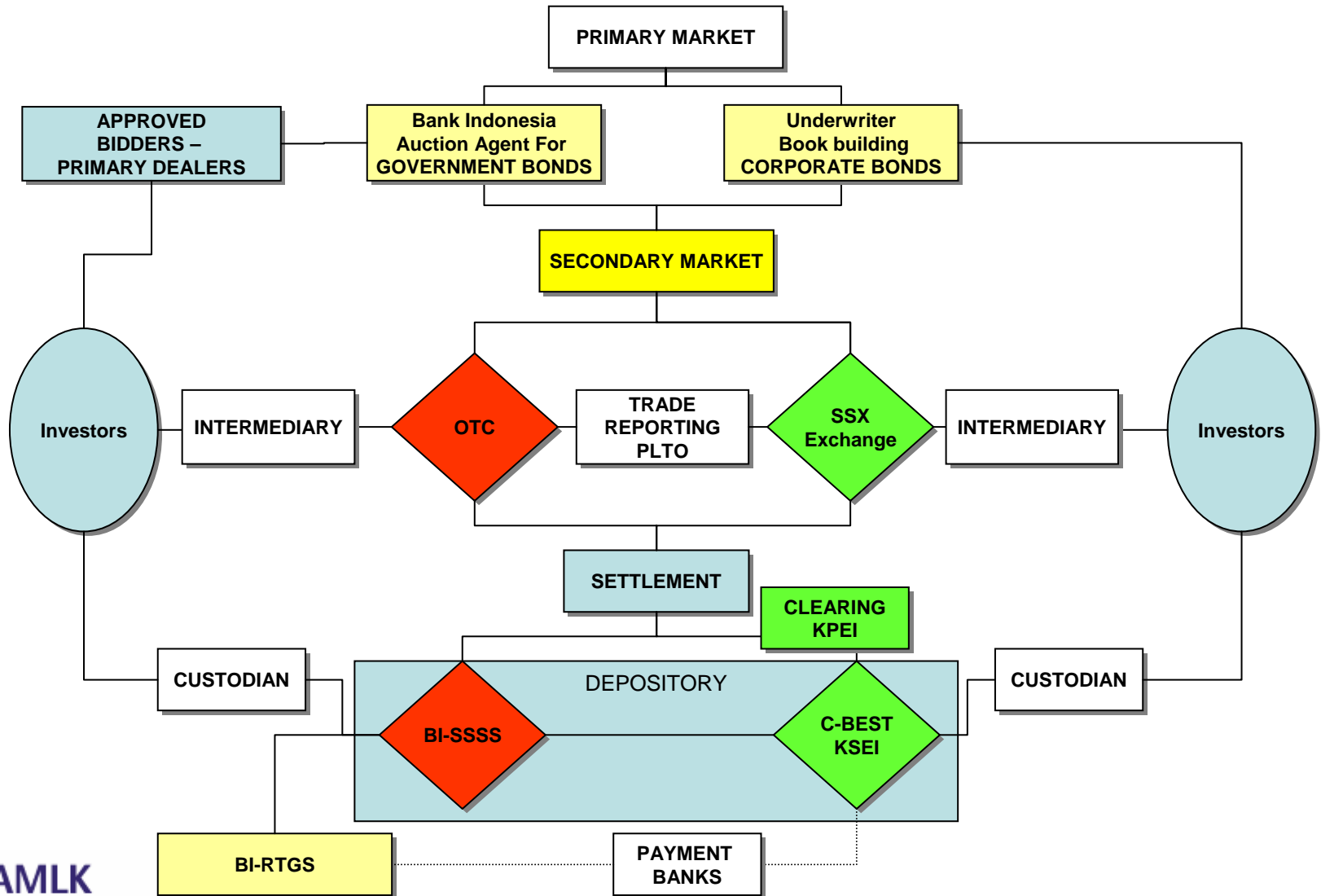
# Indonesian Bond Market

*An Analysis of The State of Market and Regulatory  
Development Path*

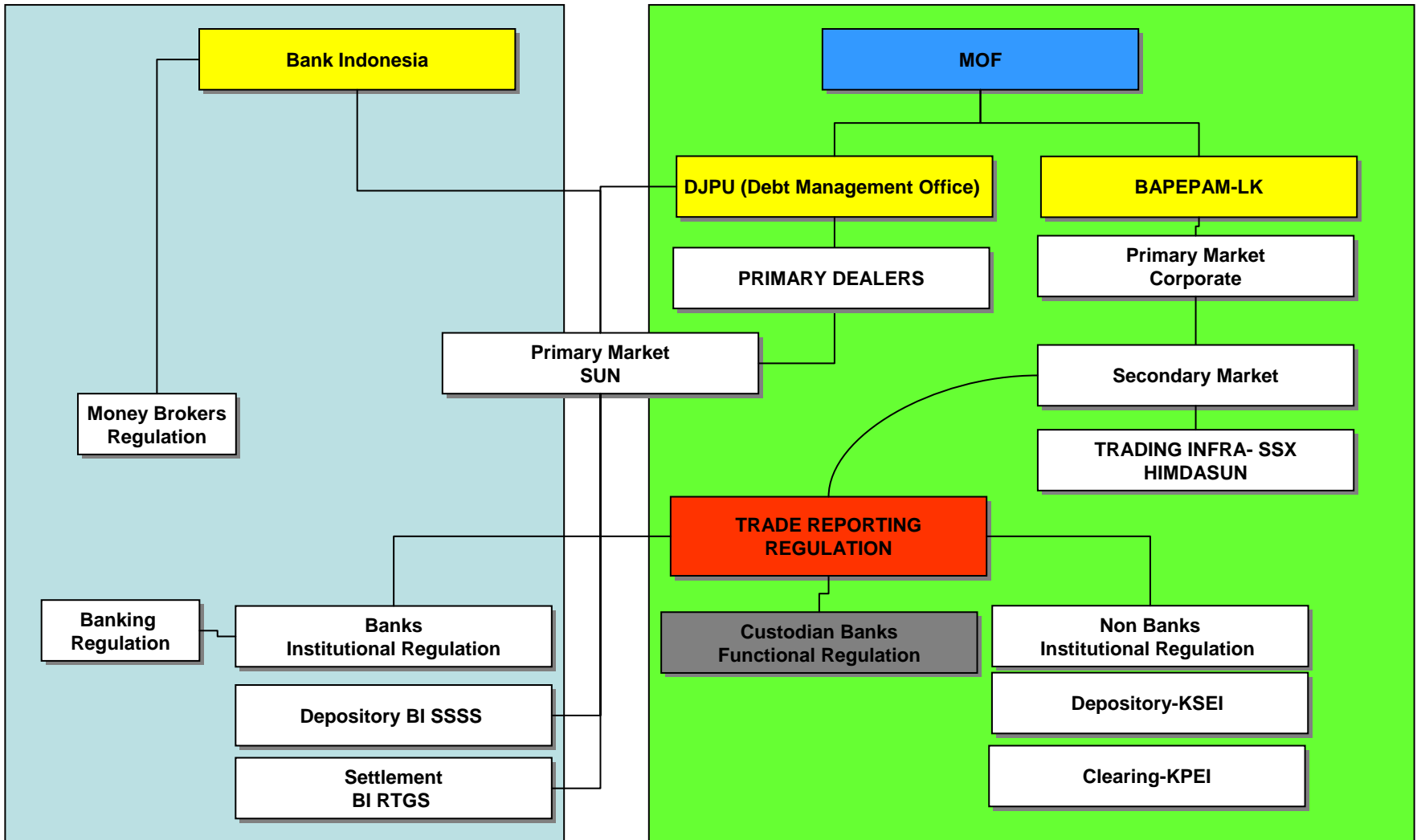
**Arif Baharudin**

***Head of Securities Transaction and  
