

THE CAPITAL MARKET AND NON BANK FINANCIAL INDUSTRY MASTER PLAN

2010 - 2014



Ministry of Finance of the Republic of Indonesia

Indonesia Capital Market and Financial Institutions Supervisory Agency

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TABLE OF CONTENTS

8	FINANCE MINISTER STATEMENT	
10	CHAIRMAN STATEMENT	
12	EXECUTIVE SUMMARY	
34	OUTLOOK	
36	A. Introduction	
37	B. Capital Market Performance	
46	C. Non Bank Financial Industry Performance	
54	D. Sharia Capital Market and Sharia Non Bank Financial Industry Performance	
58	VISION, MISSION AND OBJECTIVE	
60	OBJECTIVE I	: EASILY ACCESSIBLE, EFFICIENT AND COMPETITIVE SOURCE OF FUNDS
63	STRATEGY 1	: REDUCING CONSTRAINTS FOR BUSINESS COMMUNITIES TO ACCESS CAPITAL MARKET FOR SOURCE OF FUNDS
64		Program 1: Streamlining Requirements, Processes and Procedures of Public Offerings
64		Program 2: Rationalizing Information Disclosure Obligations for Issuers
63	STRATEGY 2	: INCREASING PUBLIC ACCESSIBILITY TO FINANCE AND GUARANTEE INSTITUTIONS
67		Program 1: Encouraging Expansion of Finance and Guarantee Institution Networks
70		Program 2: Encouraging the Development of Finance and Guarantee Products
71	STRATEGY 3	: IMPROVING THE ROLE of PROFESSIONALS, SUPPORTING INSTITUTIONS AND UNDERWRITERS IN PUBLIC OFFERINGS
71		Program 1: Repositioning of Professional Functions in Public Offerings and Corporate Actions
72		Program 2: Encouraging Fair Competition among Professionals, Supporting Institutions, Underwriters and Rating Agencies
74	OBJECTIVE II	: CONDUCIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS RELIABLE RISK MANAGEMENT
77	STRATEGY 1	: INCREASING THE DISTRIBUTION AND QUALITY OF INFORMATION DISCLOSURE
77		Program 1: Increasing the Effectiveness in the Implementation of E-Reporting
80		Program 2: Encouraging the Industry to Provide Quality Information
81	STRATEGY 2	: ENCOURAGING DIVERSIFICATION OF CAPITAL MARKET INSTRUMENTS AND NBFI SERVICE SCHEMES
81		Program 1: Enhancing the Flexibility of Financing Schemes and Voluntary Pension Program Benefit Payment Schemes
82		Program 2: Encouraging Development of Insurance Products that Support Long-Term Family Financial Planning
83		Program 3: Encouraging the Development of Insurance Products for Risk Mitigation Including Micro Insurance
83		Program 4: Encouraging the Development of Securitized Products and Hedging Instruments
84		Program 5: Enhancing the Availability of Retail and Small Medium Enterprises Investment Products

**THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014**

85	STRATEGY 3	: DEVELOPING SHARIA CAPITAL MARKET AND SHARIA NON BANK FINANCIAL INDUSTRY (NBFI)
85		Program 1: Developing Regulatory Framework that Supports the Development of Sharia Capital Market and Non Bank Financial Industry (NBFI)
87		Program 2: Developing Sharia Capital Market and NBFI Products
88		Program 3: Promoting Equality Between Sharia Based Financial Products and Conventional Financial Products
88		Program 4: Enhancing the Development of Human Resources in Sharia Capital Market and NBFI
90	STRATEGY 4	: IMPROVING THE EASE OF TRANSACTIONS
91		Program 1: Encouraging the Development of Effective Marketing Channels for Insurance and Investment Products
91		Program 2: Encouraging the Implementation of E-Channel in Investment Management Industry
92	STRATEGY 5	: DEVELOPING SCHEME TO PROTECT INVESTORS AND CUSTOMERS
92		Program 1: Increasing the Use of Investor Area
93		Program 2: Establishing Securities Investor Protection Fund / SIPF
93		Program 3: Increasing Securities Portfolios and Customers Funds Monitoring in Securities Companies
94		Program 4: Developing Insurance Guarantee Scheme
95		Program 5: Establishing Mediation Institution by the Indonesian Pension Funds Association
95	STRATEGY 6	: DEVELOPING SECONDARY MARKET OF BONDS AND SUKUK AS WELL AS A SUPERVISORY MECHANISM
96		Program 1: Developing Repurchase Agreement Market
96		Program 2: Increasing Supervision of Bond and Sukuk Markets
97		Program 3: Improving Infrastructure of Bond and Sukuk Trading
97		Program 4: Setting Benchmark for Evaluating the Credible Fair Market Price
102	OBJECTIVE III	: A STABLE, RESILIENT AND LIQUID INDUSTRY
105	STRATEGY 1	: INCREASING MARKET PLAYERS QUALITY
105		Program 1: Enhancing Individual Players Quality
107		Program 2: Enhancing Institutional Players Quality
108	STRATEGY 2	: ENCOURAGING GOOD CORPORATE GOVERNANCE PRACTICE
109		Program 1: Developing Good Corporate Governance Guidelines
109		Program 2: Improving Good Corporate Governance Regulations According to International Standards
110		Program 3: Enhancing Good Corporate Governance Implementation Quality
110	STRATEGY 3	: IMPROVING RISK MANAGEMENT INDUSTRY CAPABILITY
111		Program 1: Enhancing Corporate Risk Management Quality
111		Program 2: Enhancing Clearing and Settlement Guarantees Risk Management for Market Transactions
112		Program 3: Preparing Business Continuity Plan (BCP)
113		Program 4: Implementing and Developing Crisis Management Protocol (CMP)

TABLE OF CONTENTS

113	STRATEGY 4	: IMPROVING SUPERVISION CAPACITY ON INDUSTRY PLAYERS
114		Program 1: Supporting Risk Based Supervision Implementation
116		Program 2: Developing Single Identity for Investor (Single Investor Identity / SID)
116		Program 3: Developing and Utilizing Early Warning System on Risks Related to Securities Transactions, Market Manipulation and Insider Trading
116		Program 4: Enhancing Public Accountants and Securities Rating Agencies Supervision
117	STRATEGY 5	: IMPROVING DOMESTIC INVESTOR BASE AND LONG TERM FUNDS
117		Program 1: Enhancing Industry Players Role in Increasing the Number of Domestic Investors
118		Program 2: Implementing Focused and Integrated Socialization and Education
119		Program 3: Encouraging Mandatory Pension and Insurance Programs Implementation
124	OBJECTIVE IV	: FAIR AND TRANSPARENT REGULATORY FRAMEWORK WHICH GUARANTEES LEGAL CERTAINTY
127	STRATEGY 1	: IMPROVING LEGAL ENFORCEMENT QUALITY
127		Program 1: Providing Additional Authority to Obtain Important Information
128		Program 2: Improving Criminal Provisions and a More Firm Sanction Formulation
128		Program 3: Providing Additional Authority to Encourage an Effective Coordination Among Legal Enforcers Domestically and Overseas
129		Program 4: Developing Capital Market Intelligence Capability
130	STRATEGY 2	: HARMONIZING REGULATION AMONG THE INDUSTRIES AND MEETING INTERNATIONAL STANDARD
130		Program 1: Preparing Regulation that Grows Synergy between Capital Market and NBFI Industries
131		Program 2: Developing and Drafting Regulations According to International Standard / Practice
131	STRATEGY 3	: DRAFTING REGULATIONS BASED ON THE NEED AND DEVELOPMENT OF THE INDUSTRY
132		Program 1: Encouraging the Participation of Industrial Players in the Process of Drafting the Regulation
133		Program 2: Promoting Research-Based Regulation
135	STRATEGY 4	: IMPROVING THE QUALITY OF FINANCIAL INFORMATION TRANSPARENCY OF PLAYERS OF CAPITAL MARKET AND NBFI
136		Program 1: Supporting Convergence of Accounting Standard
136		Program 2: Improving / Issuing Accounting Regulation According to the Statement of Financial Accounting Standard / International Standard
136		Program 3: Developing Accounting Standard fo Capital Market and NBFI Players

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

138	OBJECTIVE V	: A CREDIBLE, RELIABLE INTERNATIONAL STANDARD INFRASTRUCTURE
141	STRATEGY 1	: DEVELOPING INTEGRATED SECURITIES TRADING SYSTEM (STRAIGHT THROUGH PROCESSING)
143		Program 1: Maximizing the Capacity of Stock Exchange Trading System
143		Program 2: Enhancing the Capacity of Clearing and Guarantee Institution System (LKP in Indonesian acronym)
144		Program 3: Enhancing the Capacity of Central Securities Depository System (LPP in Indonesian acronym)
144		Program 4: Integrating the System of Stock Exchange, Clearing and Guarantee, and Central Securities Depository with Participant
145	STRATEGY 2	: DEVELOPING RELIABLE INFORMATION SYSTEM
145		Program 1: Optimizing Information and Communication Technology Utilization
147		Program 2: Developing Data Center
147		Program 3: Improving Communication Information Technology Governance
148		Program 4: Preparing Bapepam-LK Business Continuity Plan
149	ACTION PLAN	

FINANCE MINISTER STATEMENT



Capital market and non-bank financial industry are sub sectors that play a very important role in spinning the wheel of national economy, both as a source of financing for business entities and as investment vehicles for investors. The ever-dynamic globalization process in financial sector, more complex risk exposures as the consequence of rapid information technology advancement and financial innovation that give ways to issuance of complicated financial products, and conglomerate of financial institutions have become hot issues grabbing the spot lights in domestic, regional and global level discussions. This setting presents a challenge for regulator to take position and to develop domestic financial industry in such a way that enable it to run its function effectively and efficiently in an effort to support business activities in real sector both in term of small and big scale.

Thus, I fully support the formulation of this Master Plan because it can serves as a guidance in developing capital market and non-bank financial industry for the next five years as well as to provide a clear parameter for executing agency and its staffs carrying out mandate from the state to guide, regulate, and supervise activities in capital market and non-bank financial institution. Apart from that, this Master Plan can also give direction for market players as it contains description of future development initiatives. Market players need this direction in determining positions that they will take and deciding roles that they will play. In addition, clear agenda on future development initiatives will assist market players in developing their business plans.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Recent global financial crisis whose impacts have left considerable marks in the context of today's global economic recovery should convince us that a comprehensive financial sector reform must be continued. Hence, this Master Plan is also a set of strategic planning and activities programs that can tackle challenges ahead of us.

This 2010 Master Plan for capital market and non-bank financial industry is expected to provide guidance to all stakeholders in this industry. Consequently, all stakeholders are equally responsible for the success in achieving all targets set in the Master Plan.

With high determination and strong commitment from regulator and industry players in implementing all strategies and programs set in this Master Plan, I am sure that all industry objectives in the Master Plan for the next five years can be realized.

Jakarta, October 2010

Agus D.W. Martowardojo

Finance Minister

CHAIRMAN STATEMENT



2010-2014 Indonesian Capital Market and Non-Bank Financial Industry Master Plan is working guidelines that contain objectives that must be achieved as well as strategies and work plans that must be implemented within a period of 5 years time. This Master Plan is an integral part of previous Master Plans. There are numerous work plans that have been implemented to achieve objectives set in the previous Master Plans. However, rapid changes in and dynamic of global financial system and structure that are encompassing our national financial system have presented us with facts and challenges that are even more complex. In turn, those facts and challenges force us to put together strategies and work plans that must be in line with new reality such as a more sophisticated state of development in information and communication technology, a bigger and more rapid flow of capital into our national financial system, conglomerate of financial services businesses that is more widespread and integrated into a global network system, and advancement in financial innovation that triggers various financial products with more complex risk profiles.

The drafting of this Master Plan is based upon strong commitment from all of us in discharging our duties and mandate in developing an efficient, competitive, transparent, stable, credible and international-standard capital market and non-bank financial industry.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

The ultimate goal of developing capital market and non-bank financial industry as specified in the above mandate can only be achieved in an effective manner if its implementation is carried out in sequence through realistic and focused strategies and work plans. Strategies and work plans formulated in this Master Plan are based upon a framework of thinking that is geared toward creating a market mechanism that can function well and to the utmost. Such mechanism can be achieved through serious efforts in strengthening legal framework and market infrastructure to support interaction between supply and demand-related activities of market players in a transparent and efficient manner in order to create capital market and non-bank financial industry that not only expand with stability and continuity but also drive real sector and create more jobs. The aforementioned framework of thinking is elaborated into 5 main goals that must be achieved, i.e.: (1) easily accessible, efficient and competitive source of funds; (2) conducive and attractive investment climate as well as reliable risk management; (3) a stable, resilient and liquid industry; (4) fair and transparent regulatory framework which guarantees legal certainty; (5) a credible, reliable international standard infrastructure.

This Master Plan is expected to provide guidance to all stakeholders in doing their own respective businesses and should serve as a form of mutual commitment to achieve the agreed goals so that there is a synergy in implementing work plans as stated in this 2010-2014 Capital Market and Non-Bank Financial Industry Master Plan.

By invoking guidance and support from God the Almighty, we believe that if we work hard, smart, and creatively, we will be successful in developing capital market and non-bank financial industry that contribute significantly to national economic growth in order to attain a just and prosperous society for all Indonesian people.

Jakarta, October 2010

A. Fuad Rahmany

Chairman of Bapepam-LK

EXECUTIVE SUMMARY

For almost two years, financial systems of developed countries have been experiencing tremendous pressure - pressure that has now spread to other economies throughout the world. Heightening systemic risks, falling asset values, and tightening credit have in turn taken a heavy toll on businesses and consumer confidence, precipitating a sharp slowing in global economic activity. The damage, in terms of reduced output, lost jobs, and diminished wealth, is already substantial and cannot be ignored.

The first line of defence in preventing instability in the financial system is to have sound regulations and strong law enforcements. Recent events have clearly demonstrated that weaknesses in regulations and supervision of the global financial system fuelled the current crisis. Strengthening the regulatory framework and improving the micro- and macro-prudential regulations are essential in order to promote a financial system that is sound, stable, and resilient. In addition, effective supervision of evolving risks and the ability to implement strategies to mitigate such risks need to be enhanced.

The global crisis that occurred is a systemic crisis that was caused by excess liquidity, leverage, risk-taking and extensive inter-institutional linkages in the financial system. One valuable lesson that can be learned is that the crisis occurred worldwide and that no country was immune. Past experience has provided plenty of examples where policy responses to financial crisis were slow and inadequate; it often ultimately led to greater economic damage and higher fiscal costs.

Hence, we must urgently address the structural weaknesses in the financial system, particularly the regulatory framework, in order to minimize potential systemic risk and thus prevent a systemic crisis from reoccurring in the future. Indonesia, as a developing country in the G-20, is the country with the largest economy among the ASEAN nations with approximately 240 million people and rich in natural resources, offers enormous potential for market development.

Our industries must be able to serve the rapid demands and capture market opportunities of our growing young population, and continually position ourselves in the global competition for liquidity that is facilitated by technological developments and international integration of financial institutions. Strengthening our financial institutions, market infrastructure and its supporting

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

regulations and supervisory frameworks, is a paramount goal that must be achieved simultaneously with efforts to increase market depth and resilience in the face of new challenges in the future.

Taking into account various challenges faced by the capital market and non bank financial industry, both domestically and internationally, and to realize our vision and mission, Bapepam-LK has set 5 (five) objectives for the next 5 (five) years. These objectives are elaborated into a number of strategies and programs that are contained within well-organized and measurable action plans. The objectives, strategies, and programs to be conducted by Bapepam-LK in the next 5 (five) years are summarized as follows:

**OBJECTIVE 1 : EASILY ACCESSIBLE, EFFICIENT AND COMPETITIVE
SOURCE OF FUNDS**

Bapepam-LK has put the development of capital market and non-bank financial institutions (NBFI) to become the accessible, efficient and competitive source of funds as its priority in the next five years. Efforts to achieve this objective will be directed toward:

1. Reducing constraints for business communities to access capital market for source of funds
2. Increasing public accessibility to finance and guarantee institutions
3. Improving the role of professionals, supporting institutions and underwriters in public offerings

**STRATEGY 1: REDUCING CONSTRAINTS FOR BUSINESS COMMUNITIES
TO ACCESS CAPITAL MARKET FOR SOURCE OF FUNDS**

To increase the role of capital market, the policy will be geared toward opening of access widely to business communities to utilize capital market as funding sources. In the next five years, the efforts will be focused on reducing the constraints which will be carried out through two main programs:

Program 1: Streamlining Requirements, Processes and Procedures of Public Offerings

To minimize the constraints in accessing capital market as funding sources, the policy will be directed toward simplification of the total number of documents and the type of registration

EXECUTIVE SUMMARY

documents required for public offering, without reducing the quality of information. Subsequently, public offering process and procedures will be simplified through the implementation of shelf-registration scheme for securities issuance and through implementation of e-registration for submission of registration documents.

Program 2: Rationalizing Information Disclosure Obligations for Issuers

Several Bapepam-LK's regulation related to issuer's reporting and corporate actions will be simplified to ease up the obligations of issuers without decreasing the quality of information disclosure. The regulations related to highly material transactions will be simplified to require issuers to obtain approvals of shareholders only on certain transactions of highly material value.

Further, reporting to Bapepam-LK will be facilitated through e-reporting to enable investors to obtain information faster.

STRATEGY 2: INCREASING PUBLIC ACCESSIBILITY TO FINANCE AND GUARANTEE INSTITUTIONS

Public access to finance and guarantee institutions, as the funding sources, is very limited, particularly access to pawn services, venture capital companies, guarantee institutions and infrastructure finance companies. Further, the variety of products offered is also very limited and these products deemed insufficient to meet the growing needs of the public.

In the next five years the efforts to increase public access to finance and guarantee companies will be carried out through:

Program 1: Encouraging Expansion of Finance and Guarantee Institution Networks

Finance and guarantee institutions are concentrated more in cities. For this reason, it is necessary to encourage the expansion of finance and guarantee institutions network through: opening private pawn services, opening venture capital branch offices, adjusting capital requirement in the establishment of a credit guarantee company in rural areas, establishing infrastructure finance companies.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Program 2: Encouraging the Development of Finance and Guarantee Products

Bapepam-LK is currently preparing regulations which would enable finance company to develop consumer financing products such as the refinancing scheme. Further, the variety of guarantee products will be expanded to include project guarantee products, contra bank guarantee, agricultural business credit guarantee, construction credit and goods/services procurement guarantee, bank guarantee, distribution guarantee, multi-purpose credit guarantee, venture capital and financing guarantees, etc.

STRATEGY 3: IMPROVING THE ROLE OF PROFESSIONALS, SUPPORTING INSTITUTIONS AND UNDERWRITERS IN PUBLIC OFFERINGS

Bapepam-LK aims to enhance the role of professionals, supporting institutions and underwriters such as accountants, legal consultants, appraisers and notaries in public offering by repositioning their professional function and encouraging the practice of fair competition.

Program 1: Repositioning of Professional Functions in Public Offerings and Corporate Actions

The role of capital market's supporting professional, in particular the legal consultant, in the preparation of prospectus will be increased through the implementation regulation that set legal audit as an integral part of the preparation process. This regulation is intended to improve professionalism of those supporting professionals in preparing registration documents and prospectus.

Program 2: Encouraging Fair Competition among Professionals, Supporting Institutions, Underwriters and Rating Agencies

In anticipating varied unreasonable service fees and unfair competition, Bapepam-LK has developed a policy regarding information disclosure that requiring disclosure of service fee charged by professionals, supporting institutions and underwriters in public offering.

EXECUTIVE SUMMARY

OBJECTIVE II : CONDUCTIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS RELIABLE RISK MANAGEMENT

In creating capital market and NBFi as a conducive and attractive means of investment and also as a means of reliable risk management, several strategic efforts will be made in the next five years, namely:

1. Increasing the distribution and quality of information disclosure
2. Encouraging diversification of capital market instruments and NBFi service schemes
3. Developing sharia capital market and sharia non bank financial industry (NBFi)
4. Improving the ease of transactions
5. Developing scheme to protect investors and customers
6. Developing secondary market of bonds and sukuk as well as a supervisory mechanism

STRATEGY 1: INCREASING THE DISTRIBUTION AND QUALITY OF INFORMATION DISCLOSURE

To respond to the increasing needs of quality information, in the next five years the efforts to improve the quality of information disclosure will be made through enhancement of e-reporting implementation and by encouraging industry to provide quality information.

Program 1: Increasing the Effectiveness in the Implementation of E-Reporting

E-reporting will be continued to be developed according to the needs and readiness of the industry. Improvements of the of e-reporting implementation will be focused on pension fund and insurance industries as well as on reporting of issuance, securities transactions and finance industry.

Program 2: Encouraging the Industry to Provide Quality Information

In the next five years Bapepam-LK will undertake the efforts to enhance the regulations related to information disclosure in shares and bonds public offerings. In the securities industry, refinement will be made on some provisions related to enhancement of information quality. Similarly, insurance industry will set the standard for minimum information required and also provide regular trainings for the parties responsible preparing reports.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

**STRATEGY 2: ENCOURAGING DIVERSIFICATION OF CAPITAL MARKET
INSTRUMENTS AND NBFi SERVICE SCHEMES**

The availability of a variety of capital market instruments would enable investors to select a risk management product or scheme suitable with their risk mitigation need. A variety of products will also provide the opportunity for investors to make investment of choice. Bapepam-LK will encourage the growth of a more varied and flexible capital market and NBFi instruments through the implementation of relevant programs.

**Program 1: Enhancing the Flexibility of Financing Schemes and Voluntary Pension Program
Benefit Payment Schemes**

The current voluntary pension program seems to be rigid and not suitable with the need of public where the benefit payment term is seen as unattractive. Bapepam-LK will improve the flexibility of funding scheme and pension benefit payment through an amendment to the Law of Pension Funds, which will be prioritized in the next five years.

**Program 2: Encouraging Development of Insurance Products that Support Long-Term Family
Financial Planning**

Public awareness to utilize insurance products as a means of risk management and also investment is still low. To increase public's interest to utilize insurance product as a means of risk management and also as an investment, Bapepam-LK will carry out efforts to encourage the development of insurance products which could support long term family financial plan.

**Program 3: Encouraging the Development of Insurance Products for Risk Mitigation Including
Micro Insurance**

Considering the majority of Indonesian population is categorized as medium to low class, Bapepam-LK through the issuance of relevant policies will encourage the development of insurance products with risk protection including micro insurance which could accommodate the need of the lower segment society.

EXECUTIVE SUMMARY

Program 4: Encouraging the Development of Securitized Products and Hedging Instruments

Few initiatives aimed to encourage the development capital market generic products have yielded results although still not optimal. For this reason, Bapepam-LK will promote the growth of securities-based investment and hedging products through the development of derivative-based products which is expected to provide investment options for investors.

Program 5: Enhancing the Availability of Retail and Small Medium Enterprises Investment Products

The availability of capital market products currently is concentrated around the need of institutional investors such as pension fund institutions, non-profit organizations and insurance companies. In order to increase the availability of retail investment products, Bapepam-LK will implement programs aimed at increasing the participation of retail investors in the capital market which is expected to stimulate the market players to develop retail products suitable to the needs of investors.

STRATEGY 3: DEVELOPING SHARIA CAPITAL MARKET AND SHARIA NON BANK FINANCIAL INDUSTRY (NBFI)

Indonesia has a significant potential to develop Sharia economy including capital market and NBFI. Sharia-based capital market products such as Sharia mutual funds and Sukuk have been growing significantly in the last five years. A continuing development of the Sharia-based capital market and NBFI will be carried out through:

Program 1: Developing Regulatory Framework that Supports the Development of Sharia Capital Market and Non Bank Financial Industry (NBFI)

Refinement of regulation and development of new regulations to be aligned with the need and development of new fatwa by the Sharia National Board (DSN-MUI in Indonesian acronym) is critical to establish a comprehensive legal ground for the Sharia-based capital market and NBFI industry in the sectors of insurance, finance and guarantee, as well as pension fund which is expected to spur the growth of Sharia-based financial industry in the coming years.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Program 2: Developing Sharia Capital Market and NBFi Products

Currently the portion of Sharia products is relatively small when compared to conventional financial products. For that reason, the development of Sharia products in the capital market and NBFi has been set as one of Bapepam-LK's priorities in the next five years. Bapepam-LK will review and develop conventional capital market products to be implemented as Sharia products while also creating new Sharia products.

