Securities Services

# Salam Indonesia Knowledge Series: SRBI

Insights to Sekuritas Rupiah Bank Indonesia

**Deutsche Bank**

# Contents

# 1. Introduction

The Bank Indonesia Rupiah Securities (SRBI) is a new pro-market monetary operation instrument introduced by Bank Indonesia (BI) in August 2023. The SRBI is designed to replace the existing reverse repo facility and operation twist bond sales, with its issuance started around mid-September 2023. The SRBI is IDR-denominated and is issued on the underlying tradable assets of government bonds owned by the BI. The SRBI is offered through variable rate tender auctions for 6M, 9M and 12M tenors and is tradeable by domestic and foreign investors in the secondary market.

The introduction of SRBIs has three main objectives: Firstly, to deepen IDR money markets by introducing a new instrument that would be tradable, easily accessible and liquid. Secondly, to optimise the SBNs (government securities) held by BI and to issue SRBIs to improve transmission of rate hikes to money market rates. Lastly, to attract carry-seeking foreign funds/ FII flows to support IDR stability at a time when the current account has fallen back into deficit and government issuances has been slowing.

**Key benefits:**

- The SRBI is comparable to the short-term SBI (Bank Indonesia Certificate) which used to be issued earlier, carrying similar characteristics but without using SBNs as the underlying asset

- The SRBI provides added flexibility for foreign investors to optimise risk exposures

- It is expected to garner significant interest due to fiscal outperformance which has lowered incremental bond issuance

- The SRBI can yield as high as 7.53% and BI holds significant control over the level of SRBI yields, by controlling the size and pace of issuances

- The SRBI is expected to be welcomed by investor groups, particularly banks and foreign investors. The low supply of SPN (Indonesia Treasury Bills) and relative illiquidity and difficulty of sourcing SPN have been challenges for carry-seeking investors