Institution Bureau, Capital Market and  
Financial Institution Supervisory Agency,  
Ministry of Finance, Indonesia***

# Market Architecture



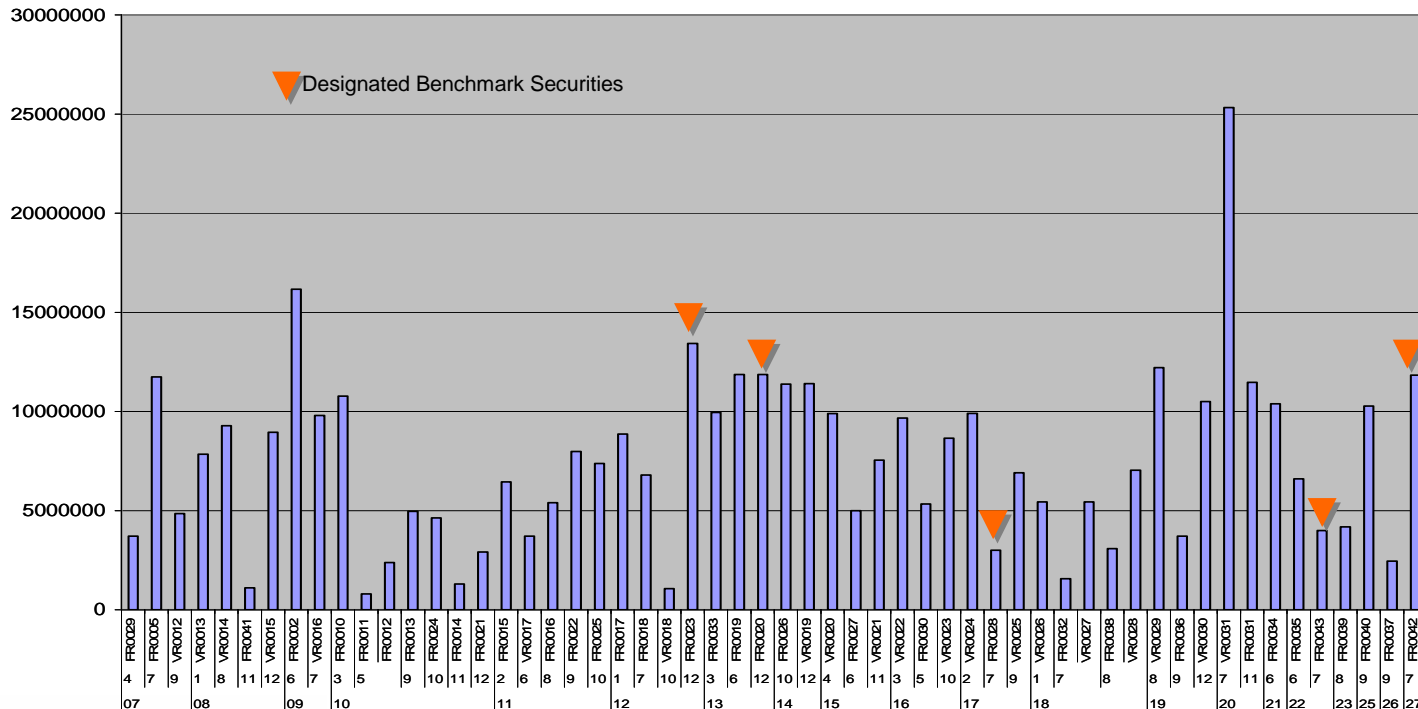
# Regulatory Environment Functional and Institutional