Program 3: Promoting Equality Between Sharia Based Financial Products and Conventional Financial Products

Bapepam-LK's direction is aimed at developing Sharia-based financial industry with an equal concept to align with the conventional financial industry. Bapepam-LK will develop and enhance regulations that could balance out Sharia and conventional financial products such as equal issuance process, tax treatment as well related education for the public and market players.

Program 4: Enhancing the Development of Human Resources in Sharia Capital Market and NBFi

Comprehensive human resource development supported with sufficient infrastructures will contribute significantly to the development of Sharia-based financial industry. Human resource development will be focused on building the industry technical knowledge and also knowledge of fikih muamalah. Further, regulations will be enhanced to support the implementation of qualification standard and certification for professionals in the capital market, insurance and other NBFi as well as Sharia experts sitting in the Sharia Supervisory Board.

STRATEGY 4: IMPROVING THE EASE OF TRANSACTIONS

Improvement in the ease of transaction should be prioritized to enable capital market and NBFi to become the investment means of choice. Two strategic programs will be implemented in the next five years, namely:

EXECUTIVE SUMMARY

Program 1: Encouraging the Development of Effective Marketing Channels for Insurance and Investment Products

The distribution through agency system is relatively effective but it comes with a high cost and consequently impacting the insurance product premium which is relatively expensive. For that reason, Bapepam-LK will improve its coordination with the banking sector regulator to develop marketing channels for the insurance products and effective investment such as bancassurance and brandassurance.

Program 2: Encouraging the Implementation of E-Channel in Investment Management Industry

The distribution of investment management products through e-channel is considered not optimal and this is due to the legality aspect in the purchase and sales of investment products through e-channel has not been regulated in the capital market regulation unlike the banking industry. Hence, in the next five years Bapepam-LK will provide the legal framework to implement e-channel in the investment management industry.

STRATEGY 5: DEVELOPING SCHEME TO PROTECT INVESTORS AND CUSTOMERS

A number of efforts to increase protection to investors have been made, but there are still cases of violation in capital market and NBFIs industries. Acknowledging this fact, Bapepam-LK in the next five years will undertake the efforts to improve investor protection.

Program 1: Increasing the Use of Investor Area

Currently PT KSEI has developed a system to monitor funds and securities of customers in securities company, called Investor Area, which could minimize investors' risks. Bapepam-LK will increase the utilization of this facility by obligating all custodians to provide this facility to each of their customers.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Program 2: Establishing Securities Investor Protection Fund / SIPF

Bapepam-LK has recognized the importance of investor protection fund as an investor protection scheme; therefore an investor protection fund will be established and followed by setting the legal grounds for its establishment and operation.

Program 3: Increasing Securities Portfolios and Customers Funds Monitoring in Securities Companies

Monitoring of securities portfolio and customers' funds in securities companies will be improved by further developing the monitoring system to allow regulator to better supervise the movement of securities of customers.

Program 4: Developing Insurance Guarantee Scheme

Currently, a protection program for policy holders which guarantees fulfilment of policy holders' rights in the event the insurance company becomes insolvent is not in place. Hence, Bapepam-LK will develop an insurance policy guarantee scheme which will be commenced through improvement in the legal framework and regulation related to insurance policy guarantee then followed by establishment of policy guarantee institutions.

Program 5: Establishing Mediation Institution by the Indonesian Pension Funds Association

Going forward, Bapepam-LK will continue its coordination and cooperation with the pension fund industry association in order to implement a study and prepare the infrastructures for the establishment of pension fund mediation institution.

**STRATEGY 6: DEVELOPING SECONDARY MARKET OF BONDS AND SUKUK
AS WELL AS A SUPERVISORY MECHANISM**

Considering the development and supervision of bonds and sukuk secondary market is an important factor in determining market liquidity, in the next five years Bapepam-LK will further develop bonds and sukuk secondary market together with their supervision through several strategic programs:

EXECUTIVE SUMMARY

Program 1: Developing Repurchase Agreement Market

To develop the Repurchase Agreement market, Baepam will review and enhance the substance of current MRA, prepare Global Master Repo Agreement (GMRA) Indonesia which will apply international standards adjusted to the Indonesian market and develop policies and provisions of Repurchase Agreement transactions.

Program 2: Increasing Supervision of Bond and Sukuk Markets

To enhance the quality of supervision on bonds and sukuk market, a supervisory system will be developed on the trading data of sovereign bonds, sukuk and corporate bonds. Additionally, it is also necessary to regulate and provide guidance to participants of bonds and sukuk trading.

Program 3: Improving Infrastructure of Bond and Sukuk Trading

To enhance the bonds and sukuk trading in Indonesia, Baepam-LK will promote the development of integrated post trade processing to improve the efficiency of the currently not integrated post trade process.

Program 4: Setting Benchmark for Evaluating the Credible Fair Market Price

The function of the current bonds pricing agency is still limited where it has not been able to evaluate all bonds and sukuk and other commercial papers. Considering the importance of benchmark to have a credible and proper market price evaluation for the development of bonds and sukuk secondary market, Baepam-LK will optimize LPHE function in the evaluation of bonds and Sukuk and other commercial papers and expand the utilization of LPHE products in financial market.

OBJECTIVE III: A STABLE, RESILIENT AND LIQUID INDUSTRY

Stability and resiliency of a financial industry is a critical element for Indonesia in building a sound economy. A stable, resistant and liquid financial industry is an industry capable of managing risks and resisting disturbance that potentially menacing the stability and capable of maintaining the balance of its functions.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

In order to realize a stable, resistant and liquid industry, the following strategies will be implemented in the next five years:

1. Increasing market players quality
2. Encouraging good corporate governance practice
3. Improving risk management industry capability
4. Improving supervision capacity on industry players
5. Improving domestic investor base and long term funds

STRATEGY 1: INCREASING MARKET PLAYERS QUALITY

Efforts to increase the quality of industry players has always been a priority of regulators; besides, industry dynamic necessitates a continuous quality improvement in order to meet the industry demands and to be competitive in the global market. Within the next five years efforts to enhance the quality of industrial players will be made through several programs, namely:

Program 1: Enhancing Individual Players Quality

The efforts to enhance the quality of individual players will be made in two ways: first, by enhancing the qualification standard or requirements to be fulfilled by the individual player and second, by enhancing professionalism of players.

Program 2: Enhancing Institutional Players Quality

Efforts to enhance the quality of institutional players will be made through strengthening qualification standard at the time of permit application and continuing the quality development after obtaining the permit as a financial service provider. The above efforts will be focused on insurance companies and securities companies.

STRATEGY 2: ENCOURAGING GOOD CORPORATE GOVERNANCE PRACTICE

A sound implementation of Good Corporate Governance lays a strong foundation of a healthy and resilient industry; therefore, efforts to enhance the quality of Good Corporate Governance implementation will be continuously made through:

EXECUTIVE SUMMARY

Program 1: Developing Good Corporate Governance Guidelines

Bapepam-LK is supporting the development activities of corporate governance carried out by the National Committee for Corporate Governance Policy (KNKG in Indonesian acronym) by actively involve in the development of guidelines on Good Corporate Governance for Sharia business and also guidelines for securities company. Additionally, guidelines on Good Corporate Governance for the pension fund will be enhanced with implementation evaluation tools.

Program 2: Improving Good Corporate Governance Regulations According to International Standards

Bapepam-LK will enhance several regulations in order to improve the implementation of good corporate governance principles, they are: (i) capital market policy on segregation of business activities of a securities company (ii) provisions of laws related to institutionalization of Financial Institution Pension Fund (DPLK in Indonesian acronym). Subsequently, Bapepam-LK will develop an insurance industry regulation that necessitates insurance companies to adopt Good Corporate Governance principles.

Program 3: Enhancing Good Corporate Governance Implementation Quality

Efforts to continuously enhance the quality of good governance principles in the capital market and NBFi industries will be made through strengthening the law enforcement, socialization of the good governance implementation, evaluation on the quality of information disclosure and improvement of assessment criteria used in annual report award.

STRATEGY 3: IMPROVING RISK MANAGEMENT INDUSTRY CAPABILITY

Considering having the capability to manage risks is important in order to create a solid and resilient industry, Bapepam-LK will implement several programs focused on enhancing players and industry capability in managing risks.

Program 1: Enhancing Corporate Risk Management Quality

Enhancement of the risk management implementation quality on securities company will be carried out through separations of funds and securities, obligations for securities companies to implement

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

risk control system and role improvement of compliance unit. Enhancement efforts will be focused on improving the capability to comprehend and quantify risks for insurance companies while pension fund industries will focus on development and implementation of good governance.

Program 2: Enhancing Clearing and Settlement Guarantees Risk Management for Market Transactions

Efforts to enhance risk control in clearing and guarantee function of stock exchange transactions will be made, among others, through continuing the transaction validation system development and performing continuous transaction settlement.

Program 3: Preparing Business Continuity Plan (BCP)

In order for financial services industry to be ready in facing unfavourable, abnormal condition, industry players must have a structured and standard mechanism to mitigate risks. For this reason, in the future there will be a series of policies developed to encourage industry players to have a credible BCP. BCP development will be focused on capital market, insurance industry and regulator.

Program 4: Implementing and Developing Crisis Management Protocol (CMP)

Considering the interdependency between industrial sectors in financial industry, a good coordination among those sectors is indispensable. The coordination will be governed by a CMP which will become the reference when the industry faces a crisis. Additionally, CMP will be integrated with Risk based Supervision (RBS) and Early Warning System (EWS) and will become an integral part of the monitoring mechanism.

STRATEGY 4: IMPROVING SUPERVISION CAPACITY ON INDUSTRY PLAYERS

Supervision over capital market and NBFI industry players is imperative to assure those industry players carry out their duties and function according to the prevailed regulation. In improving the capacity of supervision, several programs will be carried out, namely:

EXECUTIVE SUMMARY

Program 1: Supporting Risk Based Supervision Implementation

Risk-based supervision has been implemented and will be continuously implemented in pension fund, insurance and securities industries and will be applied to issuers and also all parties under Bapepam-LK supervision. In the next five years, supporting facilities and infrastructures of risk-based supervision will be continuously developed.

Program 2: Developing Single Identity for Investor (Single Investor Identity / SID)

One of the efforts in enhancing supervision on securities transactions is made through developing SID. Bapepam-LK will oblige all investors in the Indonesian capital market registered with this single identity facility.

Program 3: Developing and Utilizing Early Warning System on Risks Related to Securities Transactions, Market Manipulation and Insider Trading

The current manual supervision is deemed incapable to optimize supervision over the growingly complex transactions. Going forward, Bapepam-LK will develop an electronic transaction supervisory system that integrates the daily supervision with the database of all market players to enable early detections of an alleged violation.

Program 4: Enhancing Public Accountants and Securities Rating Agencies Supervision

In order to ensure issuers to fulfil the disclosure principles, regulator to a certain extent may entrust the function of capital market supporting professions and securities rating agency. Within the next five years Bapepam-LK will direct its focus of supervision toward those supporting professions and securities rating agencies enhance the capacity of inspectors and improve the organizational structure.

STRATEGY 5: IMPROVING DOMESTIC INVESTOR BASE AND LONG TERM FUNDS

Financial service industry is a dynamic industry and globally inter-related. In order to achieve a sustainable growth and not prone to external shocks, Bapepam-LK will implement several programs within the next five years, namely:

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Program 1: Enhancing Industry Players Role in Increasing the Number of Domestic Investors

Up to the end of 2009 the number of domestic investor account was relatively small compared to the number of Indonesian population. Hence, Bapepam-LK will increase the number of domestic investor by implementing a regulation that requires stock exchange securities company members to have a certain number of domestic investors at the minimum.

Program 2: Implementing Focused and Integrated Socialization and Education

To increase the number of companies and investors, an accurate, quick and interesting communication is necessary. Hence, in the short term, socialization and education will be focused on increasing the number companies conducting IPO, the number of retail investors in capital market and the number of pension fund and insurance participants. In the mid-term, socialization and education will be focused on increasing the number of institutional investors and in the long term, the focus will be on creating a culture of investing early in the capital market and NBFi for students and college students.

Program 3: Encouraging Mandatory Pension and Insurance Programs Implementation

Efforts to stimulate the implementation of mandatory insurance and pension programs will be focused on solving the main issue which restricts the development of those programs. Subsequently, Bapepam-LK will develop a mandatory insurance program and harmonize laws and regulation related to mandatory pension program.

OBJECTIVE IV: FAIR AND TRANSPARENT REGULATORY FRAMEWORK WHICH GUARANTEES LEGAL CERTAINTY

In creating a solid legal framework which is one of the prerequisites in establishing capital market and NBFi industry as the engine of a solid and competitive national economy, three strategic efforts will be made, namely:

1. Improving legal enforcement quality
2. Harmonizing regulation among the industries and meeting international standard

EXECUTIVE SUMMARY

3. Drafting regulations based on the need and development of the industry
4. Improving the quality of financial information transparency of players of capital market and NBFIs industries

STRATEGY 1: IMPROVING LEGAL ENFORCEMENT QUALITY

The effectiveness of law enforcement affects the credibility of Bapepam-LK. Legal enforcement quality among other is reflected from process rapidity, reliability of examination result as well as integrity and consistency of legal enforcement apparatus. In order to support the realization of an effective and efficient legal enforcement, a comprehensive strengthening of the legal framework in various aspects is required.

Program 1: Providing Additional Authority to Obtain Important Information

Currently Bapepam-LK does not have a sufficiently comprehensive authority in examination and investigation. Additional authorities are needed, mainly those related to access to important information which confidentiality is still protected by prevailing law.

Program 2: Improving Criminal Provisions and a More Firm Sanction Formulation

To avoid further differences of perception of criminal provisions, criminal regulations in the capital market law will be improved through drafting new regulation and enhancing the current regulation to regulate imposition of sanctions with deterring effect.

Program 3: Providing Additional Authority to Encourage an Effective Coordination Among Legal Enforcers Domestically and Overseas

Violation and crime in capital market generally is of multi-dimension, involving jurisdiction of domestic and cross-border institutions. Going forward, Bapepam-LK is seeking for additional authority in the Capital Market Law to enable its cooperation with the authorities of other country's capital market authority.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Program 4: Developing Capital Market Intelligence Capability

The development of capital market intelligence capability is much needed to prevent and anticipate early cases of violation and crime in the capital market. Bapepam-LK will develop its intelligence capability through establishing a new organizational structure with a capital market intelligence function, followed by preparing the human resources and preparing working mechanisms.

**STRATEGY 2: HARMONIZING REGULATION AMONG THE INDUSTRIES
AND MEETING INTERNATIONAL STANDARD**

Formulation regulations which encourage compliance to international standards and practice is a strategic factor to improve global competitiveness of capital market NBFi industry players.

**Program 1: Preparing Regulation that Grows Synergy between Capital Market
and NBFi**

In order to create synergy between capital market and NBFi industry, Bapepam-LK will involve stakeholders across industries in each regulation drafting process. Additionally, a thorough review process will be carried out to ensure that the regulation drafted is prepared according to the need, meets the target and is implementable

**Program 2: Developing and Drafting Regulations According to International Standard/
Practice**

Development and alignment of regulations in accordance to international standard / practice, as a result of our bilateral, regional, or internal agreement, will be made by observing the national interests.

**STRATEGY 3: DRAFTING REGULATIONS BASED ON THE NEED AND
DEVELOPMENT OF THE INDUSTRY**

Capital market and NBFi industry dynamic often calls for regulation enhancements. Considering a comprehensive understanding will only be attained when the cooperation between regulator

EXECUTIVE SUMMARY

and industry players is effective, drafting and enhancement to regulations will be carried out by involving industry players to ensure the regulation is drafted according to the need of industry.

Program 1: Encouraging the Participation of Industrial Players in the Process of Drafting the Regulation

Periodical Focused Group Discussion will be organized to encourage and capture industry players initiatives which should be generated based on a comprehensive study regarding the regulation to be prepared.

Program 2: Promoting Research-Based Regulation

Bapepam-LK in drafting regulations and formulating policies will undertake review on the legal aspect, analyze the interconnection with other regulations and improve qualitative and analysis to ensure the drafting and formulating process is in line with its objective.

STRATEGY 4: IMPROVING THE QUALITY OF FINANCIAL INFORMATION TRANSPARENCY OF PLAYERS OF CAPITAL MARKET AND NBF

Quality of financial information transparency from players of capital market and NBF industry should always be enhanced according to international efforts in improving the quality of financial reporting.

Program 1: Supporting Convergence of Accounting Standard

In seeking to align the Indonesian financial accounting standard with the international standard, Bapepam-LK will conduct assessments related to the adoption of international accounting standard, improvement a number of PSAK and socialization of PSAK issued.

Program 2: Improving/Issuing Accounting Regulation According to the Statement of Financial Accounting Standard /International Standard

The improvement/issuance of accounting regulation will continuously be made to be in conformity with PSAK and international accounting standard.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Program 3: Developing Accounting Standard to Capital Market and NBF Industry Players

Enhancement of financial accounting standard on the one hand could improve the quality of financial information; on the other hand, the enhancement has also increased complexity of financial reporting process. Development of accounting reference for industry players is the initiative needed to improve the comprehension and to bridge different perceptions among capital market and NBF industry players in implementing the abovementioned standards.

**OBJECTIVE V: A CREDIBLE, RELIABLE INTERNATIONAL
STANDARD INFRASTRUCTURE**

In order to enhance the credibility of securities trading and supervision system, within the next five years Bapepam-LK will:

1. Developing integrated securities trading system (straight through processing)
2. Developing reliable information system

**STRATEGY 1: DEVELOPING INTEGRATED SECURITIES TRADING SYSTEM
(STRAIGHT THROUGH PROCESSING)**

Considering the increasing trading value and volume in the capital market, Bapepam-LK will develop an integrated trading system that is capable to execute transactions quickly and efficiently. Within the next five years, the efforts to develop this integrated system will begin with the capacity enhancement of three main systems which then be followed by their integration.

Program 1: Maximizing the Capacity of Stock Exchange Trading System

To implement an integrated securities trading, SID feature currently available in JATS-NextG needs to be activated.

EXECUTIVE SUMMARY

Program 2: Enhancing the Capacity of Clearing and Guarantee Institution System

(LKP in Indonesian acronym)

The system of Clearing and Guarantee Institution needs to be improved to enable system validations on every order before the order is inputted to the integrated securities trading system.

Program 3: Enhancing the Capacity of Central Securities Depository System

(LPP in Indonesian acronym)

Within the next five years, Depository and Settlement Institution will focus on developing its system compatibility to allow integration with JATS-NextG trading system and other SRO's systems.

Program 4: Integrating the System of Stock Exchange, Clearing and Guarantee, and Central Securities Depository with Participant

In order to implement an integrated trading system, the three main systems, currently utilized and run on its different network, should be connected and integrated through a single network.

STRATEGY 2: DEVELOPING RELIABLE INFORMATION SYSTEM

The availability of reliable information system will be the basic framework for all Bapepam-LK activities and allows managerial function to manage current resources more efficiently and effectively.

Program 1: Optimizing Information and Communication Technology Utilization

Optimization of the utilization of ICT will be carried out through electronic management of data, system and work process in Bapepam-LK. Further, with a realistic implementation stages and measurable targets, Bapepam-LK will implement e-government which covers of e-registration, e-licensing and e-reporting.

Program 2: Developing Data Center

Bapepam-LK will coordinate with SROs, associations and vendors in building a comprehensive data warehouse and business intelligence system which would enable data availability and easy access.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Program 3: Improving Communication Information Technology Governance

In line with the industry development and the increasing ICT utilization by Bapepam-LK and market players, an ICT utilization general guideline will be developed both for Bapepam-LK and market players to enhance the efficiency and quality of ICT governance.

Program 4: Preparing Bapepam-LK Business Continuity Plan

In order to minimize risks impacting the technology capability and also business processes, particularly services to public, Bapepam-LK will develop an integrated management process in the form of BCP to ensure the operational activities and services to customers will function despite of disruptions.

Outlook

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014



OUTLOOK

“ The Capital Market
and Non Bank
Financial Institution
(NBFI) industries have
played important roles
in driving Indonesia’s
economy. ”

A. Introduction

For the past decade, the capital market and non bank financial institution (NBFI) industries have played important roles in driving Indonesia’s economy, particularly during the period of 2005 - 2009. Their roles as financial intermediaries and as vehicles for raising funds through financial investments have stimulated various economic activities. This in turn has created new employment opportunities and economic value added as well as increased asset values of companies and the population’s standard of living through an increase in personal income.

The industry consists of an array of players providing a wide variety of services, companies involved include: securities companies, insurance companies, pension funds, finance institutions

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

(finance companies, venture capital companies and infrastructure finance companies), guarantee companies, Indonesian Export Financing Institutions (Indonesia Eximbank), securitized product providers, capital market-supporting institutions (such as securities administration agencies, custodians, trustees, and securities rating agencies), and various other professionals (such as public accountants, legal consultants, appraisers, notaries, actuaries, and insurance brokers). The Indonesian Capital Market and Financial Supervisory Agency (Badan Pengawas Pasar Modal, Bapepam-LK) plays a vital role as the markets' regulatory and supervisory body overseeing all financial activities to ensure the protection of both investors and industry players. Bapepam-LK is supported by Self-Regulatory Organizations (SROs) in conducting its activities, namely the Indonesian Stock Exchange (PT Bursa Efek Indonesia/BEI), the Indonesian Central Securities Depository (PT Kustodian Sentral Efek Indonesia/KSEI) and the Indonesian Clearing and Guarantee Corporation (PT Kliring Penjaminan Efek Indonesia/KPEI).

In the past decade, the value of assets under management as well as the number of economic transactions exchanged by various financial service providers has increased significantly, concurrently with the rapid growth in Gross Domestic Product (GDP) and improvement in the Indonesian macroeconomy fundamentals. This chapter will provide an overview of the rapid developments in the Indonesian capital market and non bank financial institutions as shown by various indicators such as the increase in the share price index, market capitalization, value of daily transactions in the stock exchange, value of assets under management, value of insurance premiums and guarantee fees, asset value of financial institutions, as well as the increase in the number of initial public offerings and rights issues.

B. Capital Market Performance

Graph 1: Development of Composite Stock Price Index (IHSG), 2005 - 2009

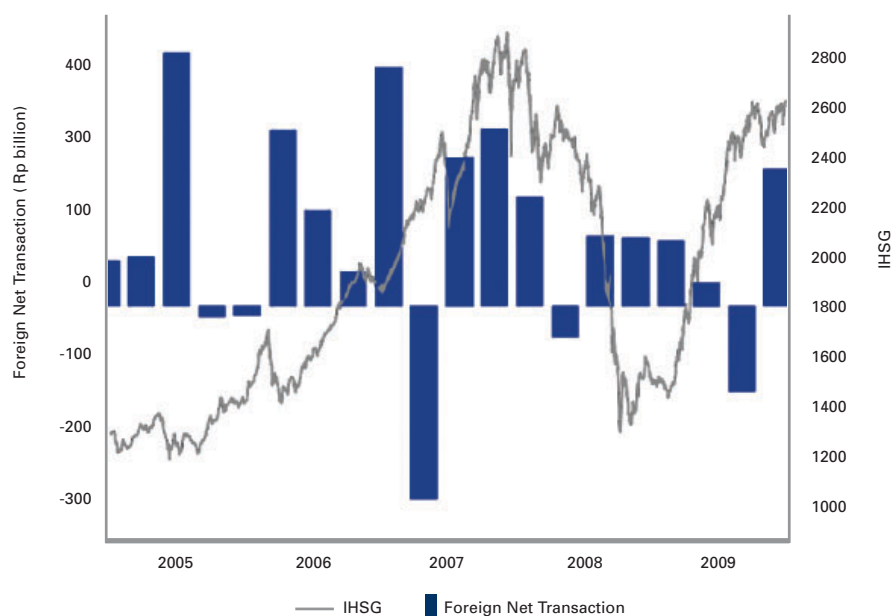


Source : Bapepam-LK

OUTLOOK

Graph 1 shows the 5 (five)-year performance of the Indonesian capital market during the period between 2005 to 2009. With the exception of 2008, the height of the global financial crisis, the Composite Stock Price Index (Indeks Harga Saham Gabungan/IHSG) experienced an upward trend. From 2005 to the end of 2009 IHSG increased by 17.98%, from 1,162.63 to 2,534.36 points. Between the second quarter of 2008 and the first quarter of 2009, the global financial crisis caused a drastic fall in share price indices around the world, including Indonesia. As illustrated in the graph, the movement of IHSG within the period of 2005 - 2009 can be divided into three main periods, that is: the period of rapid growth during 2005 to 2007, the crisis period in 2008, and the recovery period in 2009. During the period of rapid growth, IHSG rose at an average growth rate of 41.20% per year. In the crisis period, the impact of the global crisis caused IHSG to decline by 50.64%, falling from 2,745.83 points at the end of 2007 to 1,355.41 points at the end of 2008. IHSG reached to its lowest point on 28 October 2008 at 1,111.39 points. In the recovery period, IHSG regained its strength and increased by 86.98% from 1,355.41 points on 30 December 2008 to 2,534.36 points on 30 December 2009.

