FOREIGN EXCHANGE TRANSACTION AGAINST RUPIAH

In early September, Bank Indonesia issued two Bank Indonesia Regulations regarding foreign exchange transactions against Rupiah: (i) Bank Indonesia Regulation No. 18/18/PBI/2016 on Foreign Exchange Transactions against Rupiah between Banks and Domestic Parties (“PBI 18/18”) and (ii) Bank Indonesia Regulation No. 18/19/PBI/2016 on Foreign Exchange Transactions against Rupiah between Banks and Foreign Parties (“PBI 18/19”). These two Bank Indonesia regulations replace certain Bank Indonesia regulations, including certain provisions under Bank Indonesia Regulation No. 7/31/PBI/2005 on Derivative Transactions and its amendments; Bank Indonesia Regulation No. 16/16/PBI/2014 on Foreign Exchange Transactions against Rupiah between Banks and Domestic Parties; and Bank Indonesia Regulation No. 16/17/PBI/2014 on Foreign Exchange Transactions against Rupiah between Banks and Foreign Parties. As a general rule, to conduct a foreign exchange transaction against Rupiah, banks must satisfy the following requirements:

1. those imposed by the banking authority(ies) under which only a certain category of bank is allowed to conduct foreign exchange transactions;
2. implement risk management as required under the banking authority(ies) regulations on the implementation of risk management in banks;
3. provide training on foreign exchange transactions against Rupiah to customers; and
4. comply with the Bank Indonesia regulation on the mandatory use of Rupiah.

PBI 18/18

Banks may conduct foreign exchange transactions against Rupiah for their own interests or for the interests of domestic parties under an agreement.

Foreign exchange transactions against Rupiah consist of the following

1. Spot transactions;
2. Foreign Exchange Derivative Transactions against Rupiah, which consist of (i) standard derivative transactions (plain vanilla), ie forward, swap, option, and cross currency swap (CCS) transactions; and (ii) structured product foreign exchange transactions against Rupiah (in the form of Call Spread Options).

Types of transaction and thresholds

Image not found or type unknown

Exemptions

1. According to PBI 18/18, the above does not apply for the completion of derivative foreign exchange transactions against initial Rupiah conducted in the following circumstances: i) rollover transaction during the term of roll over and at the latest within the initial underlying transaction; ii) early termination of the transaction; or iii) termination or unwinding of the transaction.
2. Foreign exchange transactions against Rupiah among banks do not require an underlying transaction.

Completion

Spot transactions (discussed above in 1.), if conducted between a bank and a customer or between banks must be conducted by transferring the principal amount in full. However, the other types of transaction discussed in 2. and 3. above can be conducted by either netting (only for rollover, early termination, and termination/unwinding transactions) **or** transferring the principal amount in full.

PBI 18/19

Article 1. of PBI 18/19, defines foreign parties as:

1. foreign citizens;
2. foreign entities or foreign agencies;
3. Indonesian citizens who are permanent residents in another country and are not domiciled in Indonesia;
4. overseas bank offices of banks whose headquarters are in Indonesia;
5. overseas company offices of Indonesian legal entities.

Banks may conduct foreign exchange transactions against Rupiah with foreign parties under a contract/agreement. Foreign exchange transactions against Rupiah consist of the following

1. Spot transactions;
2. Foreign Exchange Derivative Transactions against Rupiah, which consist of (i) standard derivative transactions (plain vanilla), in the form of forward, swap, option, and cross currency swap (CCS) transactions; and (ii) structured product foreign exchange

transactions against Rupiah in the form of Call Spread Options.

Types of transaction and thresholds

Image not found or type unknown

Completion

Spot transactions (discussed above in 1.) between banks and foreign parties must be conducted by transferring the principal amount in full. However, for the other types of transaction discussed in 2. and 3. above can be conducted by either netting (only for rollover, early termination, and termination/unwinding transactions) **or** transferring the principal amount in full.

Prohibitions

Banks may not engage in the following with foreign parties:

1. providing credit or financing in Rupiah and/or foreign exchange (subject to certain exemptions, eg financing or guarantees related to investment activities in Indonesia for which a counter guarantee from a prime bank has been obtained);
2. placements in Rupiah;
3. purchasing commercial paper in Rupiah issued by foreign parties;
4. intercompany invoicing in Rupiah;
5. intercompany invoicing in foreign exchange in order to provide credit or financing overseas; and
6. capital participation in Rupiah.

Transferring Rupiah to Foreign Parties

Banks may not transfer Rupiah overseas. However, banks may transfer Rupiah to accounts held by foreign parties and/or held jointly by foreign parties and Indonesian parties, in banks in Indonesia if:

1. the nominal Rupiah value transferred is up to the equivalent of USD1,000,000 per day, per foreign party; or
2. the transfers are among Rupiah accounts held by the same foreign parties.

If the nominal value of a Rupiah transfer to an account held by a foreign party generated from a transaction other than a Derivative Foreign Exchange against Rupiah Transaction is more than USD1,000,000, the recipient bank must ensure that the foreign party has an underlying transaction.