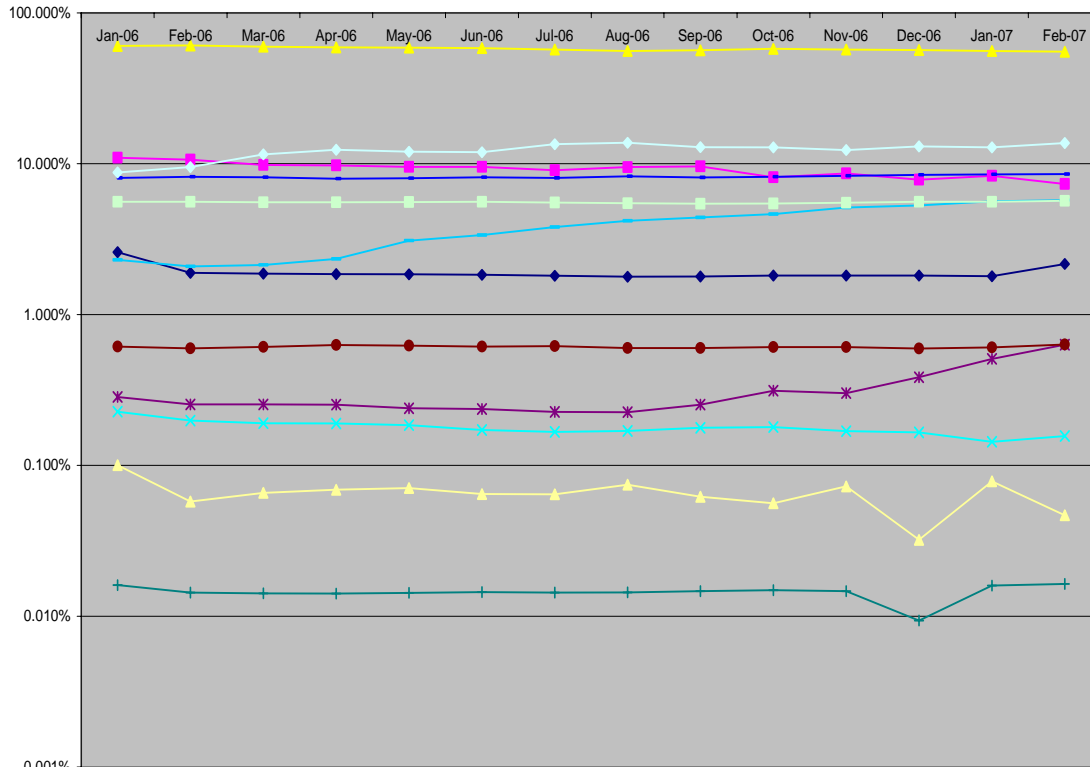
# SUN Profile – The Need for Benchmark

- ❑ Supply Side Imbalances, Switching Activities Reducing Short End of Curve
- ❑ Too many series with small issuance size
- ❑ Captive Demand of Securities