Graph 2 : Flow of Foreign Capital to Indonesia Stock Exchange, 2005 - 2009



Source: Bapepam-LK

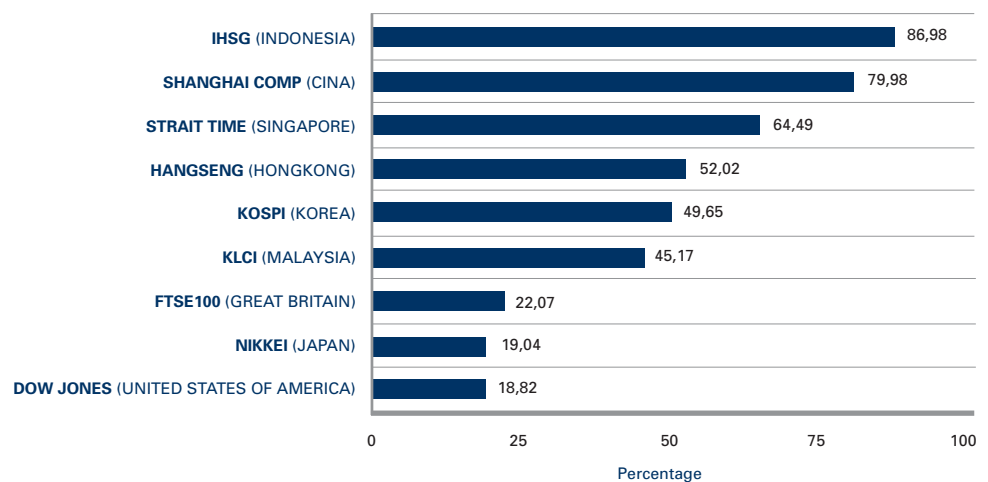
THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Graph 2 shows an increase in the flow of foreign capital during the period of 2005 to 2009. With the exception of the end of 2008, when the financial market faced liquidity problems as a result of the financial crisis, foreign capital inflow increased significantly, particularly in October and November 2008. This was caused by a significant increase in foreign capital inflow from the purchase of shares by foreign investors and foreign banks.

As market conditions begin to recover, in addition to the relatively low share prices and improved financial performance of issuers in the third quarter of 2009, foreign investors began to purchase bluechip shares, particularly banking and commodity shares.

Despite the low foreign capital inflow, IHSG still showed an upward trend at the beginning of 2010. This strongly suggests that the growth in IHSG was mainly driven by domestic investors.

Graph 3: Development of Stock Price Index in some of the World Stock Exchanges - 2009 (in percentage terms)



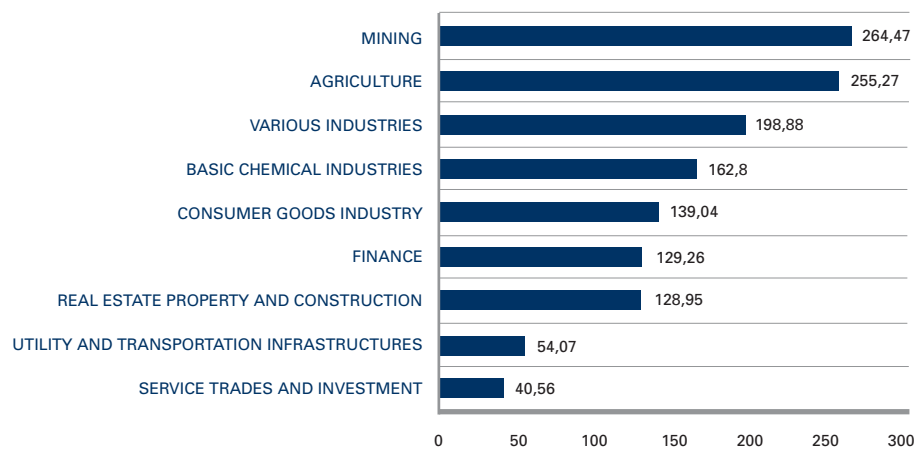
Source: Bapepam-LK

Compared to stock price indices in other countries, Indonesia experienced the highest increase with 86.98% as shown in Graph 3.

OUTLOOK

Graph 4 : Development of Stock Price Index Based on Sector on the Indonesia Stock Exchange, 2005 - 2009

(in percentage terms)



Source: Indonesia Stock Exchange

Graph 4 breaks down the components of IHSG, according to its industrial subsectors. In the past 5 (five) years, most sectors experienced growth of above 100%, with the exception of the Utility, Infrastructure and Transportation sector as well as the Trading and Investment sector. The Mining industry experienced the highest growth with a 264.47% increase, followed by the Agricultural sector and Other Various industries with increases of 255.27% and 193.88% respectively. Growth in these industries was a result of an increase in price in mining and agricultural commodities, caused by the growth in trade and the world economy.

Table 1: Main Indicators of The Indonesia Stock Exchange, 2005 - 2009

Indicators	2005	2006	2007	2008	2009
Composite Index (IHSG)	1,162.63	1,805.52	2,745.83	1,355.41	2,534.36
Capitalization of Stock Market (trillion Rp)	801.25	1,249.07	1,988.33	1,076.49	2,019.38
% of GDP	28.77	37.42	50.24	21.73	35.97
Daily average of transaction value (billion Rp)	1,670.80	1,841.80	4,268.90	4,435.50	4,046.51
Daily average of transaction volume (millions of shares)	1,653.78	1,805.52	4,225.78	3,282.40	6,093.97
Frequency of daily average transaction (thousands)	16.51	19.90	48.22	55.90	87.12

Source: Indonesia Stock Exchange and Bapepam-LK

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

As shown in Table 1, market capitalization of shares showed a remarkable increase of 152.03% during the period of 2005 - 2009, from Rp 801.25 trillion in 2005 to Rp 2,019.38 trillion in 2009. The market capitalization-to-GDP ratio also increased from 28.77% in 2005 to 35.97% in 2009. It reached its peak at 50.24% in 2007, prior to the 2008 financial crisis. Market activity, measured by the value and frequency of the daily average of transactions, also showed positive growth. Between 2005 and 2009, the value increased by 142.19%, while the frequency increased by 427.68%.

Table 2: Composition of Securities Ownership between Domestic and Foreign Investors 2005 - 2009
(in percentage terms)

	2005		2006		2007		2008		2009	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
Shares	26.95	73.05	26.60	73.40	33.65	66.35	32.16	67.84	32.90	67.10
Corporate										
Bonds	94.18	5.82	94.72	5.28	95.42	4.58	96.13	3.87	96.80	3.20
Government										
Bonds	92.22	7.78	86.88	13.12	83.64	16.36	83.33	16.67	81.44	18.56

Source: PT KSEI and the Directorate General for Debt Management, Ministry of Finance of the Republic of Indonesia

Table 2 shows the composition of domestic and foreign securities ownership. It can be seen from the table that in the past five 5 (years), domestic share ownership was still below 40% of total shares recorded by PT KSEI. Nevertheless, during that period, domestic ownership increased from 26.95% in 2005 to 32.90% in 2009. This suggests a shift in the trend of share ownership from foreign to domestic investors.

With regard to bonds, domestic ownership of corporate bonds was recorded at above 80%. However, Table 2 shows that there is an increasing trend of foreign ownership on government bonds between 2005 and 2009. This indicates an increase in foreign investor confidence as a result of the sound and prudent fiscal policies and management of government debt.

OUTLOOK

Table 3: Growth of Securities Issuances, 2005 - 2009

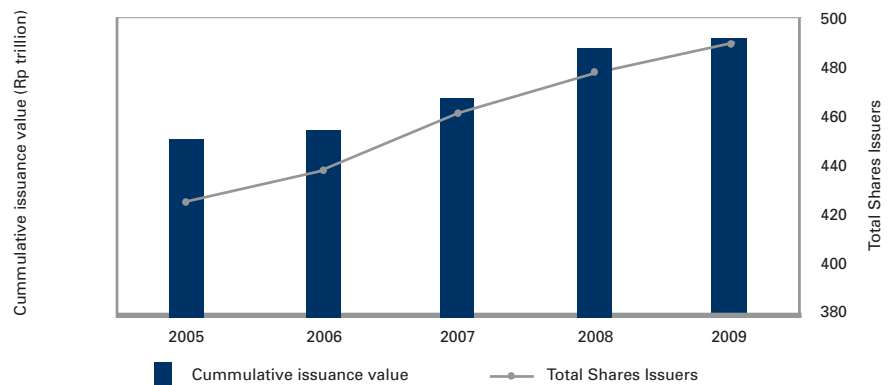
(in trillion Rupiah)

Type of Issuance	2005		2006		2007		2008		2009	
	Value	Total Issuers	Value	Total Issuers	Value	Total Issuers	Value	Total Issuers	Value	Total Issuers
Public Offering	3.56	8	3.01	12	17.18	24	23.48	17	4.09	13
Right Issue	6.23	16	9.98	17	30.15	25	55.46	25	15.67	15
Obligations	8.25	22	11.45	15	31.38	39	14.10	20	31.09	29
Governance Bonds (SBN Gross)	47.0	1	61.0	1	100.0	1	126.2	1	144.7	1
Total	65.04	46	85.44	44	219.24	88	178.96	62	195.55	57

Source: Bapepam-LK

Table 3 shows the sources of funds used by companies and the government to raise capital in the capital market. In 2009, funds raised from initial public offerings (IPOs) reached Rp195.55 trillion from a total of 57 newly listed companies. The number of IPOs launched came to 8 (eight) in 2005 and 24 in 2007. However, during the 2008 crisis, the number of IPOs conducted declined and as of 2009, has not regained to its pre-crisis level.

Graph 5: Development of Share Issuers and Share Issuance Value , 2005-2009

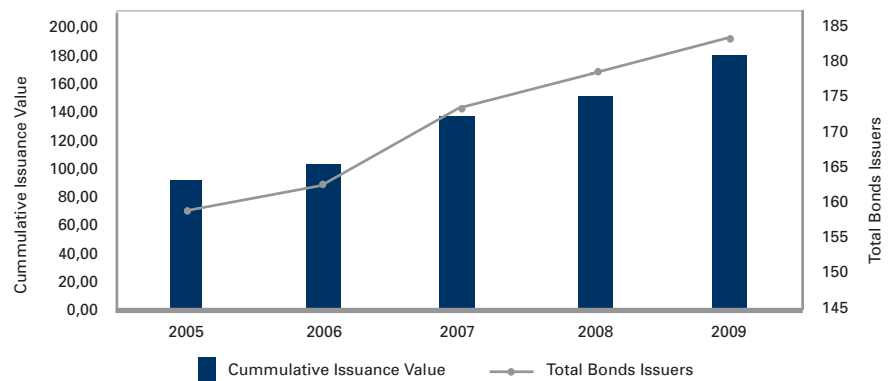


Source: Bapepam-LK

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

As illustrated by Graph 5, the number of share issuers increased from 425 in 2005 to 490 in 2009, representing an increase of 15.29%. The value also increased from Rp265.73 trillion in 2005 to Rp419.54 trillion in 2009, an increase of 57.88%.

Graph 6 : Development of Bond Issuers and Bond Issuance Value 2005 - 2009



Source : Bapepam-LK

Another capital market indicator is the corporate bond offerings. Graph 6 illustrates that the number of companies conducting corporate bond offerings in 2009 reached 183 or an increase of 15.09% compared to 2005, when there were only 159 issuers. The total value of corporate bond issuance also increased, from Rp91.19 trillion in 2005 to Rp179.20 trillion in 2009 or an increase of 96.51%.

Table 4. Growth of Assets Under Management of Investment Managers 2005 - 2009

(in billion Rupiah)

Type of Product	2005	2006	2007	2008	2009
Fixed Income Investment Funds	13,855.26	19,520.85	21,285.54	10,931.32	20,087.30
Equity Investment Funds	4,928.44	8,250.85	34,799.67	19,891.42	36,507.70
Money Market Investment Funds	2,079.99	3,800.62	4,828.54	2,301.84	5,219.71
Mixed Investment Funds	5,455.60	8,471.09	14,232.58	10,002.12	15,657.72
Protected Investment Funds	3,086.44	11,547.03	16,345.03	29,331.30	34,623.87
Index Investment Funds	-	29.64	117.04	100.98	290.19
Stock ETF	-	-	77.95	43.70	45.13
Fixed Income ETF	-	-	504.27	688.93	629.33
Sharia Investment Funds	-	-	0.26	774.22	3,671.45
Discretionary Funds	18,660.69	27,057.94	40,089.55	41,926.93	55,309.21
Total Funds Managed by Investment Manager	48,331.73	79,845.08	132,767.88	115,703.83	171,959.40

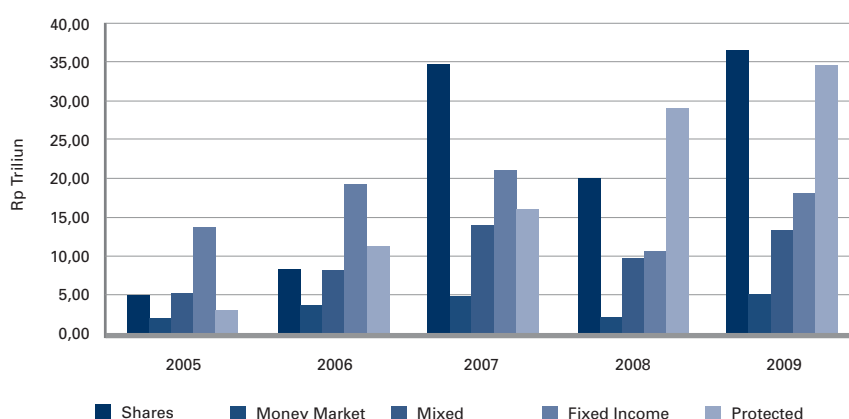
Source: Bapepam-LK

OUTLOOK

The investment management (asset under management) industry in Indonesia experienced rapid growth between 2005 and 2009. Table 4 describes the investment products offered by fund managers, the majority of which are in the form of investment funds. The investment fund industry has been growing since 2005. It is one of the sub-sectors of the capital market where fund managers offer portfolio management services for investments in investment funds in the form of Collective Investment Scheme/CIS or company[TS1], Asset Backed Securities, Real Estate Investment Trust (REITs) or discretionary funds (individually managed securities portfolio). Compared to 2005 where total net asset value (NAV) amounted to Rp48,331.73 billion, the total NAV of investment funds reached Rp171,959.40 billion in 2009, an increase of 255.78%. In 2009, NAV of equity investment funds made up the biggest portion of NAV with 31.27% of the total NAV. In the same period, NAV of protected funds also showed positive growth, rising from Rp3.08 trillion in 2005 to Rp34.62 trillion in 2009, an increase of more than ten folds. Other types of investment funds, such as sharia investment funds also demonstrated remarkable growth after Bapepam-LK issued its List of Sharia Based Securities. The NAV of sharia investment funds grew to Rp3.6 trillion in 2009 from Rp0.26 trillion in 2007.

Graph 7 : Growth of NAV of Investment Funds, 2005 - 2009

(in trillion Rupiah)



Source: Bapepam-LK

The graph illustrates the growth in NAV of investment funds, according to the different types. The composition of the market in terms of the types of investment funds has changed significantly. Fixed income investment funds dominated the market in 2005, but equity investment funds took up the largest proportion in 2007, and protected funds in 2008. The significant change was caused by the release of a policy that aimed to balance the proportion of the market covered

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

by each type of investment fund. The policy boosted the growth of equity investment funds and, as a result, created a more balanced industry. Such policy was considered to be necessary when fixed income investment funds dominated the industry in 2005 and a crisis occurred as a result of a large-scale redemption from the funds. The crisis was triggered by the increase in the interest rate as a result of high inflation in the fourth quarter of 2005, largely due to the rise in the price of world crude oil. Having a more balanced contribution by the different types of investment funds creates an industry that is more resilient to both internal and external shocks. This was proven during the global financial crisis in 2008, that was followed by rising inflation and increasing interest rates, yet the investment funds industry was not significantly impacted despite a relative decline in total NAV along with the decline in share and bond prices.

Table 5 : Development in the Number of Investment Fund Holders, 2005 - 2009

Type of Investment Funds	2005	2006	2007	2008	2009
Fixed-Income Investment Funds	131,380	92,061	71,776	19,818	23,602
Money Market Investment Funds	42,338	32,380	39,810	36,440	43,880
Equity Investment Funds	39,642	39,316	135,302	177,898	166,306
Mixed Investment Funds	36,823	22,171	46,753	54,093	51,007
Protected Investment Funds	4,477	16,775	24,690	43,540	36,138
Index Investment Funds	-	288	1,398	2,272	2,401
Shares ETF	-	-	1	1	1
Fixed Income ETF	-	-	9	9	9
Sharia Investment Funds	-	-	2,112	15,188	27,106
Total	254,660	202,991	321,851	349,259	350,450

Source: Bapepam-LK

Table 5 shows that the role of investment funds as a means of investment, represented by the number of unit holders, has continued to grow in the past 5 (five) years. The number of investment fund unit holders, predominantly domestic investors, increased from 254,660 in 2005 to 350,450 in 2009. Unit holders of equity investment funds constitute the biggest proportion of total investment fund unit holders. In 2009, there were 166,306 equity investment funds unit holders or approximately 47.45% of the total investment fund unit holders. In line with the increase in the number of protected investment funds, the number of its unit holders also increased from 4,477 unit holders in 2005 to 43,540 unit holders in 2008, though there was a slight decrease to 36,138 unit holders in 2009. Other types of investment funds unit holders such as sharia investment funds also posted a positive growth. Sharia investment fund unit holders rose from 2,112 in 2007 to 27,106 in 2009 or, an increase of more than 13 times.

OUTLOOK

C. Non Bank Financial Industries Performance

In order to encourage national development, long-term funding is necessary. Along with capital markets, other sectors such as those in the non bank financial institution industry are also able to provide long-term funding including insurance, pension funds and financing institutions. The performance of those sectors are detailed below:

Table 6: Contribution of Non Bank Financial Industry Asset to GDP 2005-2009

(in percentage)

Subsector	2005	2006	2007	2008	2009
Insurance	5,03	5,24	5,18	4,70	5,62
Finance Companies	3,48	3,26	3,22	3,40	3,11
Pension Funds	2,31	2,33	2,31	1,82	2,00
Total	10,82	10,83	10,71	9,92	10,73

Source: Bapepam-LK, Ministry of Finance of the Republic of Indonesia

Table 6 shows the contribution of asset-to-GDP by the 3 (three) main sectors in the non bank financial institution industry. The ratio of total asset-to-GDP was relatively constant between 2005 and 2009, with the exception of 2008 where the ratio decreased as a result of the global financial crisis. In 2009, the ratio resumed to its pre-2008 trend.

Overall, the insurance industry provided the largest contribution out of the three main industries, given that it has the highest value of assets and is composed of various subsectors that have extensive membership or participation coverage. The ratio of asset-to-GDP for the insurance industry also showed the highest increase, from 4.70% in 2008 to 5.62% in 2009.

Table 7: Development of Total Pension Funds, 2005-2009

Type of Pension Funds	2005	2006	2007	2008	2009
Employer Pension Fund (EPF)	286	272	262	255	251
- Defined Benefit Pension Plan (DB Plan)	250	235	226	216	210
- Defined Contribution Pension Plan (DC Plan)	36	37	36	39	41
Financial Institution Pension Fund (FIPF)	26	25	26	26	25
Total	312	297	288	281	276

Source: Bapepam-LK

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Table 7 shows the declining trend of the pension fund industry in Indonesia. The total number of Employer Pension Funds (EPF) declined from 286 in 2005 to 251 in 2009, representing a decline of 12.2%. The biggest decline was by the number of EPF managing Defined Benefit Pension Plan (EPF-DB Plan), where it decreased by 16.0% from 250 in 2005 to 210 in 2009. Meanwhile, the number of EPF managing Defined Contribution Pension Plan (EPF-DC Plan) increased by 14.9% from 36 in 2005 to 41 in 2009. This development is in line with the current global trend where DC-Plan is more popular. The number of Financial Institution Pension Fund (FIPF), which manages only DC-Plan, remained relatively constant, from 26 FIPF in 2005 to 25 FIPF in 2009.

Table 8: Growth of Pension Fund Net Asset, 2005-2009

(in trillion Rupiah)

Net Asset	2005	2006	2007	2008	2009
Employer Pension Fund (EPF)	58.0	70.0	81.8	79.1	97.5
- Defined Benefit Pension Plan (DB Plan)	53.8	64.6	74.8	72.9	89.2
- Defined Contribution Pension Plan (DC Plan)	4.2	5.4	7.0	6.2	8.4
Financial Institution Pension Fund (FIPF)	5.4	7.5	9.4	11.3	15.0
Total	63.4	77.5	91.2	90.4	112.5

Source: Bapepam-LK

Table 8 shows the growth of pension fund NAV from 2005 to 2009. Although the total number of pension funds declined (as presented in table 7), their NAV increased during this period, except for in 2008 where it declined as a result of the global financial crisis. Between 2005 and 2009, total NAV grew by a rate of 12.3% per year. Net assets of DC-Plan (of both EPF-DC Plan and FIPF) grew by 143.8 % from Rp9.6 trillion in 2005 to Rp23.4 trillion in 2009. Meanwhile, net asset of EPF-DB Plan grew by only 65.8%, from Rp53.8 trillion in 2005 to Rp89.2 trillion in 2009.