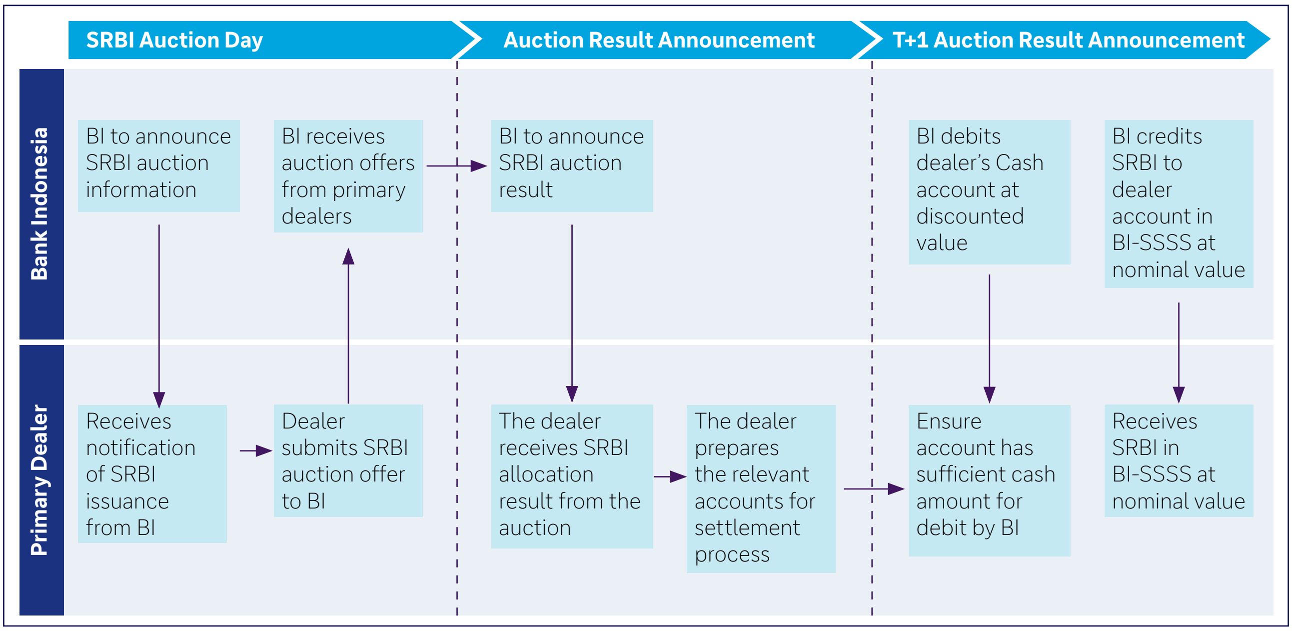
# 2. Securities Description

| Information | Sekuritas Rupiah Bank Indonesia (SRBI) |
|---|---|
| Underlying asset | Government debt securities owned by BI |
| Tenor | 1 week up to 12 months |
| Format | Scripless |
| Yield | Discounted |
| First issuance | September 15, 2023 |
| Settlement cycle | <= T+1 (For primary market) |
| Settlement platform | BI-SSSS |
| Primary market | Can only be purchased by onshore banks that are also open market operations participants as primary dealer |
| Secondary market | SRBI is transferable and can be owned by non-banks (resident or non-resident) |
| Bidding value | Minimum bidding value is IDR 1 billion with IDR 100 million for subsequent bid |
| Price fraction | IDR 1 million |

# 3. Primary Market

## 1. Transaction Flow

Please find below the typical transaction flow in the primary market:




*Note: Deutsche Bank Indonesia is a BI-licensed Primary Dealer and is able to offer the above services.*

## 2. Buyers

In the primary market, SRBI will only be available for purchase to commercial banks as participants of conventional Open Market Operations either directly or via an intermediary institution.

## 3. Valuation and Pricing

- In the primary market, SRBI auction process can be conducted in two tender mechanisms: fixed rate tender and variable rate tender
- Fixed-rate bids specify the nominal value of the SRBI, while variable-rate bids specify the nominal value and discount rate
- The auction information that BI discloses includes window time, tenors, maturity date, auction mechanism, indicative target (if auction is conducted with variable rate tender mechanism), SRBI discount rate (if auction is conducted in fixed rate tender mechanism), settlement date and time
- In fixed-rate auctions, all winning bids are awarded the full amount of SRBI they bid for
- In variable-rate auctions, winning bids are awarded the full amount of SRBI they bid for if their discount rate is lower than the Stop Out Rate (SOR). If the discount rate is equal to the SOR, the amount of SRBI awarded is determined proportionally