SUN Outstanding Profile in IDR Million As of End of Feb 2007



# Investor Diversity- SUN



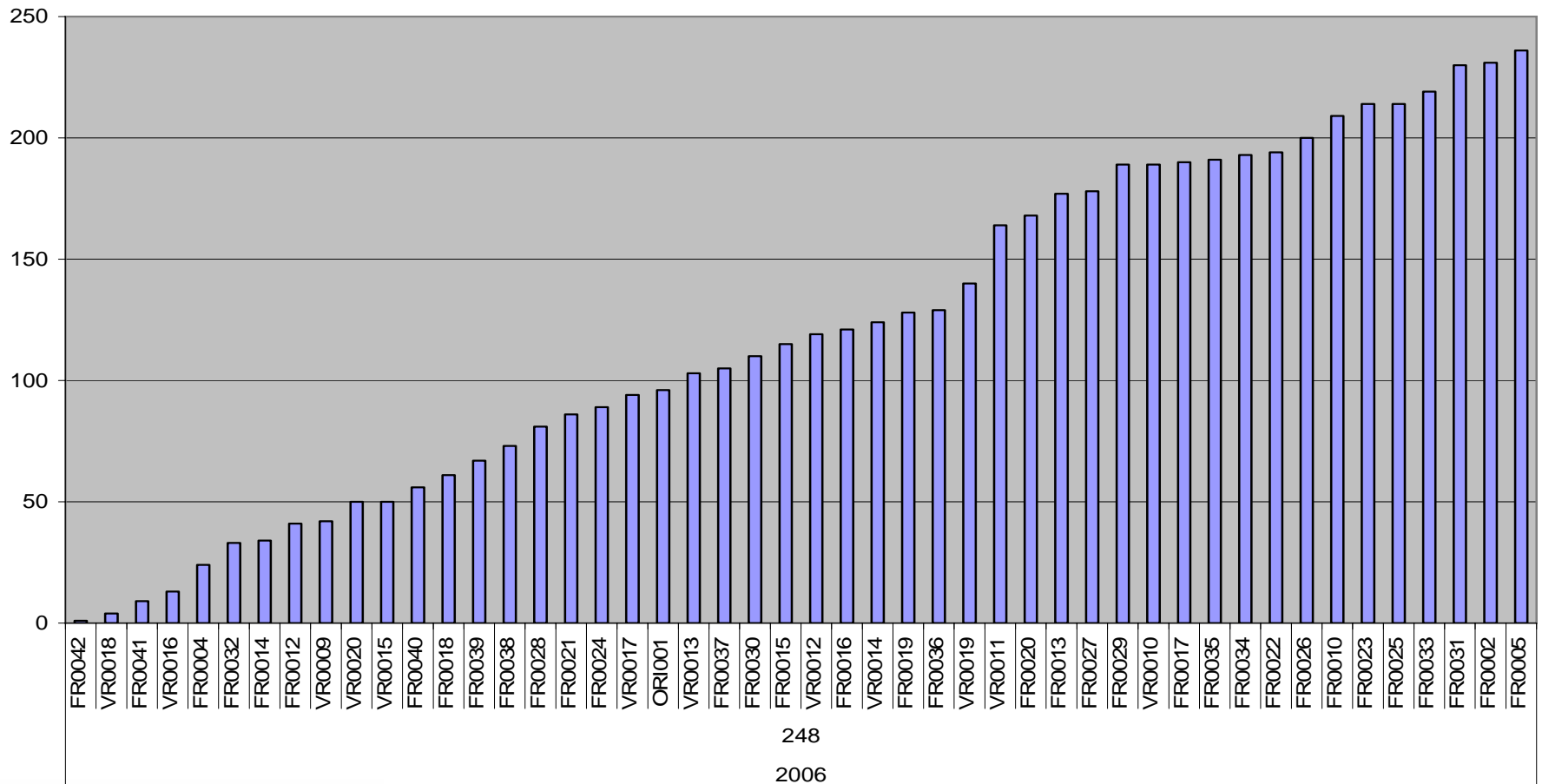
□ Recap Banks positions represent 70% of Total Tradable Securities