OUTLOOK

Table 9: Pension Fund Investment, 2005 - 2009

(in trillion Rupiah)

Type of Investment	2005	2006	2007	2008	2009
Deposit	17,23	21,94	20,26	20,32	23,00
BI Certificate	0,18	0,25	0,74	0,60	0,70
Share	4,18	7,42	13,99	8,47	16,00
Bonds	15,57	19,48	22,64	21,90	25,90
Government Commercial Papers	16,01	17,32	19,20	25,15	29,80
Investment Funds	1,65	2,34	4,97	3,30	5,40
Direct Investment	2,71	2,77	2,83	3,56	3,60
Commercial Paper	0,58	0,45	0,27	0,47	0,10
Properties	2,78	2,82	3,01	3,15	3,50
Total	60,89	74,81	87,90	86,55	108,0

Source: Bapepam-LK

Graph 8: Growth of Pension Fund Long-Term Investment 2005 - 2009

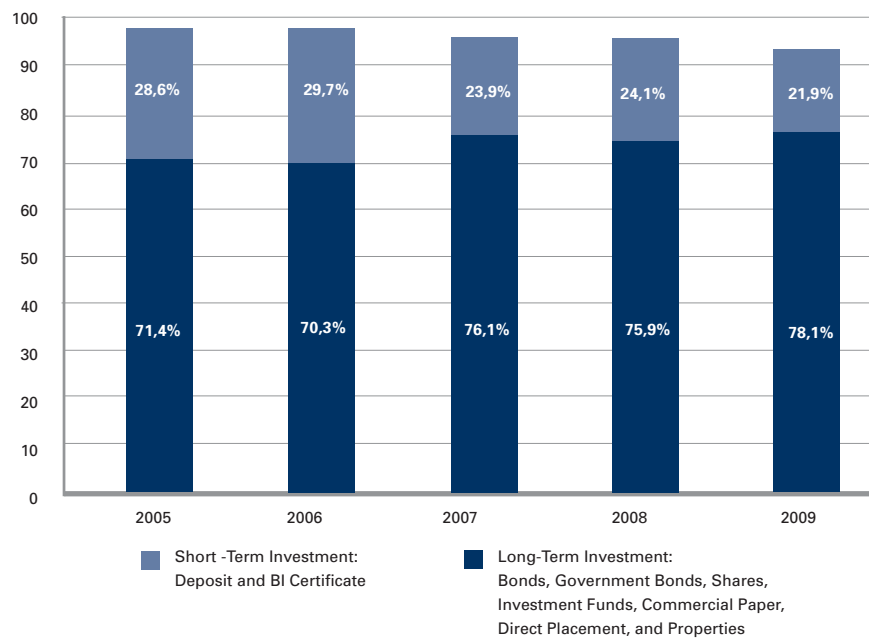


Table 9 shows that the investment portfolio of pension funds is shifting to a composition that better reflects the characteristics of the industry, whereby it provides sources of funds that are long-term in nature, as shown in graph 8. Long-term investment instruments such as corporate and government bonds, shares, investment funds, direct investment and properties were more dominant in 2009 compared in 2005. The ratio of long-term investment-to-total investment increased from 71.4% in 2005 to 78.1% in 2009.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

The insurance industry is composed of various types insurance companies, namely life insurance, general insurance, reinsurance, social and worker insurance, and insurance for the Indonesian civil servant/Army/Police. Table 10 details their development from 2005 to 2009. As a whole, the number of insurance companies decreased, particularly life and general insurance companies. The number of life insurance companies decreased by 9.8% from 51 companies in 2005 to 46 companies in 2009. Similarly, the number of general insurance companies decreased by 8.2% from 97 companies in 2005 to 89 in 2009.

Table 10: Development of Insurance Companies, 2005-2009

Company	2005	2006	2007	2008	2009
INSURANCE COMPANIES	157	157	149	144	144
Life Insurance	51	51	46	45	46
General Insurance	97	97	94	90	89
Social / Worker social security Insurance	2	2	2	2	2
Indonesian Civil Servant / Army / Polic Insurance	3	3	3	3	3
Reinsurance	4	4	4	4	4
INSURANCE BUSINESS SUPPORTING COMPANIES	213	229	226	217	220
Insurance and Reinsurance Broker	155	166	169	162	164
Loss Adjuster	30	33	27	27	28
Actuarial Consultant	28	30	30	28	28
TOTAL	370	386	375	361	364

Source: Bapepam-LK

OUTLOOK

Table 11: Insurance Investment, 2005 - 2009

(in trillion Rupiah)

Type of Investment	2005	2006	2007	2008	2009
Deposit	41.37	49.18	46.79	48.42	65.06
Shares	8.50	14.78	31.55	22.95	43.82
Bonds and MTN	14.92	18.53	24.14	21.26	31.04
Sovereign Bond (SUN)	37.17*	41.93	52.71	60.98	72.28
BI Certificate (SBI)	-	1.70	1.94	4.49	1.51
Investment Funds	7.84	14.23	30.67	32.94	49.91
Direct Investment	5.05	8.08	9.10	10.39	13.20
Land, Building, Land & Building	1.95	2.54	1.25	2.74	2.84
Mortgage Loan	0.36	0.27	1.71	0.19	0.15
Policy Loan	1.05	1.18	1.38	2.56	2.64
Murabahah Financing	0.02	0.01	0.01	0.01	0.01
Mudharabah Financing	0.01	0.00	0.00	0.00	0.00
Other Investment	0.58	0.51	0.96	0.86	0.74
Total	118.81	152.94	202.22	207.79	283.22

Source: Bapepam-LK

*) prior to 2006, Sovereign Bond (SUN) and BI Certificate (SBI) are combined

Table 11 shows the development of investments made by insurance companies during the period of 2005 to 2009. The total investment of life insurance, general insurance, social and employment insurance and Indonesian civil servant/ Army/Police insurance companies at the end of 2009 was Rp283.22 trillion from Rp118.81 trillion in 2005, or an increase of 138.4%. In 2009, securities issued or guaranteed by the government made up the largest share of the insurance industry's investment. Investment in government-issued or -backed securities amounted to Rp72.28 trillion or representing 25.5% of total investments. Meanwhile, short-term investments, such as term-deposit or certificate of deposit, were still relatively high, where investments reached Rp 65.06 trillion or nearly 23% of the total investment in 2009. This showed a significant increase of 34.4%, from Rp48.42 trillion in 2008 to Rp65.06 trillion in 2009.

Despite the economic crisis in 2007 and 2008, investments by insurance companies showed positive growth. The average growth of investments was 25% per year. Post- crisis (2008 to 2009), growth of the investments increased significantly by 36.3% from Rp207.79 trillion to Rp283.22 trillion.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Table 12: Development of Gross Premium, Gross Claim and Assets, 2005-2009

(in trillion Rupiah)

Type	2005	2006	2007	2008	2009
Assets	139.41	174.93	228.86	243.59	315.62
Gross Premium	45.36	52.42	74.63	87.52	104.26
Gross Claim	25.69	30.63	39.00	54.57	67.08

Source: Bapepam-LK

Two indicators used to measure growth of the insurance industry are gross premiums and gross claims. Table 12 shows the growth in gross premiums, gross claims and assets of insurance companies. Overall, the amount of gross premium received by the insurance industry increased. In 2005, gross premium only amounted to Rp45.36 trillion. However, in 2009 it rose to Rp104.26 trillion, showing an increase of 129.85%. The increase in gross premiums was followed by an increase in gross claims by 161.11% during the period of 2005 - 2009. Meanwhile, assets increased by 126.4% from Rp 139.41 trillion in 2005 to Rp315.62 trillion in 2009.

Finance institutions, amongst others, includes finance companies, venture capital companies, secondary mortgage facility, Indonesian Export Financing Institution and guarantee companies, as detailed below.

Table 13: Development of Finance Companies, 2005-2009

(in trillion Rupiah)

Type	2005	2006	2007	2008	2009
Total Companies (unit)	236	214	217	212	198
Total Asset	96.5	108.9	127.3	168.5	174.4
Value of Business Activities:	102.5	92.8	107.7	137.2	142.5
Leasing	32.0	26.4	36.5	50.7	46.5
Factoring	3.0	3.8	2.2	2.2	2.0
Credit Cards	1.5	0.04	1.4	1.1	0.9
Consumer Finance	66.0	62.5	67.6	83.2	93.1
Loan	61.1	65.2	76.8	108.9	102.0
Domestic Loan	29.7	33.2	40.5	55.4	57.6
Overseas Loan	31.4	32.0	36.3	53.5	44.4
Bond	10.2	10.1	12.8	11.5	13.6
Paid-Up Capital	12.5	13.8	14.7	17.4	18.6
Current Profit (Loss)	3.5	3.1	4.4	6.4	7.8

Source: Source: Bapepam-LK

OUTLOOK

As one of the contributors for national economic growth, finance institutions have been developing rapidly in Indonesia. Table 13 shows its development from 2005 to 2009. At the end of 2009, the total number of finance companies was 198 companies, falling from 236 companies in 2005.

Although the number of finance institutions has decreased since 2005, their financial performance has improved significantly. This is indicated by an increase in the value of business activities as well as total assets from 2005 to 2009 by 39.1 % and 80.7% respectively. Consumer finance provided the highest contribution to business activities (65.3%), followed by leasing activities (32.6%), factoring (1.4%) and lastly credit cards (0.7%).

The main source of funding for finance companies are loans, whether bank loans or loans from companies, which amounted to Rp102.0 trillion or equivalent to 58.5% of the total source of funds. Compared to 2008, the total amount of loans decreased, particularly foreign loans, even though domestic loan increased by 4%, from Rp55.4 trillion to Rp57.6 trillion. In terms of funds utilization, a large proportion of the funds were channeled into financing activities at a value of Rp142.5 trillion in 2009. This is equivalent to 82% of total source of funds.

Table 14: Development of Total Number of Venture Capital Companies, 2007-2009

(in billion Rupiah)

Description	2007	2008	2009
Total Venture Capital Companies (unit)	60	66	74
Total Asset	2,802	2,091	3,230
Total Financing / Investment	4,676	5,039	2,350

Source: Bapepam-LK

Table 14 shows the growth of venture capital companies during 2007 to 2009. During this period, the number of venture capital companies increased by 23.3%, from 60 in 2007 to 74 in 2009. In 2009, the Minister of Finance granted licenses to 8 (eight) new venture capital companies. Total assets increased by 15.4% from Rp2.8 trillion in 2007 to Rp3.23 trillion in 2009. However, the total amount of investment declined by 49.8%, from Rp4.68 trillion in 2007 to Rp2.35 trillion in 2009.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Secondary mortgage facilities is conducted through securitization, whereby financial assets are purchased from an initial creditor and the issuance of asset backed securities by PT Sarana Multigriya Finansial (SMF) Persero, SPV, or Trustee. Securitization begun since the early 2006 based on the Presidential Regulation where PT SMF acts as both the purchaser and the issuer. The securitization of the Housing Loan (Kredit Perumahan Rakyat/KPR) was conducted using the structure of Collective Investment Contract with assets backed securities. In effort to build and develop a secondary mortgage market, companies were also able to provide loans to banks and/or other financial institutions to be channeled as KPR. Loans with a maximum maturity of 15 years can be given, for no more than ten years after the enactment of Presidential Regulation No. 1/2008.

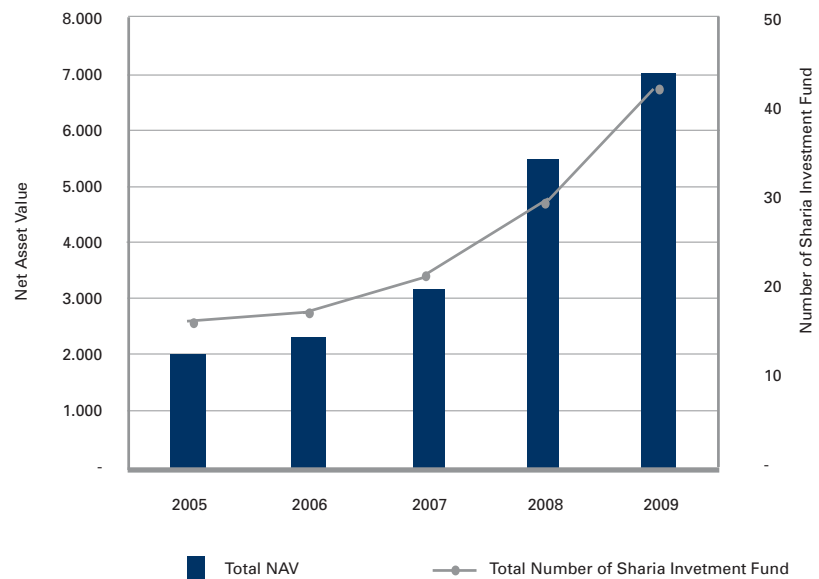
Indonesian Export Financing Institution (Lembaga Pembiayaan Ekspor Indonesia/LPEI) was established to assist the Government in providing funds to geographical areas that are beyond the reach of banks and/or commercial financial institutions and funds for transactions or projects which are not commercially feasible for financial institutions or LPEI, but are considered necessary by the Government as support for policies or programmes that increases national export through the National Interest Account (NIA). As of 1 September 2009, LPEI has been officially established with an initial capital of at least Rp4 trillion. With such amount of capital, it is expected that LPEI would be able finance, insure and guarantee projects for the purpose of supporting government policies that reinforce the national export enhancement programme. Up until the end of 2009, total asset of the LPEI was Rp13 trillion with a financing value of about Rp9.3 trillion.

With regards to credit guarantee companies, there are currently 11 branch offices and 6 (six) representative offices throughout Indonesia. Their total assets amounted to Rp1.67 trillion as of December 2009 with outstanding value of guarantee for productive businesses of Rp7.35 trillion and outstanding guarantee value for non-productive businesses of Rp42.49 trillion. As of December 2009, the total number of principal was 31,686. A study was conducted on the draft Law on Guarantee Activities in December 2009 to be used to draft the Law on Guarantee Activities and thus provide a stronger legal framework for the guarantee industry in the future.

OUTLOOK

D. Sharia Capital Market and Sharia Non Bank Financial Industry Performance

Graphic 9: Development of Total Sukuk Issuance Value and Total Sukuk Issuance, 2005 - 2009

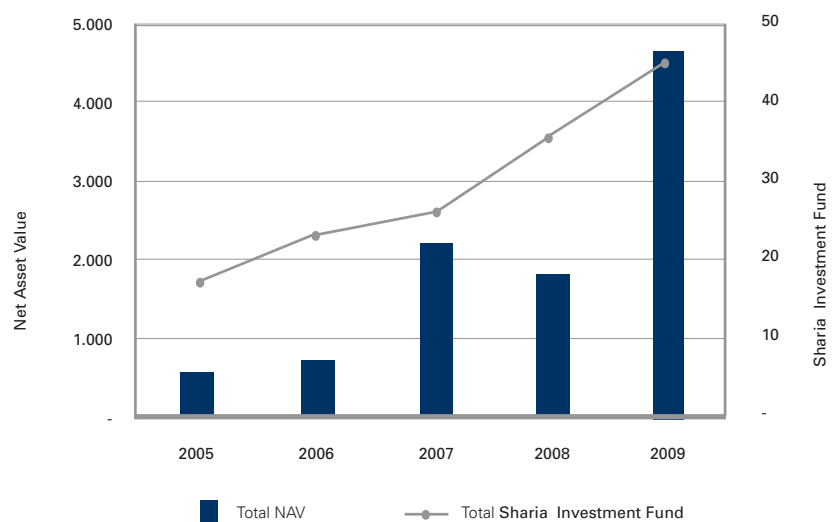


Source: Bapepam-LK

Graph 9 illustrates that sharia products in the capital market has been growing since 2005. Up until the end of 2009, total sukuk issuance reached 43 issues or an increase of 168.75% compared to 2005, where it was only 16 sukuk. Compared to the total outstanding bonds, total outstanding sukuk reached 9.77% in 2009. Between 2005 and 2009, sukuk issuance increased by approximately 2.5 times, from Rp2,009 trillion in 2005 to Rp7,015 trillion in 2009. As of 2009, the total value of sukuk reached 3.93% of the total value of bonds issuance.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Graphic 10: Development of Total Net Asset Value (NAV) and Total Number of Sharia Investment Funds, 2005 - 2009



Source: Bapepam-LK

Graph 10 shows that from 2005 to 2009, NAV of sharia investment funds experienced a growing trend, with the exception of 2008 as a result of the global financial crisis. Up to the end of 2009, sharia investment funds NAV reached Rp4,630 trillion or an increase of more than seven times compared to 2005, which was at Rp 559.1 billion. In 2009 sharia investment funds NAV contributed 3.97% of the total investment funds NAV.

In addition, the number of total sharia investment funds in the past 5 (five) years continued to increase. Up to the end of 2009, total sharia investment funds amounted to 46, representing an increase of 170.59% compared to 2005 which was only 17. In 2009, the share of sharia mutual funds was 7.54% out of the total number of mutual funds.

OUTLOOK

Table 15: Total Insurance and Reinsurance Based on Sharia Principle 2005 - 2009

Type	2005	2006	2007	2008	2009
Life insurance company based on Sharia principle	2	2	2	2	2
General Insurance Company based on sharia principle	1	1	1	1	1
Life insurance company having sharia unit	8	9	12	13	17
General insurance company having sharia unit	13	15	19	19	19
Reinsurance company having sharia unit	2	3	3	3	3

Source: Bapepam-LK, Ministry of Finance of the Republic of Indonesia

Table 15 demonstrates that the total number of sharia-based life insurance and general insurance companies remained relatively unchanged. However, there was a significant increase in the number of life insurance and general insurance companies with sharia units. In the past 5 (five) years, the total number of life insurance with sharia units have increased from 8 (eight) to 17 companies or an increased by 112.5%, while general insurance companies with sharia unit also increased from 13 companies to 19 companies or an increase by 46.2%.

Table 16: Development of the Main Indicator for Sharia Based Insurance and Reinsurance Companies 2005 - 2009
(in billion Rupiah)

Type	2005	2006	2007	2008	2009
Gross premium	326.3	498.9	805.6	1,650.8	2,628.0
Claim	118.4	188.2	312.6	492.3	943.6
Investment	525.5	670.2	1,148.2	1,188.9	2,089.5
Asset	685.4	950.4	1,418.4	1,853.3	3,022.8

Source: Bapepam-LK

Table 16 shows the positive growth of sharia-based life and general insurance companies, represented by the increase in gross premiums during 2005-2009. In 2005, gross premiums reached to Rp326.3 billion. By 2009, it reached to Rp2,628 billion or an increase by more than seven times. Moreover, the total claim payable also increased despite the fact that the ratio of gross premiums-to-gross claims remained relatively unchanged, from 2.75 in 2005 to 2.79 in 2009.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

The asset and investment value of sharia-based insurance companies continued to increase from 2005 to 2009. Investment value in 2005 was recorded at Rp525.5 billion. By 2009, it reached to Rp2,089.5 billion, representing an increase of three times. In the same period, the asset value also increased by more than three times.

VISION - MISSION - OBJECTIVE

Vision

Becoming trusted and professional Capital Market and Financial Institution Regulator which is capable of creating capital market and non - bank financial institutions industries, as generators to establish a strong and globally competitive economy.

Mission

ECONOMIC MISSION

Creating friendly environment for corporations to obtain funding and for investors to select investment alternatives in capital market and non - bank financial institution industries.

INSTITUTION MISSION

Creating Bapepam - LK as an institution that discharges its duties and functions, upholds principles of transparency, accountability, independency, integrity and constantly transform itself into an international standard institutions.

CULTURAL MISSION

Creating Indonesian Society that has understanding of and orientation to capital market and non - bank financial institutions in making investment and financing decisions.

Objective I

Easily accessible, efficient and competitive
source of funds

Objective II

Conducive and attractive investment climate
as well as reliable risk management

Objective III

A stable, resilient and liquid industry

Objective IV

Fair and transparent regulatory framework which
guarantees legal certainty

Objective V

A credible, reliable international
standard infrastructure

Objective I

Easily Accesible, Efficient and Competitive Source of Funds

strategy 1

Reducing constraints for business communities to access
capital market for source of funds

strategy 2

Increasing public accessibility to finance and
guarantee institutions

strategy 3

Improving the role of professionals, supporting institutions
and underwriters in public offerings

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014



OBJECTIVE I

1

Easily Accessible, Efficient and Competitive Source of Funds

The direction of the national development policy, as set forth in the Mid Term Development Plan 2010 - 2014, shows six basic development policies and strategies which have become the Government's main focus for the next five years. The fundamental policy and strategy for the nation's economy is the integration of the national economy and the significant development of local economies. As such, inter-industry economic policy should be comprehensively formulated and integrated so that it can encourage synergy among industries. Local economic development means that economic strength will be based on domestic resources, and is thus expected to strengthen the local economy. Hence, the country's economic resources must be explored, processed and synergized so as to create a robust economy and to improve public welfare. In the context of creating a robust economy, government policies are needed to enhance the role of business communities. Government policies that encourage access to efficient and competitive funding sources will significantly help businesses to develop and grow sustainably.

Capital markets as a source of funds have many advantages, one of which is the availability of a large amount of funds. This can be seen by the IPO activities and corporate actions where nearly all securities offered were absorbed by the market, which in fact the demand for securities was higher than the total offered by issuers. Hence, businesses that utilize capital markets have many opportunities to obtain the funds to accommodate their needs. Nevertheless, up until 2009 the number of companies that have used the capital market as a source of funds was still low in proportion to the total number of companies that exist in Indonesia.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

The finance and guarantee industry also offers convenience for the public in obtaining funding through, inter alia, the relative ease of its requirements. However, the total value distributed by finance companies to the real sector is not significant, making up only around 3.1%¹ of GDP.

The role of the capital market and finance and guarantee institutions as a driving force for Indonesia's economy has not been optimized. The low level of interest on the part of companies and the public in taking advantage of the capital market and finance and guarantee institutions to raise funds is a result of a number of factors, including the complicated requirements and process of public offerings, the perception of burdensome obligations upon becoming an issuer, the activities of capital markets and finance and guarantee institutions being concentrated in urban areas and a lack of understanding from the business community regarding the advantages of the capital market as a source of funds.

In this Master Plan, one of the established objectives is to develop the capital market and finance and guarantee institutions as a source of funds that is more easily accessible, efficient and competitive. Easily accessible means that the constraints to obtaining funding will be minimal. Efficient means that the process of obtaining funding from the capital market and finance and guarantee institutions would be neither lengthy nor costly. Competitive means that the capital market and finance and guarantee institutions would be an equally attractive option to obtain funding as other sources of funds for businesses and the public.

To achieve this objective, in the next five years several strategies will be adopted, namely reducing constraints for business communities to access sources of funds, increasing public accessibility to financing and guarantee institutions, and perfecting the roles of professionals, supporting institutions and securities underwriters in public offerings.

**STRATEGY 1 : REDUCING CONSTRAINTS FOR BUSINESS COMMUNITIES TO ACCESS
CAPITAL MARKET FOR SOURCE OF FUNDS**

The role of capital markets as a means of financing for business communities has been increasing over the years, however, it is relatively small compared to other sources of funds. To enhance the role of the capital market as a source of funds, the policy at the entry level should aim to increase the accessibility of the capital market for the business community. Constraints for the business community to access funding resources should be reduced, if not eliminated.

Within the next five years, efforts to reduce the constraints will be carried out through two main programs, which are: streamlining requirements, processes and procedures of public offerings and rationalizing the obligations of information disclosure for issuers, without compromising the quality of information.

¹Finance Companies Annual
Report 2009 (unaudited)

OBJECTIVE I

EASILY ACCESSIBLE, EFFICIENT AND COMPETITIVE SOURCE OF FUNDS

Program 1 : Streamlining Requirements, Processes and Procedures of Public Offerings

Requirements for public offerings are regulated through several Bapepam-LK regulations, covering inter alia the number and type of documents that have to be submitted to Bapepam-LK as part of the registration documents. The number of required documents increases if the issuer has subsidiaries, as documents will include documents of the issuer as well as documents of its subsidiaries. Fulfilling this requirement is the responsibility of the issuer with the time and cost of preparation having to be taken into consideration.

To minimize those constraints, the policy will aim to reduce the total number and types of registration documents required for public offerings, without compromising the quality of information to be provided. Streamlining public offering processes has become Bapepam-LK's priority in order to provide issuers with easier access to funds in the capital market, particularly for bond issuers. Bond issuers tend to conduct bond issuances every year. The current process requires bond issuers to resubmit registration statements for every issuance. This increases the cost of raising funds. Therefore, the processes and procedures for public offerings need to be simplified.

Bapepam-LK has conducted some studies to streamline public offering processes and procedures. The result of the studies includes a recommendation to implement a shelf registration scheme for securities issuance. Shelf registration is the process of issuing debt securities and/or sharia-based securities (sukuk) in several stages, within a certain period of time and within a certain amount. This scheme allows the issuer to file a registration statement only once for several subsequent securities issuances within a certain period, say two years. This scheme is not intended to reduce the quality of information disclosure or the amount of information that has to be disclosed to the public. The information will still be available periodically but in simpler documents. This scheme allows issuers to readily conduct the public offering when the funds are needed. Another policy which will be implemented is e-registration for submitting registration statements. The implementation of e-registration is expected to reduce costs borne by issuers as well as to increase the simplicity and speed of providing the information to Bapepam-LK.