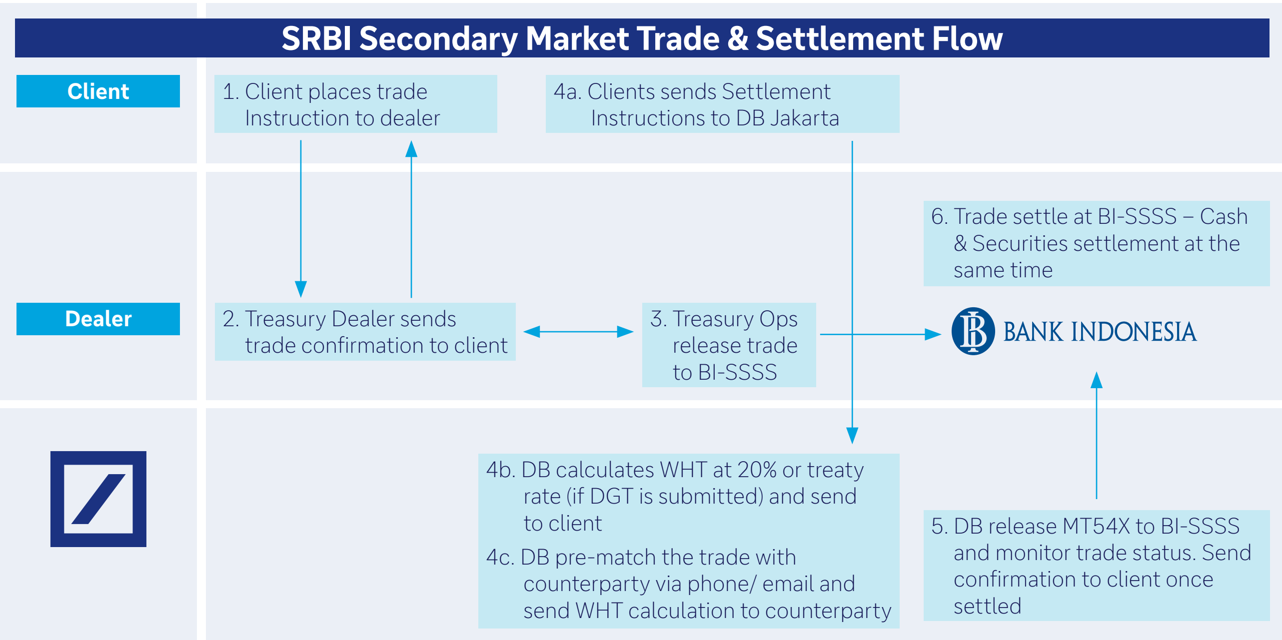
## 4. Trading Times

In the primary market, BI announces the SRBI auction schedule in BI-ETP system. BI used to conduct the auction twice per week until August 2024 when BI changed the schedule to once per week.

# 4. Secondary Market

## 1. Transaction Flow

In the secondary market, the trading is typically done over the counter. Investors can buy SRBI via bank's market business and the trade will be settled in BI-SSSS. The trade settlement flow is as follows:



## 2. Buyers

In the secondary market, domestic and foreign non-bank entities such as investment managers, insurance companies, and other nonbank financial institutions are allowed to purchase the securities from banks and other participants that own the SRBI.

## 3. Valuation and Pricing

In the secondary market, for accounting purposes, the pricing and valuation are under seller's discretion based on the fair market price. Typically for debt securities, market participants use fair market price from market platforms (i.e., Bloomberg, Reuters) or PT Penilai Harga Efek Indonesia (Indonesia Bond Pricing Association – PHEI).

## 4. Trading Times

In the secondary market, the trading floor operates on official exchange days, which are Monday through Friday, excluding public holidays. During these days, trading activities commence at 09:00 hours and continue until 15:00 hours local time (GMT+7).

# 5. Custody Mechanism

The safekeeping and settlement of SRBI is maintained in Bank Indonesia Scripless Securities Settlement System (BI-SSSS), and therefore the mechanism follows that of government bonds. Investments in SRBI will be reflected accordingly in investor's securities account with custodian bank.

Deutsche Bank will be able to offer custodian services for this instrument.

As of July 31, 2024, there are no specific regulations on investors' reporting requirements to regulator for SRBI.

# 6. Taxation Treatment

Please find below the taxation treatment and details for SRBI:

<table>
<tr><th rowspan="2">Type of Events</th><th colspan="3">Resident</th><th colspan="3">Non-Resident</th></tr>
<tr><th>Income Treatment</th><th>WHT Rate</th><th>Exempted Parties</th><th>Income Treatment</th><th>WHT Rate</th><th>Exempted Parties</th></tr>
<tr><td>Transaction</td><td>Discounted (Positive difference between selling price and acquisition price)</td><td>20%</td><td rowspan="2">1. Bank established in Indonesia<br>2. Branch of foreign bank in Indonesia<br>3. Indonesian pension fund approved by Minister of Finance or Indonesia Financial Services Authority (OJK) and can provide tax exemption letter (SKB) issued by tax office.<br>4. Principal securities amount does not exceed of IDR 7.500.000</td><td>Referring to definition of interest in Tax Treaty:<br>1. If the definition of interest in the tax treaty refers to taxation laws of the state in which the income arises, then the income will be treated as interest income<br>2. If the definition of interest in the tax treaty does not refer to definition in point 1, then the income will be treated as capital gain income</td><td>20%<br>or<br>Withholding Tax Treaty Rate</td><td>Refer to respective tax treaty</td></tr>
<tr><td>Maturity</td><td>Interest Income<br>(Positive difference between nominal value of SRBI and acquisition price)</td><td>20%</td><td>Interest Income</td><td>20%<br>or<br>Withholding Tax Treaty Rate</td><td>Refer to respective tax treaty</td></tr>
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