□ Non Bank Intermediaries (Sec Firm) have small inventory to act as Dealers.



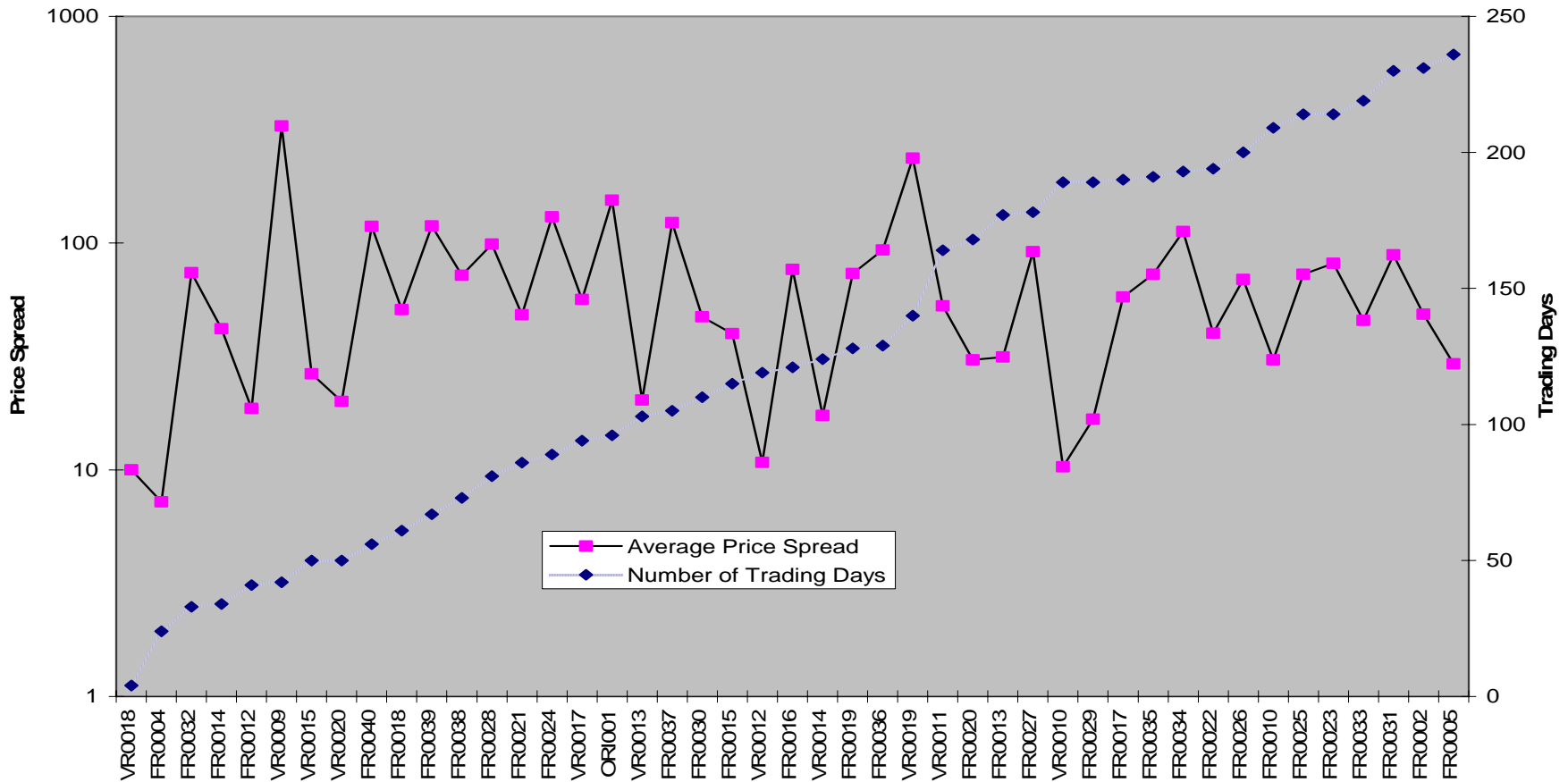
# SUN Trade Activity -Availability of Instruments