Program 2 : Rationalizing Information Disclosure Obligations for Issuers

Information regarding issuers and public companies is essential in order to allow investors to make their investment decisions. Accordingly, every party that has obtained an effective statement from Bapepam-LK must comply with the capital market regulations on the obligations of issuers, some of which obligations are not straightforward. Those obligations are regulated in capital market laws and their implementing regulations in relation to reporting and corporate actions of issuers.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Bapepam-LK will simplify the regulation concerning reporting and corporate actions, as has been done with the regulation regarding capital increase without pre-emption rights. The simplification of this regulation allows issuers to increase capital without pre-emption rights within a shorter period of time and in a larger amount. Additionally, the regulation also reduces the obligations for issuers prior to making a transaction of a material value. Not all material transactions will require shareholders approval; only certain transactions with significant value will require the approval of shareholders before the transaction is undertaken.

Additionally, the simplification of regulations concerning obligations of issuers in terms of submission of reports and information transparency will be carried out through the implementation of e-reporting. The implementation of e-reporting will enable issuers to file reports with Bapepam-LK more easily and in a shorter time. Furthermore, e-reporting will enable investors to obtain quality information more quickly.

STRATEGY 2 : INCREASING PUBLIC ACCESSIBILITY TO FINANCE AND GUARANTEE INSTITUTIONS

The role of finance and guarantee institutions as a source of funds for the public is still limited compared to that played by other industries. This can be seen from the total value of funds distributed to the public up until December 2009 where it only amounted to Rp142,539 billion. This indicates that the public has not fully utilized finance and guarantee institutions as one of their sources of funds.

The degree of interest of the public in utilizing the finance and guarantee institutions as a source of funds is influenced by a number of factors, including the accessibility of the institutions and the diversification of the financing products.

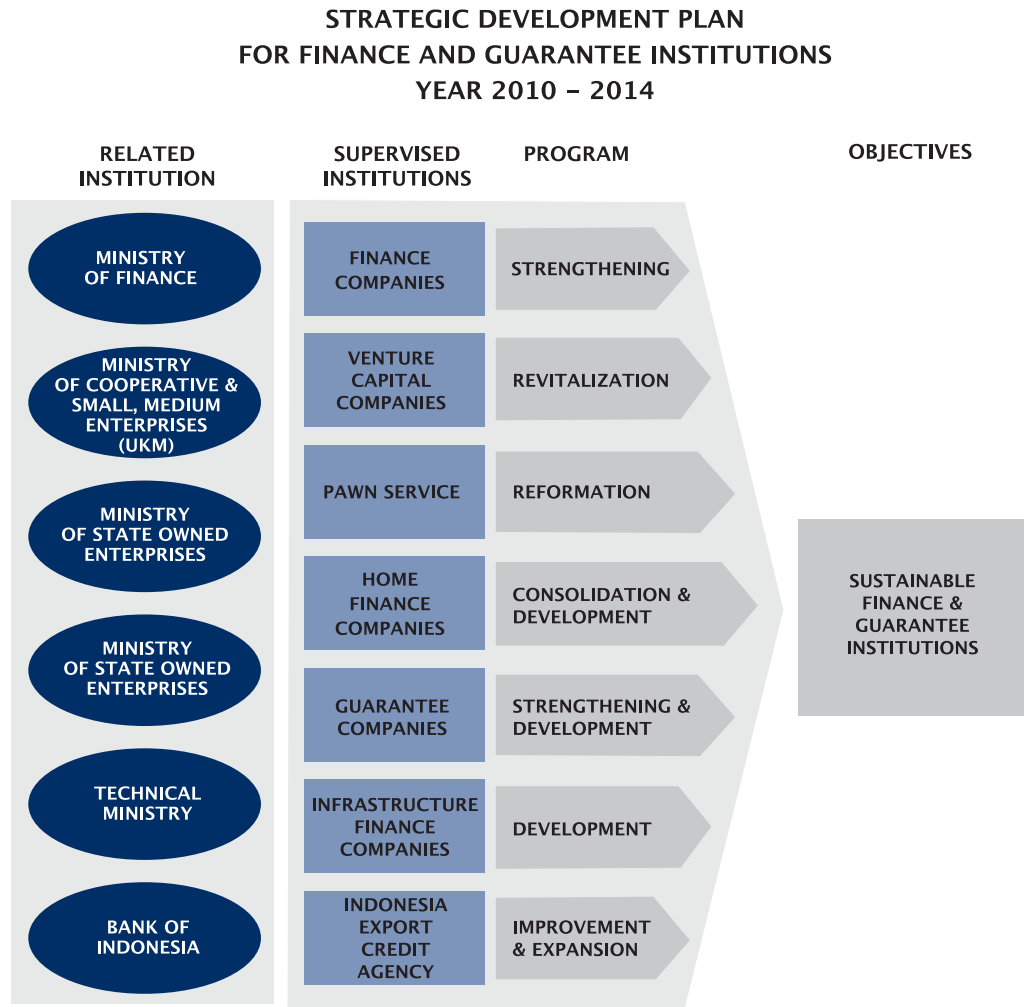
Access to finance and guarantee institutions still needs to be improved, particularly to pawnbrokers, venture capital companies, guarantee companies and infrastructure finance companies. Currently, according to the prevailing law, pawnbroking activities may only be carried out by the state-owned pawn company, Perum Pegadaian. To allow easier access to pawn broking services, a separate law regulating pawnbroking services will be drafted, inter alia, opportunities for the private sector to offer pawn services. In terms of their product variety, finance companies are currently limited to leasing, factoring, credit cards and consumer financing. These are considered insufficient to meet the growing needs of the public and therefore, innovation in financing schemes is necessary.

In the next five years, efforts to enhance access to finance and guarantee institutions will be made through two main programs, namely expanding the network of finance and guarantee

OBJECTIVE I
EASILY ACCESSIBLE, EFFICIENT AND COMPETITIVE SOURCE OF FUNDS

institutions through opening private pawnbrokers, opening branch offices of venture capital companies, making adjustments to the capitalization of guarantee companies and establishing infrastructure finance companies, as well as developing finance and guarantee products. It is expected that these programs will be able to increase the attractiveness of finance and guarantee institutions as a source of funds.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014



Program 1 : Encouraging Expansion of Finance and Guarantee Institution Networks

Currently, finance and guarantee institutions are concentrated in urban areas. Accordingly, there is untapped potential of customers in the provinces to utilize the financing and guarantee institutions as their source of funds. For this reason, it is necessary to encourage the expansion of finance and guarantee institutions networks, through a number of strategic initiatives, namely:

OBJECTIVE I

EASILY ACCESSIBLE, EFFICIENT AND COMPETITIVE SOURCE OF FUNDS

1. Opening private pawnbrokers

According to the prevailing laws, the only company permitted to conduct pawnbroking services is Perum Pegadaian. The level of interest among the public in utilizing pawn brokers as a source of funds has increased. Within the past five years, total credit distributed has increased from Rp10,418,495 million in 2004 to Rp33,766,736 million in 2008 or an average increase of 31.15% per year. During that period, the number of customers obtaining funding from Perum Pegadaian has increased from 15,397,708 in 2004 to 17,300,199 in 2008, with an average growth of 9% per year.

Despite positive growth both in the total credit distributed and total customers, the role of pawnbroking service still needs to be developed. To enhance the role of pawnbrokers and to be in line with Law Number 5 of 1999 regarding Anti Monopoly and Unfair Business Competition, the Government aims to establish pawnbroking services as an industry in the future. By doing so, the public and private sectors will both be able to participate, thereby expanding the network of pawnbroking services and facilitating public access to this source of funding.

2. Opening venture capital branch offices

Currently, venture capital companies have not been able to open branch offices in provincial areas. The reason for this is that the establishment of branch offices of venture capital companies has not been regulated. As opening branch offices in the provinces may increase public accessibility to this source of fund, in the future Bapepam-LK will develop regulations to govern the establishment of branch offices of venture capital companies in provincial areas. By allowing venture capital companies to open branches in provincial areas, it is hoped that the public will have wider access to obtain funding.

3. Capital adjustment in the establishment of a credit guarantee company in provincial areas.

A credit guarantee company is a company that provides guarantees on the fulfillment of a debtor's financial obligation. The existence of credit guarantee companies serves to aid government programs in facilitating small and medium enterprises in obtaining access to capital from banks. Currently, in Indonesia there are three guarantee companies: Perum Jaminan Kredit Indonesia (Perum Jamkrindo) and PT Penjamin Kredit Pengusaha Indonesia (PT PKPI), and PT Jamkrinda Jatim. Perum Jamkrindo is a state-owned enterprise while PT PKPI is a private credit guarantee company. Up until the end of 2009, there were 11 branch offices and 6 representative offices of credit guarantee companies throughout Indonesia.

Even though Presidential Regulation Number 2 of 2008 on Guarantee Institutions and Minister of Finance Regulation Number 222/PMK.010/2008 on Credit Guarantee Companies and Credit Reguarantee Companies have provided for credit guarantee companies in Indonesia with the opportunity to develop, the rate of growth still needs to be increased. One of the main

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

reasons for the low growth of guarantee institutions is the stringent capital requirements. The minimum capital requirement for establishing a credit guarantee company operating in the provinces is IDR50 billion, while a credit guarantee company operating at a national level requires a minimum capital of IDR100 billion and a credit re-guarantee company requires a minimum capital of IDR1 trillion.

In expanding the finance and guarantee institutions network, Bapepam-LK will take a number of steps, one of which will be adjusting the regulation governing the minimum capital requirement for establishing a credit guarantee company.

4. Establishment of Infrastructure Finance Company

The availability of adequate infrastructure will assist the government in boosting economic growth. Within the next five years, it is estimated that the funding required to develop infrastructure would be more than IDR1,400 trillion and not all can be covered by the Government budget. For that reason, other funding sources need to be considered. Through the mechanism of Public Private Partnership (PPP), the Government is encouraging private sectors, including multilateral financial institutions, to finance infrastructure development in Indonesia.

To support the participation of private sectors in financing infrastructure project developments, the Presidential Regulation Number 9 of 2009 on Financing Institutions has been enacted, as a refinement of Presidential Decree Number 61 of 1988 on Financing Institutions. Through this Presidential Regulation, the Government provides an opportunity for the private sector to establish an Infrastructure Finance Company. Subsequently, as the implementing regulation of Presidential Regulation Number 9 of 2009, the Minister of Finance has issued the Minister of Finance Regulation Number 100/PMK.010/2009 on Infrastructure Finance Companies. As an initial step, the Government has established PT Sarana Multi Infrastruktur (PT SMI) as the Infrastructure Finance Company. Subsequently, the Government, together with several multilateral financial institutions such as the International Finance Corporation (IFC) and Asian Development Bank (ADB), will establish other infrastructure finance companies through PT SMI as subsidiaries. In the future, there will be efforts made to encourage the growth of these infrastructure finance companies. Along the way, if the role of the Government as the shareholder of PT SMI can be replaced by private companies, the Government will gradually divest its ownership.

OBJECTIVE I

EASILY ACCESSIBLE, EFFICIENT AND COMPETITIVE SOURCE OF FUNDS

Program 2 : Encouraging the Development of Finance and Guarantee Products

1. Diversification of consumer financing products

Currently, finance companies may only conduct four business activities namely leasing, factoring, credit cards in terms of its products, and consumer financing services. Along with improvement in the public welfare, the development of consumer financing business activities has recently experienced rapid growth, so that innovations in financing schemes are required to keep pace with this growing need.

To encourage the development of consumer financing products that are in line with the market demand, Bapepam-LK is currently preparing regulations that will allow finance companies to develop consumer financing products, one of which is the re-financing scheme, whereby finance companies will finance consumer goods that has been previously financed by a finance company. By increasing consumer financing schemes, it is expected that consumers will have more options in obtaining funding.

2. Diversification of guarantee products

The role of credit guarantee companies is important in encouraging economic growth, particularly in accelerating the growth of the real sector and empowering micro, small and medium businesses. However, currently there are only three credit guarantee companies.

In order to develop the guarantee industry into an attractive and profitable industry, efforts aimed at encouraging the diversification of services will be necessary. At the moment, credit guarantee companies only provide credit guarantee services. The limited range of products by credit guarantee companies hampers the industry from growing more rapidly. Therefore, breakthroughs are needed to broaden the coverage of guarantee companies so that the industry can be more attractive.

In the next five years, Bapepam-LK will encourage the development of other guarantee products such as project guarantee products, contra bank guarantees, agriculture business credit guarantees, construction credit guarantees and goods/services procurement, bank guarantees, distribution guarantees, multi-purpose credit guarantees, venture capital and financing guarantees. Diversifying guarantee products will not only increase the attractiveness of the guarantee industry but also encourage the growth of the financing industry.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

STRATEGY 3 : IMPROVING THE ROLE OF PROFESSIONALS, SUPPORTING INSTITUTIONS AND UNDERWRITERS IN PUBLIC OFFERINGS

Professionals, capital market supporting institutions and underwriters play important roles in assisting issuers in preparing for public offerings. They are involved in determining the types of securities that should be issued, and the information that should be included in the prospectus, through to selling the securities on the stock exchange. Although there are no regulations requiring issuers to use their services, underwriters also greatly help issuers, particularly in selling the securities offered.

Considering the increasing role of professionals, capital market supporting institutions as well as underwriters, Bapepam-LK has established some regulations aimed at increasing their professionalism and quality. These regulations include requiring accountants, legal consultants, appraisers and notaries to participate in advance professional education, developing an operational guidebook as the basis for implementing the duties of supporting institutions and establishing a code of conduct for securities companies acting as underwriters.

To enhance the role of these professionals, specifically in public offerings, in the next five years Bapepam-LK will be looking to make improvements in the roles of professionals, supporting institutions and underwriters in public offerings. This strategy will be carried out through two main programs, namely the repositioning of professional functions in public offerings and corporate actions and encouraging fair competition among the parties involved. The first program aims to enhance the skills of professionals in preparing registration documents and prospectuses. The second program aims to prevent unreasonable costs for professional services, supporting institutions and underwriters, which may lead to unfair competition in the capital market industry and poor quality of services delivered to issuers. It is expected that by improving the roles of professionals, supporting institutions and underwriters in public offerings, this would attract issuers to utilize the capital market as a source of funds.

Program 1 : Repositioning of Professional Functions in Public Offerings and Corporate Actions

The roles of capital market supporting professionals and institutions, as well as that of underwriters are very necessary and play a part in determining the success of a public offering. In the current situation those parties often do not fully observe the existing regulations in performing their duties related to public offerings, so that the prospectuses submitted do not contain all the information required by Bapepam-LK's regulation. This increases the time taken for review by Bapepam-LK as well as has an effect on the cost disbursement by the issuer in improving the prospectus and documents. Accordingly, efforts are required to improve the quality of public offering prospectuses, one such measure being a repositioning of professional functions in public offerings and corporate actions.

OBJECTIVE I

EASILY ACCESSIBLE, EFFICIENT AND COMPETITIVE SOURCE OF FUNDS

This program will be carried out through enhancing the role of legal consultants, especially in preparing prospectuses. This enhancement of the roles of legal consultants is based on the consideration that in assisting the issuer to carry out a public offering, legal consultants have to conduct a legal audit. In order to do so, they will have to have a comprehensive understanding of all the legal aspects of public offerings. Prospectuses that have been prepared by issuers together with legal consultants will have taken into consideration the legal consequences of any incorrect or misleading statements. Hence, investors will have greater legal certainty in respect of the information they use to make their investment decisions. To achieve this program, Baepam-LK will work together with other related parties including the Capital Market Legal Consultant Association.

Program 2 : Encouraging Fair Competition among Professionals, Supporting Institutions, Underwriters and Rating Agencies

Professionals, supporting institutions, underwriters and rating agencies play crucial roles in determining the quality of information disclosed by prospective issuers or issuers. The total number of capital market supporting professionals consisting of accountants, legal consultants, appraisers and notaries up until the end of December 2009 was 2,556.

In addition to the supporting professionals, other parties that assist issuers in securities issuances are capital market supporting institutions such as custodians, securities administration agencies and trustees. The total number of capital market supporting institutions up until the end of 2009 was 45. The number of securities companies holding permits as underwriters was 92.

The high number of these parties influences the level of competition in offering the services to issuers. In addition, issuers have a relatively strong bargaining power in determining the costs for the services. As a consequence, these parties often offer service fees at a reduced rate in order to gain the opportunity of assisting the issuer in the public offering. This is an unfavorable condition for the industry, as only a few players are able to deliver the services below operating cost. Particularly for supporting professionals, active players are generally those in large partnerships, as cost management in a large partnership is likely to be more efficient than in a small partnership, considering large partnerships are able to spread the cost of one service to another.

Furthermore, the unfair competition generated by the unreasonable reduction of service fees could lead to concerns that the service provided to issuers would be less than optimal, to correspond with the low offered service fee.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

To address this issue, Bapepam-LK has adopted a policy on the disclosure of information in prospectuses that relates to the cost of conducting the public offering, covering inter alia, service fees for professionals, supporting institutions and underwriters. With this greater disclosure, all parties will be able to see the service fees charged by the professionals involved in the issuance process and thus hope to reduce the offering of unreasonable service fees. In the future, efforts to encourage fair competition among professionals, supporting institutions, underwriters and rating agencies will be increased.

Objective II

Conducive and Attractive Investment Climate as well as Reliable Risk Management

strategy 1

Increasing the distribution and quality of information disclosure

strategy 2

Encouraging diversification of capital market instruments
and NFBI service schemes

strategy 3

Developing sharia capital market
and sharia non bank
financial industry (NFBI)

strategy 4

Improving the ease of transactions

strategy 5

Developing scheme to protect investors
and customers

strategy 6

Developing secondary market of bonds and sukuk
as well as a supervisory
mechanism

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014



CAPITAL MARKET
PENSION FUND
MULTI FINANCE
INSURANCE

OBJECTIVE II

2

Conducive and Attractive Investment Climate as well as Reliable Risk Management

The role of the capital market and non-bank financial institutions (NBFI) industries as a means of investment that is conducive and attractive and as a reliable means of risk management has been increasing from year to year, though it is not yet optimal. In 2009, the Indonesian stock market capitalization-to-Gross Domestic Product ratio was 35.97%. This ratio is not in line with the number of investors in the capital market, which is currently only 1% of the total population. This indicates ample opportunity for further increase in public interest in investing in the capital market.

On the other hand, the utilization of capital market instruments by institutional investors has been growing. This can be observed from the increasing value of NBFI investments in capital market instruments. The investment ratio for capital market instruments to total managed funds of pension funds in 2009 reached 47.39%. In the same year, the investment ratio for investments in the capital market to total investments of insurance and reinsurance companies reached 68.22%. This shows that NBFI have used the capital market as a means of investment.

When viewed in terms of the premium-to-GDP ratio, the role of the insurance industry in the economy, particularly as a means of investment and risk management, is still relatively limited. The premium-to-GDP ratio, also known as the insurance penetration level, at the end of 2009 was recorded at 1.93%. This ratio was recorded to have experienced growth, albeit fluctuating, namely from 2005 to 2008 where it was recorded to be 1.64%, 1.54%, 1.88%, and 1.76% respectively.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

The role of the pension fund industry as a means of investment and risk management can still be improved, with the level of participation still being only about 4% of the formal sector workforce. The contribution-to-GDP ratio at the end of 2009 was 2.05%. This ratio was recorded to have experienced growth, albeit fluctuative, namely from 2005 to 2009 where it was recorded to be 1.62%, 1.54%, 1.88%, 1.76% and 1.9% respectively.

In order to develop the capital market and NBFI industry to be a conducive and attractive means of investment and reliable means of risk management, a number of strategic efforts will be carried out in the next five years, namely through enhancing the distribution and quality of information disclosure, diversifying capital market instruments and NBFI service schemes, developing the Sharia capital market and NBFI industries, improving the ease of making transactions, developing schemes for protecting investors as well as customers, and developing the secondary market for bonds and sukuk, including supervision.

STRATEGY 1: INCREASING THE DISTRIBUTION AND QUALITY OF INFORMATION DISCLOSURE

In order to develop the capital market and financial service industries to be a conducive and attractive means of investment, as well as a reliable means of risk management, it is necessary to increase the distribution and quality of information disclosure by market players to potential investors and customers. Widely-available quality information will assist investors or customers in making rational investment decisions, so as to minimize their investment risks.

The availability of quality information would also enable potential investors and customers to evaluate their investment decisions. To fulfill the need for quality information, in the next five years, a strategy to enhance the quality of information disclosure will be carried out by increasing the effectiveness of e-reporting and by encouraging the industry to disclose quality information.

Program 1 : Increasing the Effectiveness in the Implementation of E-Reporting

In general, the existence of data and information in the financial service industry is an important factor for regulators, professionals, investors, and customers to make rational decisions. Recognizing this fact, since 2005 Bapepam-LK has developed e-reporting in order to improve the delivery of information, both for the industry as a whole and for its internal benefit. By the end of 2009, several industries have started to develop e-reporting, for inter alia, reporting to issuers and securities transactions, as well as reporting by insurance and reinsurance companies. The pension fund industry has been using e-reporting since 2005.

In the next five years, e-reporting will continue to be developed according to the needs of the industry and its readiness to implement it. Particularly for the pension fund industry, the development of e-reporting will be focused on refining the Pension Fund Digital Data (D3P). By

OBJECTIVE II
CONDUCTIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS
RELIABLE RISK MANAGEMENT

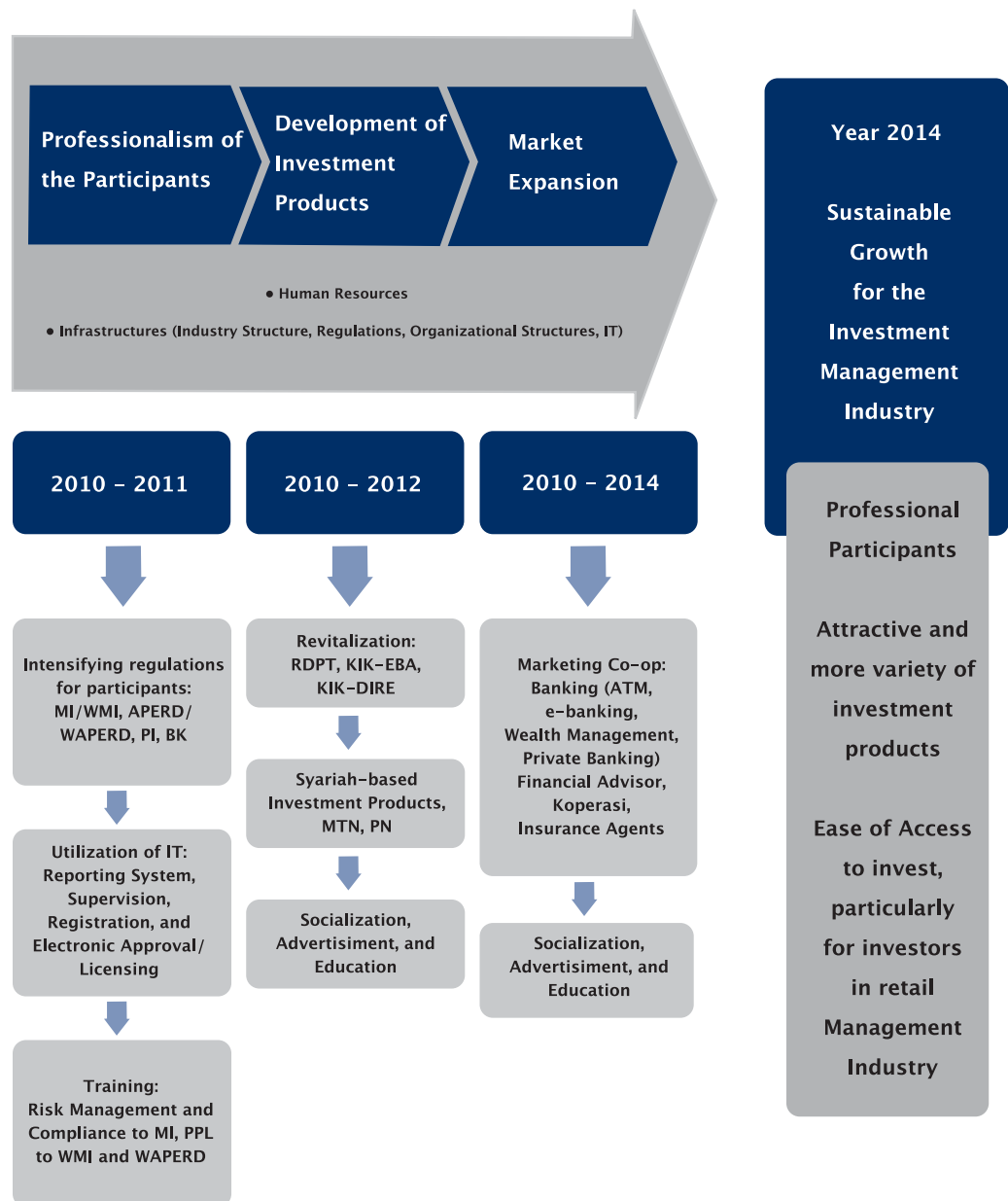
implementing D3P, it is expected that the frequency and amount of electronic data reported by the industry to the regulator will be increased to the extent where information on the pension fund industry will be more accurate and can be obtained in less time.