Number of Actual Trading Days for Each SUN  
Year 2006 with 248 Trading Days

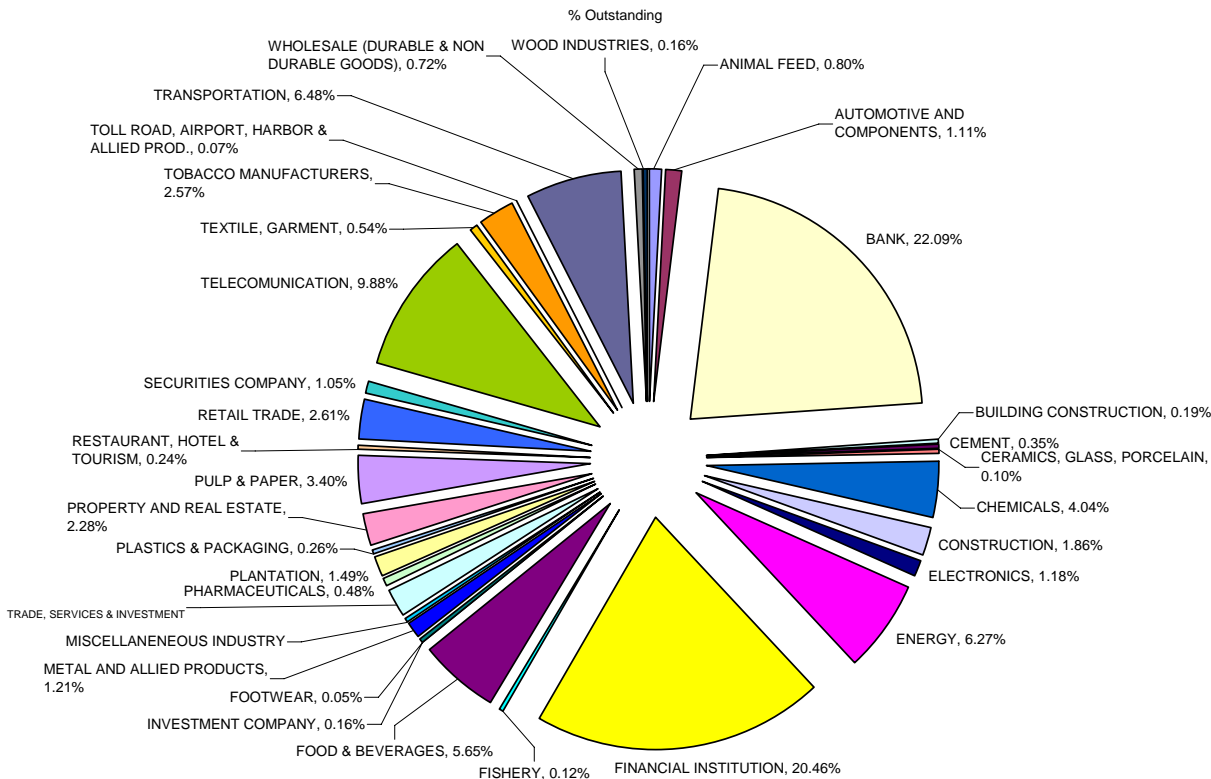


# 2006 SUN Volatility

Good Amount (> 10 Billion IDR) with Greater 2 Trade  
Year 2006



# Issuer Diversity Corporate Bonds



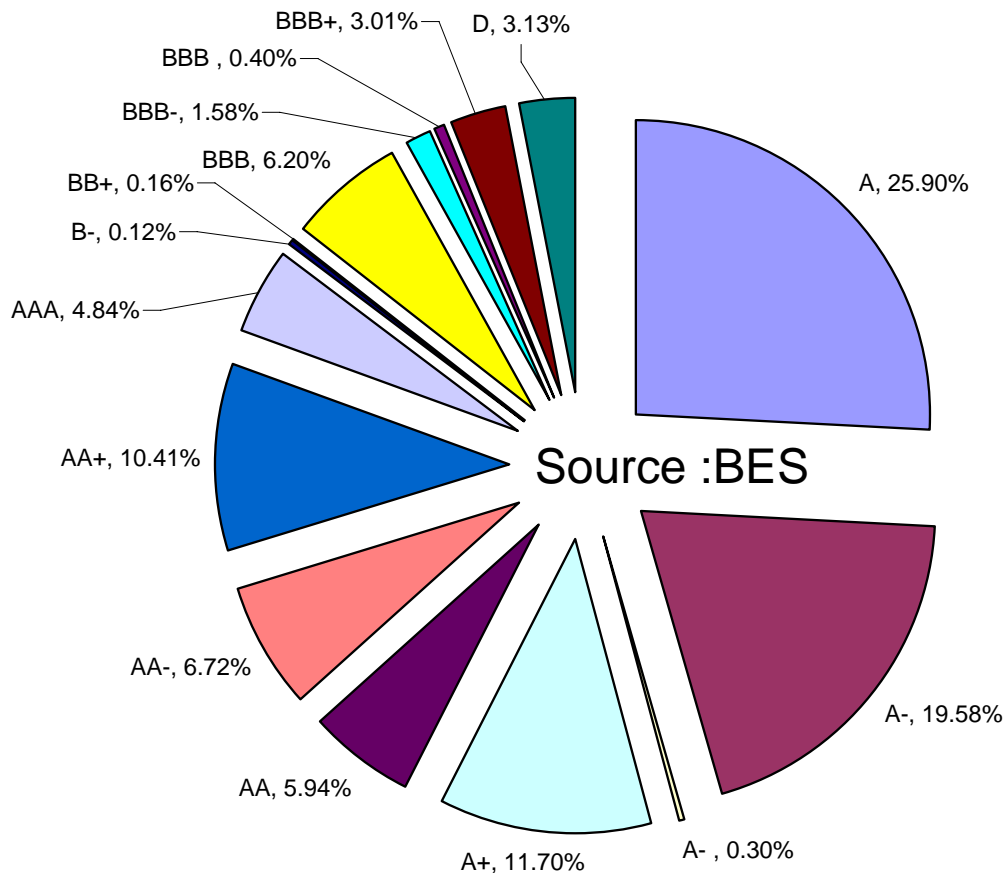
Source :KSEI

Corporate Bond Market Issuance Information			
Year	Instrument	Issuer	Value in Million
1983	7	3	154,718.00
1984	2	0	70,000.00
1985	3	0	130,000.00
1986	1	0	50,000.00
1987	3	0	131,000.00
1988	11	6	400,000.00
1989	24	13	619,500.00
1990	7	1	535,000.00
1991	3	1	125,000.00
1992	21	10	1,641,533.00
1993	16	9	1,905,000.00
1994	7	3	929,520.00
1995	9	4	2,003,130.00
1996	13	5	2,841,080.00
1997	24	15	7,204,992.00
1998	1	0	150,000.00
1999	9	6	4,283,960.00
2000	19	15	5,613,000.00
2001	6	3	2,875,000.00
2002	14	6	6,150,000.00
2003	57	36	26,023,093.00
2004	37	16	19,169,824.00
2005	22	7	8,250,000.00
2006	32	14	11,550,100.00
2007	10	3	2,100,000.00