In the next five years, the establishment of e-reporting in the insurance industry will be focused on four types of reporting: periodic financial reports, operational reports, reinsurance treaty reports and new product marketing plans. Establishment will be conducted incrementally, beginning with distributing surveys on the appropriate platform and infrastructure for the industry's information system, followed by developing e-reporting models for the different types of reports, as well as socializing and trial-testing the e-reporting.

The development of e-reporting for issuers, securities transactions and the financing industry will be focused on the preparation of the regulatory framework and infrastructures. On the other hand, e-reporting development in the investment management industry will be initiated with a review and organization of the database, creation of the legal framework, and preparation of the necessary infrastructures.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

DEVELOPMENT OF THE INVESTMENT MANAGEMENT 2010 - 2014



OBJECTIVE II

CONDUCTIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS RELIABLE RISK MANAGEMENT

Program 2 : Encouraging the Industry to Provide Quality Information

The availability of quality information is an important factor for investors and customers in making their investment decisions. Similarly from the view of the regulators, quality of information allows them to increase the quality of their supervision. Recognizing the importance of quality information for protecting investors, within the next five years efforts will be carried out to refine the regulations that govern the disclosure of information by share and bond issuers for public offerings.

The regulation on information disclosure, specifically disclosure in prospectuses, will be separated for the public offering of shares and the public offering of bonds. This is intended to facilitate issuers, and/or other relevant parties that assist issuers in preparing prospectuses, in better understanding the necessary disclosure of information according to the respective type of public offering. In order to be compatible with international standards, the quality of information disclosure in prospectuses will be enhanced by adding or revising some provisions in the regulation on the content of prospectuses. Particularly in relation with cross border listing plans, information disclosure in prospectuses will be made in accordance with ASEAN standards.

In the securities industries, there will be refinement of some provisions related to the enhancement of information quality. The existing provisions emphasize more on the obligations of the participants to submit various reports with a defined content and within a set deadline. In the future it is expected that the information would not only be submitted in a timely manner by the participants, but the depth and accuracy of information should also be enhanced so that the information will be more beneficial and will provide a complete picture of the participants' activities. For this reason, to ensure the depth and accuracy of information or reports submitted by the participants to Bapepam-LK, further improvements in the verification mechanism will be made. With regard to the insurance industry, efforts to encourage insurance companies to provide quality information will be made through a number of programs including establishing a minimum standard of information that needs to be disclosed in marketing-related documents, policies, company websites, and other documents, and also providing regular training for the parties responsible for preparing reports. Companies will also be encouraged to publish certain information related to their financial reports, reinsurance treaty reports, and new product reports in the regulator's website or other media.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

**STRATEGY 2 : ENCOURAGING DIVERSIFICATION OF CAPITAL MARKET INSTRUMENTS
AND NBFi SERVICE SCHEMES**

The availability of varied capital market instruments or investment products would provide opportunities for investors to invest in an investment product that is suitable to their level of sophistication, the purpose of their investment, their availability of funds and their risk profile. Considering the importance of having diversified capital market instruments and NBFi service schemes for the development of the industry, Bapepam-LK, as the regulator, needs to develop regulations that encourage expanding the variety of capital market instruments and NBFi service schemes.

The variety of NBFi service schemes will also allow customers to choose a scheme or risk management product that matches their risk mitigation needs. For example, for the pension fund industry, a pension program that is flexible in terms of payment of both contributions and benefits would attract more members. The same applies to the insurance industry where insurance products that satisfy the needs of all levels of the public with different risk characteristics would attract the public to utilize insurance products as their means of risk management.

In the next five years, strategies that encourage the diversification of capital market instruments and NBFi service schemes will be carried out by increasing the flexibility of financing schemes and voluntary pension benefit payment schemes, developing insurance products that support long-term family financial planning, developing insurance products that supports risk mitigation (including micro insurance), developing securitized products and hedging instruments as well as increasing the availability of retail and Small Medium Enterprise (SME) investment products.

**Program 1 : Enhancing the Flexibility of Financing Schemes and Voluntary Pension Program
Benefit Payment Schemes**

The current voluntary pension program is deemed as too rigid and not suitable to the needs of the public, both for employers as well as employees. This is shown from the strictness of the regulation concerning pension contribution procedures where ad hoc payment for additional contributions are not allowed, where pension benefits can only be paid when participants reach the minimum early retirement age, where contributions need to be paid periodically and where participants must purchase annuity for Defined Contribution pension programs. Strictness in the regulation has made pension programs an unattractive retirement plan for employers and employees. Employers and employees tend to select other schemes that are considered to be more flexible in terms of contributions and pension benefits.

OBJECTIVE II

CONDUCTIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS RELIABLE RISK MANAGEMENT

Regulations concerning the disbursement of pension benefits should also be made more lenient in order to accommodate the utilization of the pension benefit to meet the obligations of employers for severance pay program (set-off), as allowed in the labor laws. With regards to Defined Contribution pension plans, participants should be allowed to voluntarily increase their contributions and allow pension funds to disburse the pension benefits without necessarily having to divert it through life insurance annuity products. As regards to Defined Benefit pension plans, the regulation regarding the frequency of the disbursement of pension benefits should be made more flexible, either in terms of the frequency of disbursements or methods of payments so that pension benefits are paid according to the needs of the participants.

Efforts to increase the flexibility of funding schemes and disbursements of pension benefits will be made through amending the Law on Pension Funds. In the next five years, efforts to amend this law will be a priority. Subsequently, the amended regulation will be socialized, particularly to employers who have not yet selected pension funds.

Program 2 : Encouraging Development of Insurance Products that Support Long-Term Family Financial Planning

The insurance premium per capita is still low at approximately Rp469,000 in 2009. This suggests that there is a low level of public awareness on utilizing insurance products as a means of risk management.

As part of an effort to increase public interest in utilizing insurance products as a means of risk management as well as a means of investment, insurance products which support long-term family financial planning will be developed. Life insurance products, in addition to their main element of insurance, will also offer a long-term savings component. Traditionally, insurance products with long-term savings have been offered in the form of, inter alia, endowment insurance, scholarships or annuities. Products with savings components are becoming increasingly familiar to the public when it is marketed with unit-linked products that offer transparency and attractive investment returns.

Efforts to provide family financial risk management instruments will be focused on the development of basic insurance products that have flexible features which can be separated or combined according to the needs of potential policy holders, such as for education, medical treatments, purchase and maintenance housing, purchase of vehicles as well as pensions. In the future, efforts to encourage the development of insurance products which support long-term family financial planning will be conducted through collaboration with Associations in research and development of products that contain components of long-term savings or investments,

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

simplification of the report analysis procedures for the standard products that will be developed and provision of data and other information that may be needed by Associations in developing these products.

Program 3 : Encouraging the Development of Insurance Products for Risk Mitigation

Including Micro Insurance

The risk management culture in Indonesia is relatively low. This can be seen from the low penetration level of the insurance industry, which is only at 1.93%. The low public interest in utilizing insurance products as a means of risk management is due to several factors, including a lack of public awareness and the limited variety of insurance products. Therefore, it is necessary to raise public awareness on the importance of risk management and to develop a range of products that would fulfill the differing public needs for risk management. Considering that the majority of Indonesia's population is lower-middle class, the public needs insurance products that are simple, affordable and can easily obtained. Micro credit insurance, personal accident insurance and fire insurance are examples of insurance products that could potentially be developed for the masses.

For the next five years, Bapepam-LK will encourage the development of insurance products, including micro insurance, which addresses the needs of the lower class. This will be done through releasing policies that supports the development of insurance products that provide basic protection against common risks faced by the public, including products that insure against catastrophic events. Developing micro insurance and catastrophic loss insurance products, as well as insurance products that can be utilized for risk mitigation, is expected to increase the interest of those utilizing insurance products as a reliable means of risk management.

Program 4 : Encouraging the Development of Securitized Products and Hedging Instruments

The availability of securitized products and hedging instruments is very important for increasing market liquidity. Securitized products also allow investors to invest in the real sector through the capital market. On the other hand, derivative products provide greater investment options for investors while also allowing investors to hedge the underlying risks of their investments. In the long term, the availability of derivative products in capital markets will also encourage the establishment of fair market prices through arbitrage.

Basic capital market investment products, such as shares and bonds, have developed and will continue to develop in line with the number and variety of shares and bonds offered in the capital market. However, the development of securitized and derivative products requires the continuous innovation of industry players and the support of strong and transparent regulations. Several initiatives to encourage the development of these products have been successful, though still not yet optimal, such as the issuance of collective investment contracts listed in the Exchange Traded Fund and the first issuance of collective investment contract asset-backed securities at

OBJECTIVE II

CONDUCTIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS RELIABLE RISK MANAGEMENT

the beginning of 2009. On the other hand, even though the regulation for Real Estate Investment Trusts (REIT) was released at the end of 2007, to date it has not been followed by the product issuance. Hence, efforts to encourage the development of securitized products and hedging instruments in the Indonesian capital market still need to be intensified.

In the next five years, the development of securitized products and hedging instruments in the capital market will be carried out through several initiatives including refining and developing derivatives or derivative-based products and their infrastructures for trading, as well as socializing mutual fund products and derivative instruments. This is expected to offer investment options for investors, which in turn ultimately increases overall market liquidity.

Program 5 : Enhancing the Availability of Retail and Small Medium Enterprises Investment Products

To increase the domestic investor base, ideally investments in capital market products should be included as part of the financial planning of Indonesian households. However, the current investment products are predominantly targeted at accommodating the needs of institutional investors, such as pension funds, insurance companies and foundations. Logically, market players are inclined to develop products that accommodate the needs of such institutions. The number of products that cater to retail investors does not equate to the total number of products that are available. For this reason, initiatives to increase the demand that can directly encourage the supply of these products need to be carried out. The significant potential of retail investors and the large market coverage would, in the long-term, encourage the diversification of investment products in the capital market and thus indirectly influence the depth and resilience of the market. As a result, market players will be forced to fulfill the demand of the investors, encouraging them to develop retail products that are affordable, simpler and can be adjustable to the needs of investors.

The number of programs that encourage retail investors to invest in the capital market, which has so far been carried out in the banking industry, needs to be increased. These programs can be in the form of high frequency mass-media advertising and nation-wide initiatives that are supported by the Government as well as through programs that aim to increase and maintain investor confidence by reducing the possibility of investments in products that could potentially result in systemic risk and decrease investor confidence.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

**STRATEGY 3 : DEVELOPING SHARIA CAPITAL MARKET AND SHARIA NON BANK
FINANCIAL INDUSTRY (NBFI)**

Indonesia holds great potential for developing the Sharia market, including the Sharia capital market and Sharia NBFI. The past decade was the beginning of the development of Sharia capital market and NBFI industries. Between 2005 and 2009, several regulations related to the implementation of Sharia principles were released. In this period, Sharia capital market products such as Sharia-based investment funds and Sukuk (Sharia bonds) were developed. By the end of 2009, the ratio of net asset value (NAV) of Sharia-based investment funds to the total NAV of the investment fund industry was approximately 3.75%. At the same time, the value of Sukuk issuance was approximately 4% of total bonds issued in the market.

Sharia-based NBFI also showed positive growth. The ratio of the gross premium from Sharia-based insurance compared with the total gross premium of the insurance industry was approximately 2.32%. Given the low insurance penetration level, Sharia-based insurance has high potential to become one of the main drivers for developing the insurance industry in Indonesia. In this period, the financing and guarantee industry has also begun to establish the regulatory framework for Sharia-based business activities. At the end of 2008, total Sharia-based financing amounted to Rp2,691 billion, or approximately 1.96% of the total value of financing receivables.

This shows that the strategic efforts that have been carried out to develop the Sharia industries still need to be intensified. The development of the Sharia capital market and NBFI industries will be done through several programs, namely developing the regulatory framework that supports the development of these industries, developing Sharia capital market products and NBFI service schemes, aligning Sharia-based products with conventional products and developing the human resources for the Sharia capital market and NBFI industries.

**Program 1 : Developing Regulatory Framework that Supports the Development of Sharia
Capital Market and Non Bank Financial Industry (NBFI)**

Over the last few years, several regulations relating to the Sharia capital market and NBFI industries have been released. These regulations act as the foundation for developing these industries. Nevertheless, improvements and even additional regulations are still necessary in order to establish a more comprehensive legal foundation for the Sharia capital market and NBFI industries. Developments of the regulatory framework are expected to accelerate the growth of Sharia industries in the future.

OBJECTIVE II

CONDUCTIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS RELIABLE RISK MANAGEMENT

In the capital market, several regulations relating to the establishment of criteria and issuance of Sharia-based securities have provided the basis for development of Sharia-based capital market activities. The main priority in the next five years is to develop regulations that will provide greater clarity and increase investor confidence with respect to issuing and investing in Sharia-based securities. Regulations that provide clarity on issuing Sharia securities will be drafted, either by enhancing the current regulations or drafting new regulations related to Sharia products.

Additionally, in order to increase investor confidence towards Sharia investment activities in capital markets, a regulation related to the secondary market for Sharia securities will also be drafted. Another regulation that is expected to increase investor confidence is one that relates to the governance of Sharia principles, specifically on supervising the compliance to those principles. This regulation will establish the role and function of the Sharia Supervisory Board as well as the Sharia experts in the capital market.

For the insurance sector, Minister of Finance Regulation No. 18/PMK.010/2010 on the Implementation of Basic Principles for Sharia Insurance Business and Reinsurance Business was released on 15 January 2010. The release of this regulation was the first step to be followed by development of a more comprehensive regulation. Regulatory developments should be focused on the regulations for Sharia-based insurance and reinsurance activities that promote a consistent implementation of Sharia principles, healthy operational performance through implementation of market discipline, good governance and prudent risk management as well as regulations that can increase the quantity and quality of human resources. Specifically for developing human resources, this can be achieved through, inter alia, establishing policies that aim to improve the standard qualifications and to develop the skilled professional certifications for those in the businesses of Sharia insurance and reinsurance.

With regard to the financing and guarantee industry, the regulatory framework for Sharia financing products has provided the basis for developing Sharia financing activities in financing companies. In future, regulatory developments will be focused on developing the regulations related to Sharia financing institutions, from those concerning permits for Sharia financing companies and Sharia business units in conventional financing companies through to those on capitalization.

As regards to the pension fund industry, Sharia pension funds are not yet regulated in the current laws and regulations. Despite this, pension funds are able to offer Sharia-based pension plans for their participants. To accommodate the public demand for Sharia pension fund products, in the future it is necessary to establish several regulations on Sharia-based pension funds. Studies on Sharia pension funds have been conducted and a number of principles on the management of Sharia pension funds have been formulated. However, there are still several matters which need to be further discussed. The basic principles on the management of Sharia pension funds have

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

been included in the draft law of pension funds.

The overall preparation and refinement of these regulations must be aligned with the need and developments of the new fatwa by the Sharia National Board (SNB). Establishing the regulatory framework for the Sharia capital market and NBFi industries is expected to provide a solid foundation for the development of these industries.

Program 2 : Developing Sharia Capital Market and NBFi Products

The Sharia financial industry, both the capital market and NBFi, forms an important part of the overall financial industry and the development of Sharia products is believed to be able to strengthen and complement the industry. Nevertheless, when compared to conventional financial products, Sharia-based products make up a relatively small portion. In addition, it is predicted that the public demand for Sharia products will increase from year to year. Therefore, development of Sharia products, both in the capital market and NBFi, has become a priority for the next five years.

The development of Sharia products in the financial sector is highly interrelated between one industry and another. Capital markets are expected to enable the issuance of Sharia products such as shares, sukuk, and investment funds, where these instruments can be used by other industries, such as Sharia insurance and pension funds, for investments. In the next five years, product development in the capital market will be carried out through two approaches: firstly by increasing the number of Sharia products that are available in the market, in order to fulfill the demand for Sharia-compliant investments; secondly by creating new product alternatives that are not yet available for Sharia issuers. The steps taken to deliver these two approaches include composing a standard guidebook for Sharia products, evaluating and transforming conventional capital market products to be Sharia-compliant products, as well as researching and developing new Sharia products.

For the insurance industry, one of the main constraints to the development of the Sharia insurance industry is the limited range of Sharia-compliant insurance products. Hence, it is necessary to develop Sharia-compliant insurance products by encouraging companies to create new insurance products that are in accordance with Sharia principles and that also satisfy public needs. In addition, it is also necessary to encourage the development of long-term Sharia investment products which can be used for managing funds that are financed by Sharia insurance products. This can be supported by formulating a regulation that allows Sharia insurance companies to invest in these instruments. This program will be conducted continuously and will require the continuous involvement of all stakeholders.

OBJECTIVE II

CONDUCTIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS RELIABLE RISK MANAGEMENT

The availability of a wide range of Sharia products in the capital market and NBFi industry will allow investors to make investments that suit their individual need. In addition, having various types of Sharia products is expected to attract investment and use of these products as a reliable means of risk management.

Program 3 : Promoting Equality Between Sharia Based Financial Products and Conventional Financial Products

The Sharia financial industry is an industry that is relatively new. Initiatives still need to be carried out in order to accelerate the development and growth of this industry. Placing the Sharia financial industry on an equal footing with the conventional financial industry will allow the Sharia industry to develop and grow in line with the conventional financial industry. Bapepam-LK's policy direction for the Sharia financial industry is to develop the industry on an equal footing with the conventional financial industry. This policy direction is expected to foster a balanced and healthy competitive environment for Sharia-compliant products and conventional products, both in the capital market and in the NBFi industry.

In future, Bapepam-LK will create and refine regulations that will promote the development of Sharia financial products to be equal with conventional financial products. The development and improvement of these regulations will be comprehensive; covering from regulations on product issuances through to regulations on after the products have been issued. Efforts will be focused on achieving equal tax treatment between Sharia-based financial products and conventional financial products

In addition, it is a priority to provide equal opportunities for market players to understand the concept and practice of Sharia. Education and socialization in relation to Sharia industries will continue and aim at providing market players with an understanding and knowledge of the principles on the Sharia capital market and NBFi industries. Efforts to introduce Sharia financial products to market players both in the capital market sector and NBFi, and to issuers as well as buyers, will be intensified.

Program 4 : Enhancing the Development of Human Resources in Sharia Capital Market and NBFi

Having adequate human resources, in terms of quantity and quality, will further accelerate and enhance the development of the Sharia financial industry in Indonesia. It is believed that a sufficient number of quality human resources will boost innovation in developing Sharia products, both for the capital market and the NBFi industries. In addition, having qualified human resources will result in greater compliance with Sharia principles. Therefore, a serious effort should be made to develop the infrastructure for enhancing the human resources for Sharia. Comprehensive

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

human resources development supported by adequate infrastructure would make a significant contribution to the development of the Sharia financial industry.

The focus on developing human resources for the next five years will be to foster human resources with knowledge from two aspects; technical knowledge and fikih muamalah as the basis for Sharia. Human resources development from the industry's point of view is beneficial for both professionals and regulators as it will increase the understanding of fikih muamalah; in the opinion of ulema and Sharia experts this will improve the understanding of finance. A comprehensive approach to human resources development is expected to balance the understanding and knowledge between Sharia finance and conventional finance among the players in the Sharia financial industry, such as professionals, regulators, ulema and Sharia experts.

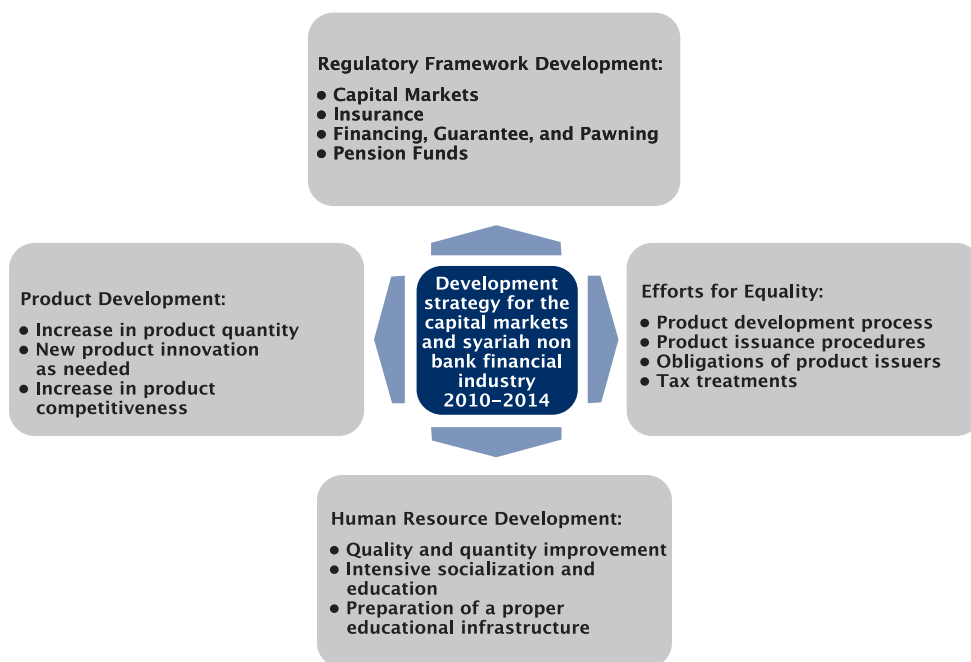
Part of the effort involves developing regulations which encourage improving the quality and increasing the number of the Sharia human resources. The regulations will be focused on the implementation of standard qualifications as well as certifications for professionals in the capital market, insurance and other NBFi industries and for the Sharia experts on the Sharia Supervisory Board. Other strategic efforts include incorporating the Sharia financial industry in subjects such as capital markets, insurance, financing and pension funds as well as in curriculums of formal education. Additionally, there will be formal and informal cooperation with educational institutions on educational programs and training in Sharia finance, at the basic level as well as advanced level for professionals, regulators, and Sharia experts as well as members of the Sharia Supervisory Board.

Having competent and professional human resources in the Sharia capital market and NBFi is expected to accelerate the development of the Sharia capital market and NBFi industries. This would ultimately create an attractive and competitive Sharia capital market and NBFi industries.

OBJECTIVE II

CONDUCTIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS RELIABLE RISK MANAGEMENT

DEVELOPMENT STRATEGY FOR SHARIA CAPITAL MARKETS AND NBFi 2010 – 2014



STRATEGY 4 : IMPROVING THE EASE OF TRANSACTIONS

The decision to invest surplus funds depends on several factors, such as the availability of information on investment products, the variety of products that are available and the ease in making transactions. In order to make the capital market and financial service industry the public's preferred choice for investment, facilitating the ease of transactions becomes one of the main priorities. Capital market and NBFi products should be easily accessible to the public.