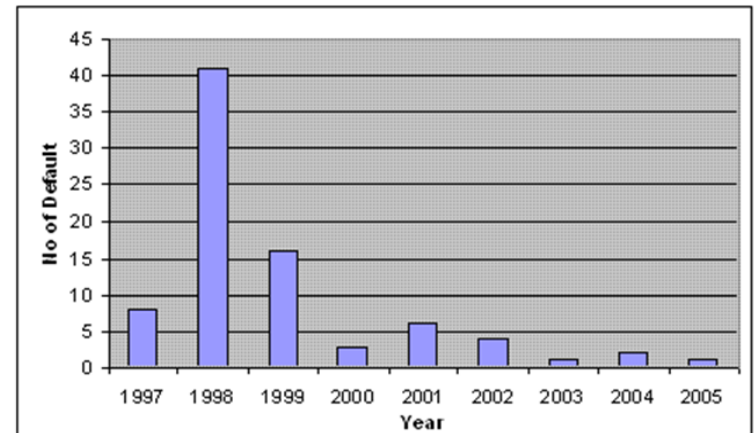
Source :BAPEPAM

# Credit Diversity

Outstanding By Rating Category

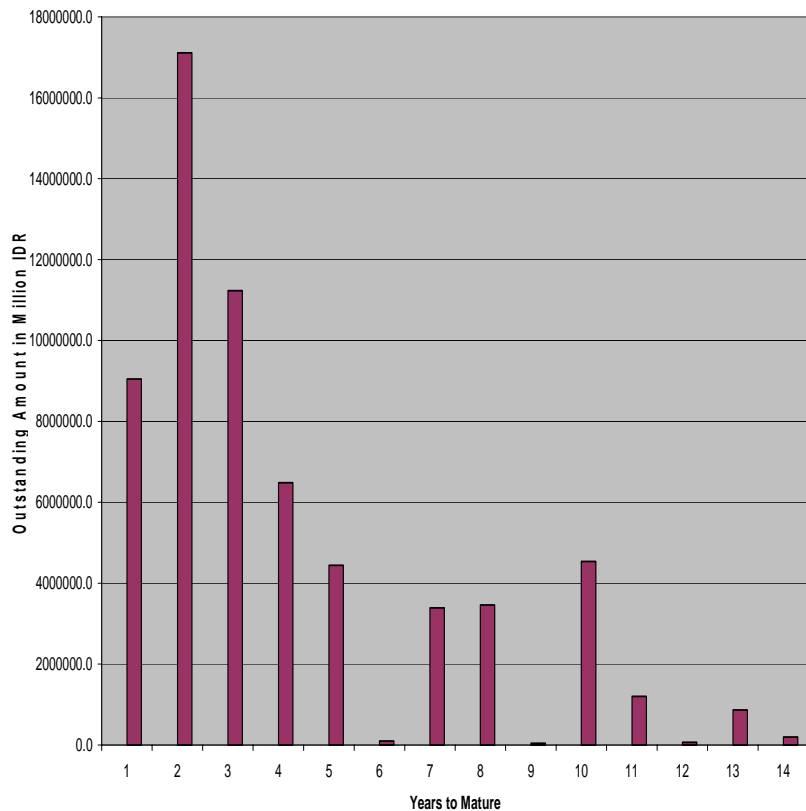


- ❑ Heavy Concentration in Single A Segment
- ❑ Overall Improvement in Defaults Events



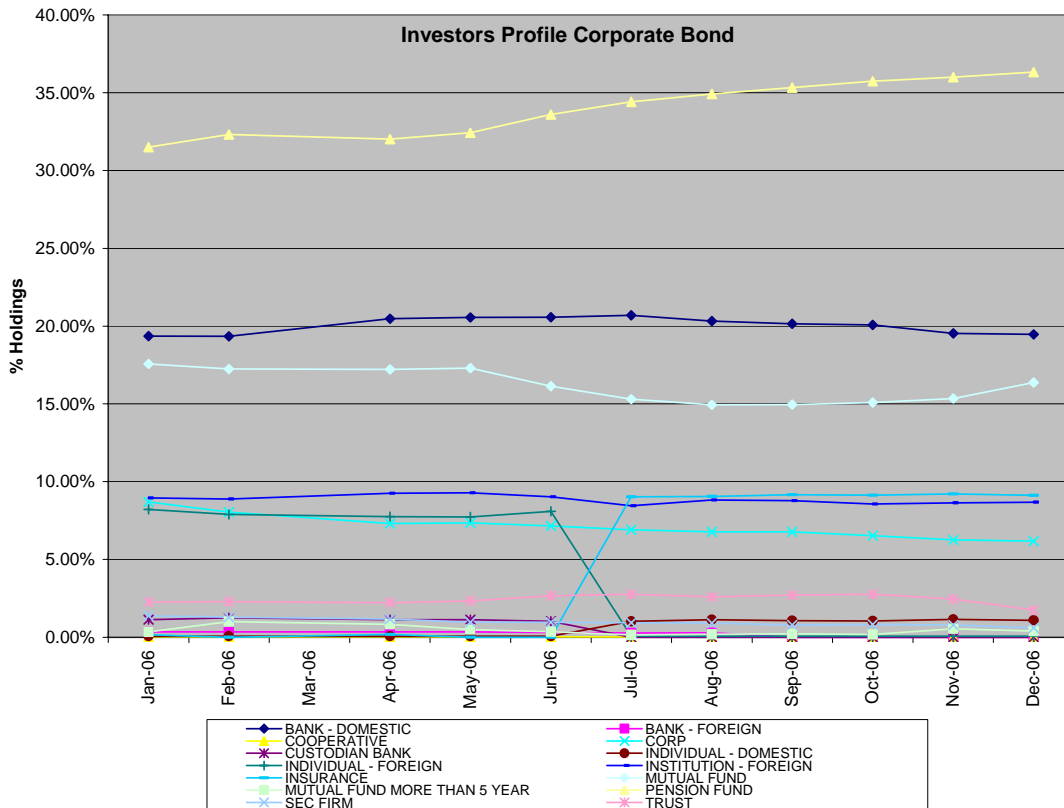
Source :PEFINDO Default Study

# Profile of Issuance Corporate Bond



- ❑ Mostly Straight Bonds with quarterly and semi-annual coupons
- ❑ Islamic Instruments represent 3.41% of total outstanding
  - ❑ Mixture of Ijarah and Mudharabah Issuance
- ❑ Concentration on Short Duration

# Investor Diversity- Corporate Bonds

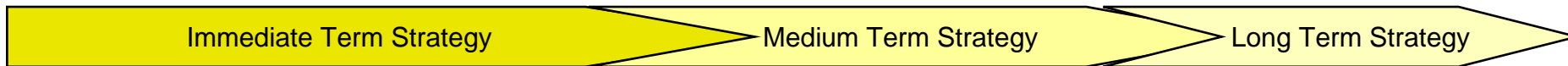


❑ Pension, Mutual Funds and Local Banks represent largest segment (**70% Holdings**)

❑ Foreign Banks in Indonesia have limited investment capacity due to Country Level Risk set by Global Investment Limits

❑ Limited Trading Activity in Secondary Market

# Policy Direction-Bond Market



- Market Organisation
- Market Access
- Transaction Cost
- Intermediary Mechanism

- Information Transparency
- Valuation and Pricing
- Strengthen Credit Function
- Information Access

- Facilitate Active Inventory Management Tools
- Improve Straight Thru Processing

- Improve Matching Activity
- Information Driven Market Supervision

- Develop Sukuk Market
- Develop Securitisation Market
- Develop Corporate Bond Segment