Accordingly, in the next five years two strategic programs will be carried out in order to improve the ease of making transactions, namely through the development of insurance product marketing channels and the implementation of e-channel in the investment management industry.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

These two programs are expected to facilitate transactions in insurance and investment management industries.

Program 1 : Encouraging the Development of Effective Marketing Channels for Insurance and Investment Products

Currently, the majority of insurance products are marketed through the networks of insurance agents, who go through brokerage houses but are managed by insurance companies. This distribution system is relatively effective but comes at a high cost, which consequently increases the premiums of insurance products. Insurance products should be made more immediately available to the public through cost-effective marketing channels. One marketing channel that has proven highly effective and that merits further development is Bancassurance. Another alternative distribution channel is Brandassurance. Through Brandassurance, insurance products are marketed with other products that are familiar to the public. Sales of insurance products can be carried out through the network of retail shops, internet, telecommunication operators or popular branded products.

To support the development of alternative distribution channels, efforts will be made to strengthen collaboration with the banking sector regulator. Priority will be given to issuing regulations on the distribution of insurance products and on Bancassurance. Effective marketing channels will make it easier to obtain information as well to purchase insurance products. It is expected that this will attract the public to utilize insurance products as a means of reliable risk management as well as investment.

Program 2 : Encouraging the Implementation of E-Channel in Investment Management Industry

The development of the investment management industry largely depends on the capability of its distribution system, where the current distribution system still being heavily dependent on the marketing channels of the banking industry. The two types of agents for investment products, particularly for mutual funds, are banks and securities companies. The sales force for mutual funds in banks tend to also sell banking products.

Even though the distribution system for investment products has utilized banking marketing channels, the sales of capital market investment products are still behind those of banking products. The main reason for this is that certain facilities such as ATM, phone banking and internet banking that are utilized for banking services, have not yet been implemented for capital market investors. Therefore, capital market investors have not yet been able to carry out transactions through ATMs or phone banking, both of which are facilities that are available to banking customers. This is largely due to the legal aspects of buying and selling products that is

OBJECTIVE II

CONDUCTIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS RELIABLE RISK MANAGEMENT

currently not covered in capital market regulations but are in banking regulations. Some capital market regulations still require paper-based documents for matters relating to the administration that involve a number of investors. Moreover, single investor ID (SID) numbers have not yet been established, which have hindered the implementation of e-channel for marketing investment products.

Recognizing the importance of e-channel for encouraging the growth of the investment management industry, in the next five years Bapepam-LK will implement e-channel through a series of activities including, conducting studies, providing the legal framework and socializing the implementation of e-channel.

STRATEGY 5 : DEVELOPING SCHEME TO PROTECT INVESTORS AND CUSTOMERS

Investor confidence in the capital market and NBFi industries needs to be constantly be monitored by regulators and by all market players in these industries. Investors and customers will utilize the capital market and NBFi industries as a means of investment and risk management when they are assured that their interests are protected. A number of measures have been taken to increase the protection of investors, both through improving the quality of legal enforcement and providing the infrastructure for investor and customer protection. Nevertheless, there are still instances of violations in the capital market and NBFi industries, which could serve to reduce interest in investing.

Accordingly, in the next five years several programs will be conducted to improve investor protection, inter alia, by increasing the use of the Investor Area facility, establishing a Securities Investor Protection Fund (SIPF), maximizing the monitoring of securities portfolios and customer funds in securities companies, developing insurance guarantee scheme and establishing a mediation institution by the Indonesian Pension Funds Association.

Program 1 : Increasing the Use of Investor Area

Protection of customer assets, whether in the form of securities and/or funds in securities companies, is essential for the capital market industry. Such protection can minimize potential risks related to the misuse of funds or the bankruptcy of securities companies. One measure is to provide easy and efficient access for customers to check the current balance of their assets, whether in the form of funds or securities.

Currently, PT KSEI has developed a system, known as Investor Area, that monitors customer funds and securities in securities companies. Through this facility, customers can monitor their assets of funds and securities in securities companies in real time.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Although this facility has proven to be very practical for customers in monitoring their funds and securities, at the end of 2009 the use of the Investor Area was not yet maximized with only around 8,478 investors out of 386,436 recorded as users of this facility. The low utilization of this facility is due to several factors including a lack of awareness. Therefore, some initiatives will be carried out to increase the utilization of the Investor Area, namely by requiring all custodians (Securities Company and Custodian Bank) to offer the Investor Area facility for all their customers in order to demonstrate that their assets are not only recorded accurately, but also protected by PT KSEI. In addition, Bapepam-LK will carry out continuous and comprehensive socialization of the Investor Area to all customers with accounts in the capital market. It is expected that these initiatives will increase the utilization of the Investor Area facility and ultimately enhance customer protection.

Program 2 : Establishing Securities Investor Protection Fund / SIPF

Securities companies or custodian banks have the legal authority to administer, hold in custody, control, transfer and use investor's assets in the interest of the investors. To provide a sense of security and increase investor confidence in the capital market, efforts to protect investor funds and securities in securities companies or custodian banks are crucial. One form of protection is to establish an investor protection fund. This is internationally known as Securities Investor Protection Fund (SIPF) or compensation fund. Through this scheme, investor funds or securities that are in the custody of market intermediaries will be protected from risks related to the misuse of funds and bankruptcy.

In 2007, Bapepam-LK conducted a study on the establishment of the SIPF. Based on the results of the study, the majority of market players support the plan to develop such a scheme. Hence, in the next five years, efforts to establish the SIPF will be made by forming the legal foundations for its establishment and operation.

Program 3 : Increasing Securities Portfolios and Customers Funds Monitoring in Securities Companies

Efforts to provide protection for investors can also be made through monitoring the securities portfolios of customers. This can detect at an early stage any indication of misuse of customers securities by securities companies and/or custodian banks. In addition, Bapepam-LK will also monitor the management of customer funds by securities companies and custodian banks in the banking system.

OBJECTIVE II

CONDUCTIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS RELIABLE RISK MANAGEMENT

Although in the current regulation Bapepam-LK stipulates that securities companies and custodian banks have to separate the assets of customers from the company's assets, considering that the assets are under the direct control of securities companies and custodian banks, it is still necessary to monitor and ensure that the data on customers' securities is consistent with the data in the Depository and Settlement Institution.

Efforts to optimize the monitoring of securities portfolios and customers funds in securities companies will be made through further developing the monitoring system of customers securities portfolios. Bapepam-LK has collaborated with Self Regulatory Organizations (SRO) to develop this system. Through the use of this system it is expected that regulators may better supervise the movement of securities of customers. The management of customers securities by securities companies could be monitored through this system, so that Bapepam-LK can accurately identify any violations by the securities companies.

With regard to the monitoring of the use of customers' funds, Bapepam-LK and PT KSEI will work together in developing a system that can perform this function. It is expected that customers will be able to directly check their total funds on-line and thus detect the misuse of funds by the securities companies as soon as it occurs and report it to the regulator for them to follow up.

Additionally, the fair market price set by the Indonesian Bond Pricing Agency (IBPA) will be used to evaluate the fair value of a portfolio in order to increase the effectiveness of monitoring, particularly for bonds and Sukuk portfolios. It is expected that these efforts will optimize the monitoring of securities portfolios and customers funds in securities companies and thus enhance the protection of investors.

Program 4 : Developing Insurance Guarantee Scheme

There are currently no protection programs in place in Indonesia to ensure that the rights of policy holders are honored in the event that an insurance company goes bankrupt. Considering that the protection of policy holders is one of the key pillars supporting the growth of the insurance industry, an insurance guarantee scheme which will protect the interests of policy holders is crucial. An initial study has been carried out on the legal and practical requirements of establishing a policy guarantee institution.

In the future, further initiatives on establishing a policy guarantee institution will be carried out through improving the legal framework and regulations to allow flexible and effective handling of problematic insurance companies and failed companies where failures can result in high costs for the policy guarantee institution, formulating and enforcing the Law on Insurance Policy Guarantees, as well as establishing a policy guarantee institution.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

A policy guarantee institution is expected to increase public confidence in the insurance industry and thus attract the public to utilize insurance products as a means of risk management and investment.

Program 5 : Establishing Mediation Institution by the Indonesian Pension Funds Association

One of the most important elements in the administration of pension programs is the protection of its participants and other relevant parties who have the right to receive the pension benefits, in particular to ensure that they receive the correct amount of benefits in a timely manner. There are numerous parties involved in managing pension funds, including the founders, management, supervisory board, participants and support functions. Each party has its own interests and needs and these may differ from one another. To accommodate the differences between the parties and to protect the interests of the participants and parties with pension benefits, it is necessary to establish an institution that acts as a mediator in dispute settlements.

According to the prevailing international standards, such as the OECD principles on private pensions, mediation institution, as an independent institution, is established by the Pension Fund Association. In the next five years, Bapepam-LK will continue to coordinate and cooperate with the Pension Fund Association in conducting studies and preparation for the infrastructure for the establishment of a pension fund mediation institution.

STRATEGY 6 : DEVELOPING SECONDARY MARKET OF BONDS AND SUKUK AS WELL AS A SUPERVISORY MECHANISM

In the past five years, secondary markets for bonds and sukuk have developed rapidly. This can be seen from the increase in the liquidity of bonds and sukuk market (data support). Increased liquidity results in transparency and more competitive pricing whereby all bond and sukuk owners are able to monitor the price at any time and make a decision as to whether to sell or buy based on credible market information. Along with market liquidity, the attractiveness of the bond and sukuk market is also determined by the quality of its supervision.

Considering that the development and supervision of bond and sukuk secondary markets are important factors in determining market liquidity, in the next five years efforts will be made to develop the bonds and sukuk secondary markets along with its supervisory mechanism through several strategic programs, including developing a Repurchase Agreement market, increasing supervisory activities in the bond and Sukuk markets, increasing the infrastructure for trading bonds and Sukuk and setting the benchmark for evaluating fair and credible market prices.

OBJECTIVE II

CONDUCTIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS RELIABLE RISK MANAGEMENT

Program 1 : Developing Repurchase Agreement Market

The Indonesian capital market currently utilizes the Master Repurchase Agreement (MRA) for trading Repurchase Agreement sovereign bonds. Since however, market players have rarely utilized the MRA, it is considered necessary to review and improve the MRA so that it can be utilized by all market players. In addition, the Global Master Repo Agreement (GMRA) that operates internationally will also be reviewed to determine whether it will be implementable in Indonesia.

Using the results of the reviews, GMRA Indonesia Annexes will be prepared. This is a guide to the implementation of GMRA in the Indonesian market, with additions or adjustments suited to the specific needs of Indonesia. GMRA is also expected to accommodate all securities products, not only sovereign bonds. In order to ensure that the needs of market players are incorporated in the GMRA Indonesia Annexes, the players will be actively involved in the preparation process.

Furthermore, in order to ensure its utilization the market players are requested to make a commitment to utilize the GMRA. Bapepam-LK will then establish a more detailed set of policies and regulations on Repurchase Agreement transactions and the use of GMRA Indonesia Annexes.

Program 2 : Increasing Supervision of Bond and Sukuk Markets

Supervision of the bonds and Sukuk markets is one of the key factors in attracting investors to invest in bonds and/or Sukuk. Several efforts to improve the quality of supervision have been carried out through, inter alia, the release of the Bapepam LK regulation on Securities Transaction Reporting. Through this regulation, Bapepam-LK is able to monitor the daily securities transactions so that information on such transactions can be rapidly identified and obtained by Bapepam LK.

To improve the quality of supervision on the bond and sukuk markets, a supervisory system will be developed to monitor the trading data of sovereign bonds, sukuk and corporate bonds where transactions are recorded through the Securities Transaction Reporting Centre system. This system will aid in the detection of alleged violations of laws on sovereign bonds and the capital market as well as their implementing regulations.

To support the supervision, it is also necessary to regulate and provide guidance to the participants of bond and sukuk trading. One of the activities that will be done is to plan the technical supervision for all participants who are obligated to submit securities transaction reports. On site inspections should also be carried out for those participants that are late in submitting reports.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Program 3 : Improving Infrastructure of Bond and Sukuk Trading

To develop the bond and sukuk secondary markets, it is necessary to have reliable bond and sukuk trading infrastructure. Developing trading infrastructures inside and outside the stock exchange is necessary in order to attract investment in bond and sukuk transactions. Along with the development of cross-border transactions, the development of bond and sukuk trading infrastructures is also focused on strengthening the domestic infrastructure in facing global competition.

To make use of the existing infrastructure for reporting transactions, an Integrated Post Trade processing service will be developed with the aim of reducing operational risks for market participants. Additionally, an electronic market will be developed to connect dealers to market dealers and dealers to investors. This infrastructure will be supported by the availability of information and analysis that can be used in decision making processes.

As a whole, the development of trading infrastructure inside and outside the stock exchange for the bond and sukuk secondary markets will be carried out by establishing an integrated clearing and settlement system for bonds and sukuk transactions and improving the role of bond and sukuk trading participants. Integrating the clearing and settlement system is necessary as the current process is carried out by two different institutions, PT KSEI for retail bonds, corporate bonds and corporate sukuk and Bank Indonesia for sovereign bonds. With an integrated clearing and settlement system, the efficiency of post trade transactions for bonds and sukuk tradings in Indonesia is expected to increase. Moreover, enhancing the participants in bond and sukuk trading is also necessary in order to ensure that trading activities are carried out in line with the prevailing regulations and code of ethics.

Program 4 : Setting Benchmark for Evaluating the Credible Fair Market Price

The reference for evaluating the credible fair market price is an important factor for investors in securities transactions. Given its importance, Bapepam-LK has made several significant efforts to encourage set a benchmark for evaluating the credible fair market price. These include establishing the Indonesian Bond Pricing Agency (IBPA) on 27 December 2007. IBPA was established to create a mechanism for establishing the price and market liquidity of bonds and sukuk and other commercial papers in an objective, independent, credible, and accountable manner so that the price that they set can be used as a reference. As IBPA has only recently been established, it is not yet able to evaluate all bonds, sukuk and other commercial papers.

OBJECTIVE II
CONDUCTIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS
RELIABLE RISK MANAGEMENT

Given the importance of a benchmark for developing the bond and sukuk secondary markets, in the future a number of strategic measures will be taken including, optimalization of the IBPA function in evaluating bonds, Sukuk and other commercial papers and expansion of utilization of IBPA products in financial markets. These steps are necessary to set objective and credible fair market prices as well as market liquidity that will be the reference for investors in conducting securities transactions. In addition, the role and function of IBPA needs to be enhanced so that it can be used as a reference for investors, particularly for financial institutions, to value their bonds.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

BONDS TRADING SYSTEM ARCHITECTURE

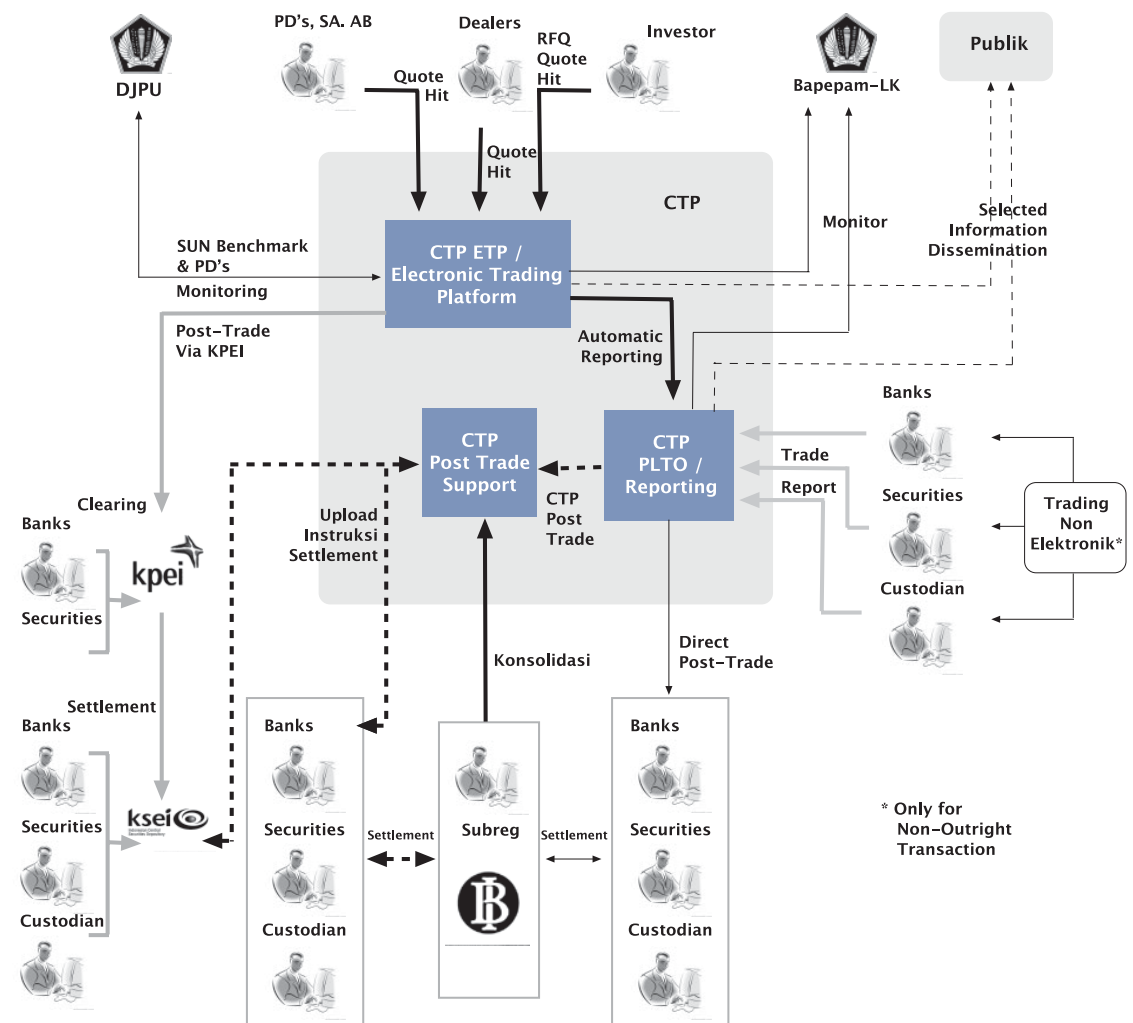
Strategy for Developing the Bonds Trading System

Phase 1

Improve the existing reporting infrastructure that aims to reduce operational risks of market players by introducing an integrated Post Trade Processing Service.

Phase 2

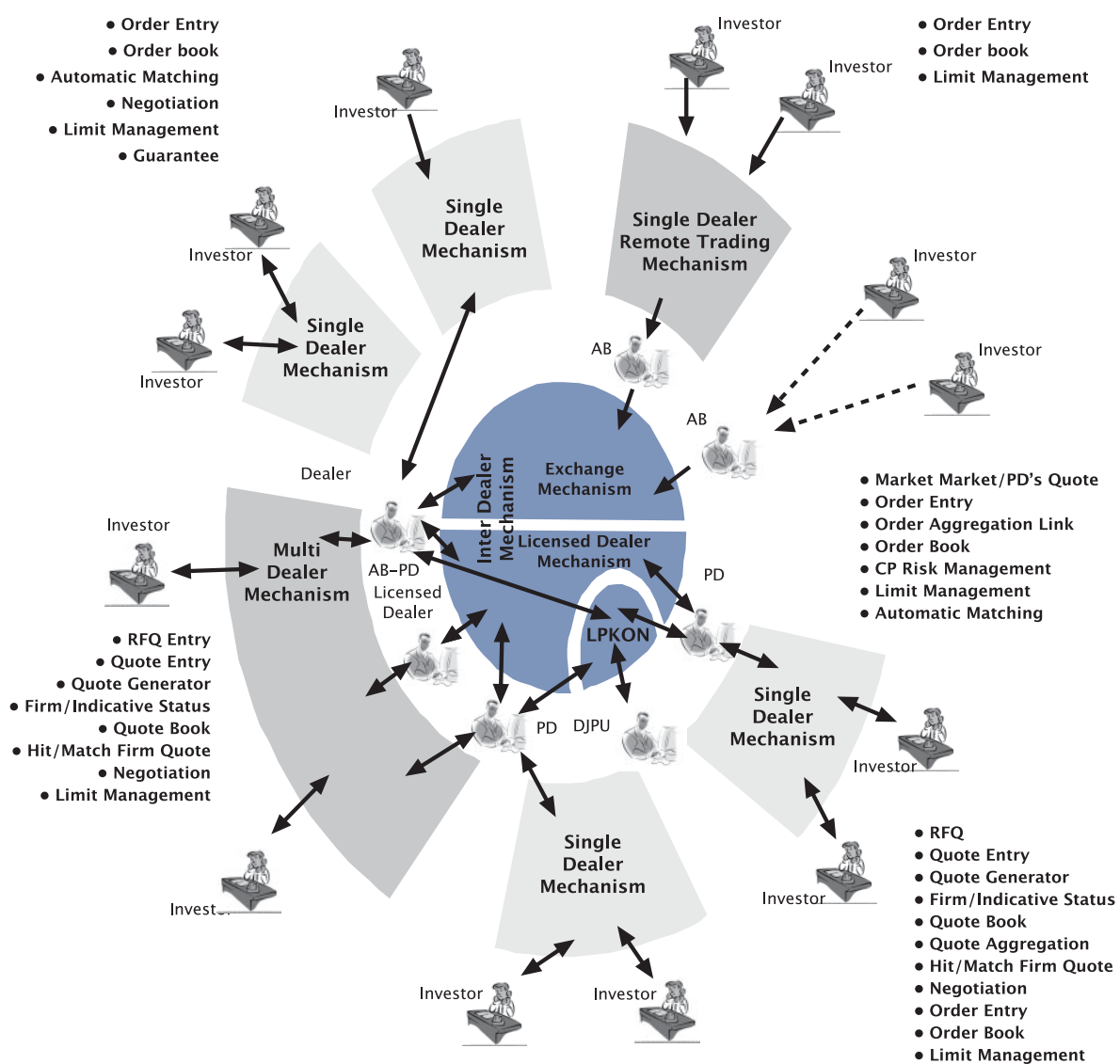
Developing an electronic market with layered multiple access ports for Market Dealer-to-Dealer and Dealer-to-Investor. The infrastructure will be fully supported by an IT system and local market analytics to provide further assistance in the decision making process.



OBJECTIVE II
CONDUCTIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS
RELIABLE RISK MANAGEMENT

Electronic Trading Platform Architecture

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014



Objective III

A Stable, Resilient and Liquid Industry

strategy 1

Increasing market players quality

strategy 2

Encouraging good corporate governance
practice

strategy 3

Improving risk management
industry capability

strategy 4

Improving supervision capacity
on industry players

strategy 5

Improving domestic investor base
and long term funds

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014



OBJECTIVE III

3

A Stable, Resilient and Liquid Industry

The capital market and non-bank financial institutions (NBFI) industries form an important part of the economic system; hence the stability and resilience of the financial service industry will greatly influence this economic system. In this Master Plan, fostering a stable, resilient and liquid industry is one of the main objectives for the next five years. A stable, resilient and liquid financial service industry is an industry that is capable of managing risks, resilient to shocks that could potentially jeopardize its stability, and able to balance its role as a source of funds that are easily accessible, efficient and competitive, as well as as a conducive and attractive means of investment and reliable risk management.

Several factors have to be taken into consideration when creating a stable, resilient and liquid financial industry, including, the quality of market players, the quality of governance and supervision by regulators, as well as the strength of domestic investor base and long term funds. Efforts to improve governance of the financial industry have shown significant progress; however, considering the increasingly rapid industry developments, for the next five years, enhancing the quality of governance becomes a priority that warrants a separate strategy.

Both individuals and institutions play a significant role in determining the quality of the industry. Enhancing the quality of the players will thus always be a priority for regulators. Between 2005 and 2009, strategic measures were taken to improve the quality of players, both in terms of developing their capacity as well as increasing the level of supervision of such players. Nevertheless to be in line with the advancements of the industry, efforts to improve the quality of players are continuously being evaluated and enhanced in order to keep up with the needs and challenges of the industry.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

In addition to the quality of the players, the resilience of the capital market and financial service industry will also be determined by the strength of domestic investor base. At the end of 2009, only around 1 % of the Indonesian population owned securities accounts. When viewed in terms of the value of ownership, foreign investors controlled approximately 67.10% of the shares listed on the Indonesia Stock Exchange. Clearly, this high level of foreign ownership is not conducive to stability in the capital market.