## Policy Action

- Primary Dealer
- Enhance Role of KSEI to facilitate SUN Depository Activity
- Review and Harmonise Transaction Tax
- Role of Bond Brokers

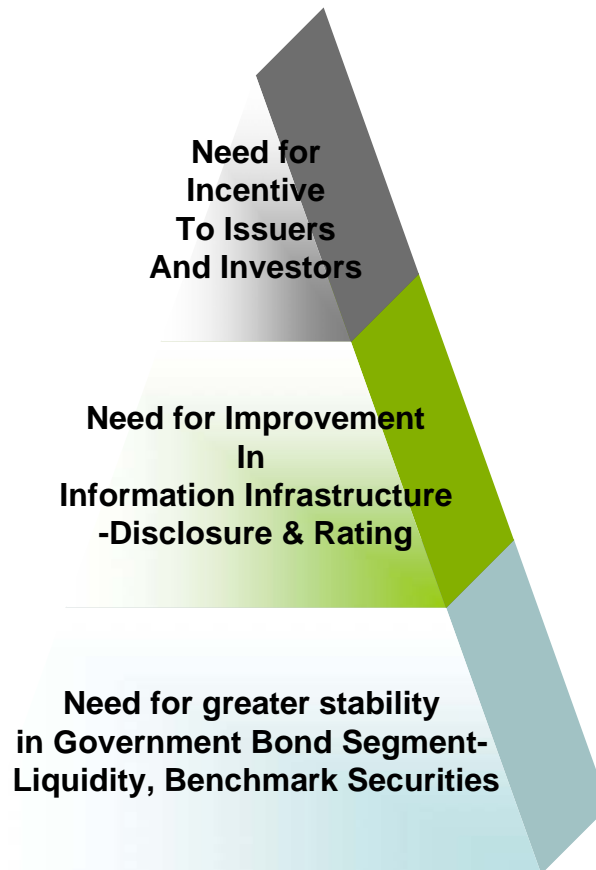
- Mandatory Trade Reporting
- Introduction of Bond Pricing Agency
- Mandatory Rating
- Enhance PRPM Function

- Develop active market driven Security Lending and Borrowing, REPO and Bond Futures Market
- Introduce Post Trade Processing Service

- Develop Low Cost and Low Risk Electronic Trading Platform
- Enhance KPEI Role to provide clearing activity in OTC Market
- Develop Capital Market Database

- Create facilitative tax environment for issuance
- Provide incentive for Issuers
- Market and Investors Education Program

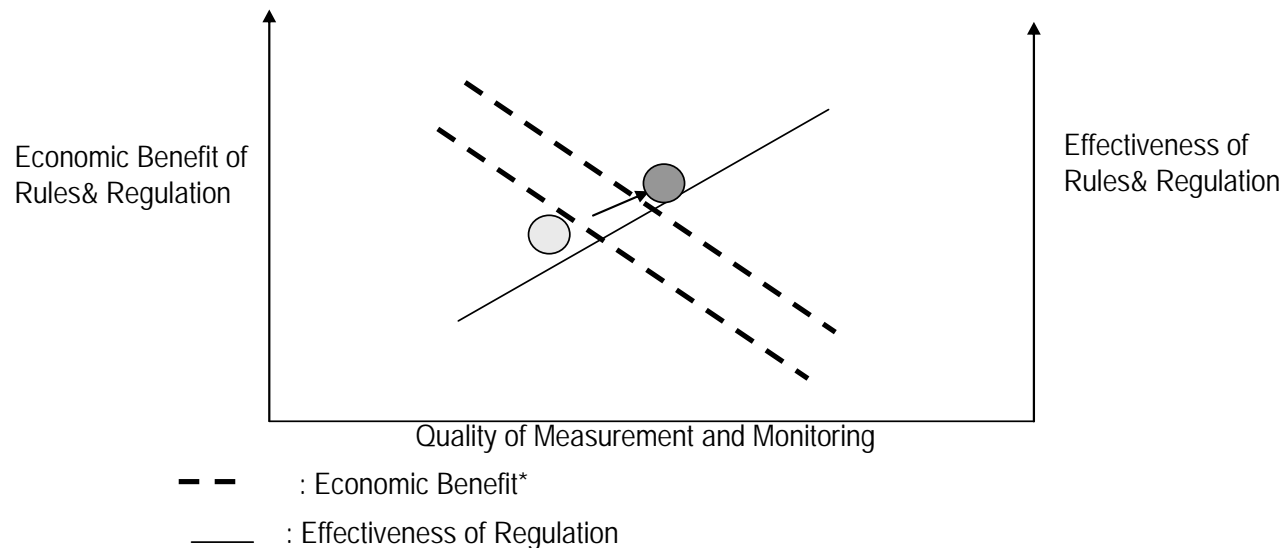
# Corporate Segment : Prioritization, Issues and Challenges



- ✓ Concerted efforts in building a stable base market (Government Bond Segment)
- ✓ Public Private Partnership
  - Enhancement of Rating Agencies Function via BAPEPAM Regulation
  - Creation of Regulatory Framework for Bond Pricing Agency
- ✓ On-Going Comprehensive Re-Evaluation of Taxation Structure in Capital Market

# Conclusion

- Coordination among Regulatory Agency is a major key success factors



- Economic Benefit = Economic Benefit – Cost of creating and maintaining Measurement and Monitoring Function.