The stability of the financial industry can also be measured by the total accumulated long term funds. Up to the end of 2009, total assets of the pension fund and insurance industries, as the main contributor of long term funds, is relatively small, accounting for only around 8% of GDP but increasing by 30% every year. Although in percentage terms the total investments of pension funds in long term financial instruments in the capital market is quite significant (by the end of 2009 the proportion of pension fund investments in capital market instruments reached 71% of total investments), the total investment of pension funds in monetary terms amounted to only Rp108 trillion, an amount insufficient to guarantee the stability of the Indonesian capital market. This encouraged the regulators to take strategic measures to increase total long term funds.

In order to achieve a stable, resilient, and liquid industry, several strategies will be implemented in the next five years, including enhancing the quality of players in the industry, the quality of corporate governance, the capability of the industry in risk management, and the capacity of the regulators to supervise players with long term funds as well as increasing the domestic investors base.

STRATEGY 1 : INCREASING MARKET PLAYERS QUALITY

The development of the financial service industry greatly depends on the role and quality of players and financial service providers. The capability of players in optimally and professionally performing their duties and functions will encourage a reliable management of financial institutions. Enhancing the quality of market players is thus necessary, particularly in the era of financial market deregulation.

Between 2005 and 2009, efforts were carried out to enhance the quality of market players. However, the industry's dynamics require regulators to continuously enhance the quality of players in order to meet the demands of the evolving industry and be competitive in the global market. In the next five years, efforts to enhance the quality of market players will be made through several programs, including enhancing the quality of individual and institutional players.

Program 1 : Enhancing Individual Players Quality

One of the key factors influencing the stability of the industry is the quality of individual

OBJECTIVE III

A STABLE, RESILIENT AND LIQUID INDUSTRY

players. High-quality individual players can mitigate the operational risks caused by incompetent individuals. Efforts to enhance the quality of individual players will be made in two ways: firstly, by enhancing the standard qualifications or requirements that need to be fulfilled in order to obtain a license for practising in the financial service industry and secondly, by increasing the professionalism of players after they have obtained their license. Enhancing standard qualifications will be done through improving the existing standard qualifications, improving the requirements that have to be met by potential individual players when applying for a license, and improving the business processes. Professionalism will be enhanced through sustainable development programs, targeting both the technical capability of players and their integrity. In the next five years, efforts to enhance individual standard qualifications will be focused on players in the pension fund and insurance industries and securities companies. Efforts to enhance the professionalism of players will be focused on players in the insurance industry and securities company representatives through continuous education.

With regard to the pension fund industry, the standard qualification for candidates for the position of pension fund manager is currently governed under several Minister of Finance regulations. One of the required standard qualifications is a certificate of basic knowledge of pension funds issued by an independent institution that is established by the industry association. Based on the results of the supervision of the industry, this certificate only reflects the basic capabilities of pension fund management. Integrity has not been included as part of their assessment, hence it has not been considered as one of the requirements for obtaining a license. Bapepam-LK will thus formulate a regulation that acts as the basis to implement fit and proper tests and will continue to develop this as a means to measure the qualifications of pension fund managers. By implementing fit and proper tests, it is expected that pension fund managers will be more competent and possess higher integrity in an effort to create a stable pension fund industry.

Moreover, efforts to enhance the standard qualifications of securities players will be made by restructuring the licensing for securities companies representatives. This will be carried out by adding the obligation for all license holders in securities company representatives to participate in continuous education. As a result, players should be more motivated to update their knowledge. Other efforts include restructuring the way in which exams are conducted by securities company representatives to ensure the credibility of the exams, both in terms of the exam materials as well as the examination process. Enhancing the standard qualifications of players will also be done through development of skill specialization policies for the human resources in securities companies. This is to address the difference in abilities and skill requirements for each type and levels of licenses, such as for marketing, sales, dealer, compliance, corporate finance, and Board of Directors.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

The professional titles currently recognized in the Indonesian insurance industry include Indonesian Insurance Specialist awarded by the Association of Insurance Management of Indonesia, Insurance Broker awarded by the Insurance Broker Association of Indonesia, and Actuary awarded by the Indonesian Actuaries Association. In the future, enhancing standard qualifications will include developing the channels of other professional certifications, depending on the field of work that exist in the insurance industry. Professional certifications will be developed by professional associations, together with academic institutions or credible examination organizers.

Program 2 : Enhancing Institutional Players Quality

Along with the quality of individual players, the stability of the financial service industry is also influenced by the quality of institutional players. The quality of institutional players is predominantly influenced by two factors, namely the standard qualifications for applying for a license to become a financial service provider and the qualifications for after the licence has been awarded. In the next five years, efforts to enhance the quality of institutional players will be made by strengthening these two factors with the focus on insurance companies and securities companies.

Efforts to improve the quality of insurance companies will be made by further acceleration in fulfilling the minimum capital requirement. The minimum capital requirement for insurance companies will be increased to Rp40 billion for 2010 and will be set at Rp100 billion by the end of 2014. Up to the end of 2009, there were more than 130 insurance companies, of which 23 were general insurance companies and 12 were life insurance companies with less than Rp 40 billion capital. The low capital has made it difficult for insurance companies to grow and compete at a regional level.

Efforts to raise the standard qualifications for securities companies will be focused on four main aspects, namely improving the capital requirements, standardizing IT systems, improving the requirements and regulations for outsourcing. Securities companies must have adequate capital to meet unexpected financial difficulties so that the activities of the company can be suspended while it settles its financial obligations without jeopardizing investors and other market players. The minimum capital requirements must consider the capability of securities companies to absorb risks for losses incurred. Minimum capital requirements may also assist in protecting the capital market from systemic risks. In the short term, Bapepam-LK will improve the formula for calculating Net Adjusted Working Capital (NAWC) as an important component in the operations of securities companies. This is expected to better reflect the capital of securities companies in carrying out transactions with respect to the existing risks.

OBJECTIVE III

A STABLE, RESILIENT AND LIQUID INDUSTRY

In the long term, Bapepam-LK will review the entire operations of securities companies and the amount of capital needed to carry out its operational activities. Based on the review, Bapepam-LK will formulate a new policy on the minimum capital requirement of securities companies both for authorized capital and NAWC, from the requirements, through to the calculation of the formula or mechanism and the system for submitting reports to the regulators. In addition, information technology (IT) also plays an important role in developing securities companies. IT is necessary for securities companies to carry out their operational activities and to manage their risks. Given its importance, in the future Bapepam-LK will prepare a regulation related to IT governance for securities companies. The regulation will inter alia, stipulate the need for securities companies to have adequate IT systems, qualified human resources, system capacities, system performance evaluations, backup systems, system security and plans for sustaining the business. In addition, Bapepam-LK will continue to socialize the regulations, monitor its compliance, and gradually assist in establishing and enforcing the sanctions on securities companies that are unable to meet the IT standard requirements.

In addition, efforts to enhance the quality of securities companies will be made by increasing the requirements for obtaining licenses. This is by requiring them to submit more detailed business plans that include information on the forecasted number of customers and branch offices as well as whether it will focus on retail or institutional customers, or both. Furthermore, to improve the efficiency of operational processes, securities companies will be allowed to outsource. Outsourcing is the transfer of a function of a securities company, such as custodianship or book-keeping, to another party. It is expected that outsourcing will allow securities companies to be more focused on efforts to develop its business in expanding its customer base and expanding its main activities. Bapepam-LK will thus establish a regulation on outsourcing. The regulation must cover, inter alia, the content of outsourcing agreements that has to be made by the parties, the systems used, the authority to access data, the criteria for being able to receive outsourcing, and other regulations related to market integrity.

STRATEGY 2 : ENCOURAGING GOOD CORPORATE GOVERNANCE PRACTICE

Good Corporate Governance (GCG) is one of the requirements for creating a healthy industry. A regulatory framework that promotes and adopts the principles of GCG will create a strong foundation for developing a resilient industry that is capable of sustaining the businesses in the industry. Economic crises, financial scandals and collapses of large companies in various countries have taught us the importance of implementing GCG.

In Indonesia, efforts to improve GCG have made significant progress, particularly in the capital market and NBFI industries. However, considering the rapid developments in the industries, efforts to enhance the quality of GCG need to be continuously carried out.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Program 1 : Developing Good Corporate Governance Guidelines

Implementing GCG by capital market and NBFIs industry players should continuously be pursued and enhanced. In order to encourage the implementation of good governance principles, guidelines for implementing such principles are needed. Efforts must also be made to continuously support the National Committee for Corporate Governance Policy in its development of corporate governance. This includes being actively involved in preparing the Guidelines for GCG, such as the General Guidelines for GCG in Sharia businesses, the General Guidelines for GCG in securities companies and other necessary guidelines on GCG.

Close cooperation between regulators and the industry is needed in order to enhance the quality of governance in the pension fund industry. Guidelines on governance of pension funds were established in 2007, and must be followed by the preparation of tools to measure the implementation of GCG, so that such tools can be used by both the pension funds in carrying out self assessments and by the regulators. Considering the major roles of service providers and third parties such as public accountants, actuaries, appraisers and administrators in managing pension funds, supervision of the implementation of GCG by these parties needs to be enhanced, one way being through regulation and registration of pension fund industry supporting services.

Program 2 : Improving Good Corporate Governance Regulations According to International Standards

In order to improve the quality of management in the capital market and NBFIs industries, for the next five years the priority is to ensure the implementation of good governance principles, either through releasing new regulations or improving existing ones. With regard to the capital market, the business activities of securities companies should be separated between the activities of investment managers and the activities of securities brokers and underwriters. This is necessary in order to avoid conflicts of interest for securities companies that engage in both types of activities. The current best practice is to separate the broker dealer function from the investment function. Separating these activities will also facilitate Bapepam-LK in supervising securities companies.

Moreover, to enhance the quality of governance in the pension fund industry, the legal provisions on pension funds will be amended, including those related to the Financial Institution Pension Fund. Enhancing the governance of DPLK will be carried out by separating the function of the founders and the management. In the current law, both functions are integrated. With regard to the insurance industry, efforts to encourage the implementation of GCG principles will be made through preparing regulations that will require insurance companies to adopt GCG principles.

OBJECTIVE III

A STABLE, RESILIENT AND LIQUID INDUSTRY

Program 3 : Enhancing Good Corporate Governance Implementation Quality

Enhancing the quality of GCG implementation in the capital market and NBFi industries should be made continuously, both through strengthening law enforcements on the mandatory regulations and through carrying out initiatives that improve the quality of the implementation. Activities that will be carried out include socializing matters related to the implementation of GCG, assessing the quality of information presented in company annual reports, as well as improving the assessment criteria for annual reports.

In line with the developments and needs of the industry, as well as considering the rapid progress of international GCG principles, studies related to the development of corporate governance need to be continuously enhanced. Moreover, participation in international meetings is also important. These are necessary to ensure that the principles implemented in Indonesia are aligned with international developments.

STRATEGY 3 : IMPROVING RISK MANAGEMENT INDUSTRY CAPABILITY

The capability to manage risks is an important factor in improving and maintaining the resilience of the industry. The crises in 1997 and at the end of 2008 had made financial industry players cognizant of the importance of the reliability of risk management systems both at the business and industry level. At the industry level, risk management procedures that ensure sustainability of the business if disruptions occur should be improved. Additionally, at the national level there should be a clear protocol on managing disruptions or crises so that the impact does not cause disruptions to in financial markets or the economy.

The reliability of risk management systems in the industry is determined by the ability of each market player in managing risk. In order for the industry to be reliable in managing risks, industry players should be able to identify risks and have a mechanism for managing such risks. Considering that the ability to manage risks is very important in the effort to create a solid and stable industry, this is one of the main strategies for the next five years.

This strategy will be pursued by implementing several programs, focused on enhancing the ability of both individual players and the industry as a whole in risk management. The programs that will be conducted in order to achieve this strategy include enhancing the quality of corporate risk management, enhancing the risk management in clearing function and settlement guarantees, preparing a Business Continuity Plan (BCP), and developing and implementing a Crisis Management Protocol (CMP).

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Program 1 : Enhancing Corporate Risk Management Quality

As institutions that manage public funds, securities companies, insurance companies and pension funds are required to manage the various risks that jeopardize business sustainability. In the future, efforts to increase the quality of risk management in securities companies will be carried out through several policies, such as:

1. Providing confirmation on the separation of funds and securities in custodians, including recording, placement and reporting. Additionally, to strengthen the control function, in the future there will be an additional obligation for securities companies to provide their customers with access to the Investor Area facility;
2. Obligating securities companies to include a risk management system as a part of their business development plan;
3. Enforcing the need to have a compliance unit in securities companies, where the main function of the unit will be to ensure that the company complies with all the prevailing laws and regulations. The unit should also have a mechanism for internal dispute resolution.

Efforts to improve the quality of risk management in insurance companies will be focused on enhancing the ability of the insurance company in comprehending and quantifying their risks, and incorporating that information when making strategic decisions that are related to capital requirements and corporate developments. The efforts will be executed in stages and regulated under several Minister of Finance regulations. The possibility of insurance companies failing to fulfill their obligations to policyholders is expected to be minimized.

Efforts to enhance risk management in the pension fund industry will be made by developing the implementation of Good Pension Fund Governance (GPFG), one of the aspects of which is to emphasize the need to implement risk management and establish risk monitoring units in each activity line of the pension fund. Considering that the level of capability and readiness of different pension funds vary from one to another, the implementation of risk management will be carried out in stages and will be adapted to the particular characteristics of each pension fund. Furthermore, to guide the pension funds in developing risk management, Bapepam-LK will provide training on the types of risks that have been identified and evaluated by the Risk Rating System. This is expected to provide awareness of the type and number of risks that exist for pension funds. This awareness is expected to act as the underlying reason for pension funds to develop their own brand of risk management according to their level of risk exposure.

Program 2 : Enhancing Clearing and Settlement Guarantees Risk Management for Market Transactions

A reliable, secure, and efficient clearing and settlement guarantee function is necessary in order for market transactions to be implemented in an orderly, fair and efficient manner. Failure in market transaction settlements could adversely affect the overall capital market. Thus transactions

OBJECTIVE III

A STABLE, RESILIENT AND LIQUID INDUSTRY

that have the potential to fail require special treatment in the clearing and settlement guarantee process of market transaction settlements.

Additionally, given the continual development of international capital markets as shown by the improved portfolio mobility, it is necessary to develop a reliable clearing and undewriting function due to the increased competition between stock exchanges, the development of alternative trading systems (ATSs) and electronic communication networks (ECNs) for increasing the number of transactions and satisfying investors demand for more varied securities at a more efficient cost. In the next five years, efforts to increase the management of risk in the clearing and settlement guarantee function of market transaction will be made through, inter alia, the following steps:

1. Continue developing the concept and system of validation for each transaction order prior to it entering the market transaction system. The validation method will be based on the level of risk of each Clearing Member and the securities traded. Data in the validation system will be updated continuously by the Risk Management System.
2. Perform continuous transaction settlement process (continuous settlement) in order to ensure the fulfillment of the right to receive funds for clearing members who have fulfilled all their obligations in securities transaction. This process is carried out through 15 - 30 minute multibatch settlements, from which the exposure, free collateral and trading limit for multibatches will be calculated every 30 minutes. This is to increase the efficiency of the clearing and market transaction settlement process.
3. Implement the concept of no-netting for risky stocks so that trading for those stocks is conducted per trade. Stocks in this category will be publicly announced at a certain time before the transaction is made (pre-trade).
4. Review the mechanism of guarantee fund contribution inter alia, determining the specific value to be fulfilled by each new Clearing Member.
5. Review the structure of memberships in the clearing and settlement process. Currently, all stock exchange members constitute as clearing members. In the future, studies on the possibility of Stock Exchange Members conducting clearing and settlement activities through other parties without having to be a Clearing Member will be performed. It is expected that this will reduce KPEI's risk exposure and alleviate the capital requirement for Stock Exchange Members to cover risks associated with clearing and settlement. In supporting this program, Bapepam-LK is planning to improve several regulations related to settlement guarantees as well as guarantee funds.

Program 3: Preparing Business Continuity Plan (BCP)

Each activity carried out by market players could potentially threaten, or even paralyze, the sustainability of business processes from operating normally. Such threats can arise from internal as well as external factors. In order for the financial service industry to be prepared to face such conditions, market players must have a structured and standardized mechanism to mitigate risks that might jeopardize the sustainability of their activities.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

In the future, there will be a series of policies to encourage market players to have a credible Business Continuity Plan (BCP). A credible BCP will enable the industry to manage risks related to abnormal business processes that are caused by disruptions to the internal infrastructure. In the next five years, the focus of BCP development will be on development of capital markets, insurance industry and regulators. Designing the BCP will involve determining disaster levels and actions needed to anticipate the impact of disasters on the industry as a whole as well as decision making process and actions to be taken when parameters indicating abnormal conditions have been reached. Having identified the main supporting factors and established the crisis parameters, the measures that need to be taken and the conditions that can be used as the basis to indicate when activities need to be suspended, (such as in the case of securities trading suspension) will be determined.

Program 4 : Implementing and Developing Crisis Management Protocol (CMP)

Abnormal conditions that potentially disrupt, or even paralyze, a system can occur not only at the industry sector level, but also at the overall industry level. Abnormal conditions that may jeopardize the stability of the industry are more likely to arise through systemic disruptions, thus the impact may jeopardize the overall stability of the industry. Given the interdependency between industry sectors in the financial service industry, coordination is required among sectors in order to overcome systemic risk. Measures aimed at achieving such coordination should be included in a protocol (standard operating procedure) for managing abnormal conditions. This protocol will be used as a guide for when the industry faces a crisis.

In the next five years, efforts to prepare this CMP will begin with creation of a Key Risk Indicator inventory for the respective financial service industries. Subsequently, the main indicators will be determined, the parameters will be established and the necessary protocol for the occurrence of abnormal conditions will be prepared. Furthermore, the monitoring and decision making mechanism will be determined, including the parties that will be in charge of making decisions and the reliable sources and trusted information that can be used as a source of reference to describe certain situations. Additionally, the CMP will be integrated with Risk Based Supervision (RBS) and Early Warning System (EWS).

STRATEGY 4: IMPROVING SUPERVISION CAPACITY ON INDUSTRY PLAYERS

Supervision of capital market and NBFIs industry players is imperative to increase public confidence in the integrity of the industry. Supervision is required to ensure that industry players carry out their duties and functions in accordance with the prevailing regulations. This will enhance the protection of the interests of all parties in the capital market and financial institution industries. In order to enhance the quality of supervision, several important programs will be carried out. The programs include supporting the implementation of risk-based supervision, developing Single

OBJECTIVE III

A STABLE, RESILIENT AND LIQUID INDUSTRY

Investor Identity (SID), developing and utilizing Early Warning System for risks arising from securities transactions, market manipulation and insider trading activities, as well as enhancing supervision of public accountants and securities rating agencies.

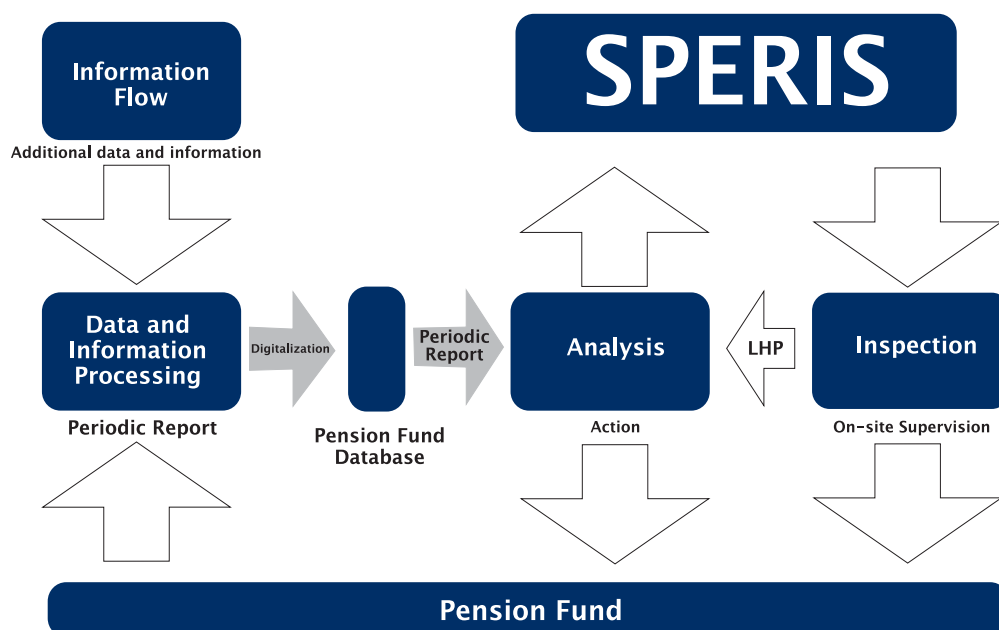
Program 1: Supporting Risk Based Supervision Implementation

In the last few years, the nature of supervision has changed from compliance-based supervision to risk-based supervision. Risk-based supervision has been implemented and will be continuously developed for the pension fund, insurance and securities industries as well as for issuers. Risk based supervision will then be implemented for all parties under Bapepam-LK's supervision. Therefore, all parties within the supervision coverage will be supervised more intensively, so that supervision will be carried out with greater focus and the regulators may allocate resources more efficiently.

Currently, each industry sector has prepared risk modules that will become the basis for risk-based supervision. The development of criteria and review of the parameters will be carried out continuously to ensure the implementation of reliable risk-based supervision. Implementation of risk-based supervision should be followed by developing the infrastructure and enhancing the capability of human resources and supervising organizations. In the next five years, supporting facilities and infrastructures for risk-based supervision will be continuously developed in line with the needs and developments of the industry.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Risk-Based Supervision Flow for the Pension Fund Industry:



Note:
SPERIS : Risk Rating System
LHP : Examination Report

OBJECTIVE III

A STABLE, RESILIENT AND LIQUID INDUSTRY

Program 2: Developing Single Identity for Investor (Single Investor Identity / SID)

One of the duties of Bapepam-LK is supervising capital market activities, including the securities transactions made within and outside the stock exchange. This is necessary to create a secure and stable capital market. One of the measures to enhance supervision of securities transactions is by development of the Single Investor Identity (SID).

SID is a single identity system for each capital market investor. With SID, even though an investor has more than one account with several brokers, each investor will only have one identity. The capital market authority will also be able to supervise all the securities transactions made by investors. To realize this, a legal framework for the implementation of SID will be prepared, followed by developing SID that is best suited for market transactions in Indonesia.

In the future, all investors in the Indonesian capital market will be required to have this single identity. This identity will then be used for the trading process in the stock exchange, starting from the order entry through to settlement. This SID is expected to facilitate regulators in Bapepam-LK as well as other Self Regulating Organizations (SRO) in performing their function of protecting investors. In addition, this single identity may be used by investors to access the Investor Area facility, so that investors may monitor the movements of their securities at any time.

Program 3: Developing and Utilizing Early Warning System on Risks Related to Securities Transactions, Market Manipulation and Insider Trading

The increasing value in market trading transactions as well as the variety of capital market products has increased the complexity of transactions. This increased complexity requires effective and efficient supervision. The current supervisory system is manual supervision. The supervisory system is considered to be insufficient to effectively monitor complex transactions. Developing an electronic supervisory system is thus necessary.

An electronic transaction supervisory system that integrates daily supervision with the database of all market players will be developed. With this integrated data, it is expected that supervision of securities transactions will be more effective and efficient, allowing early detection of alleged violations.

Program 4 : Enhancing Public Accountants and Securities Rating Agencies Supervision

In order to ensure that issuers to comply with the principles on information disclosure, the regulators, within certain limits, may delegate their function to capital market supporting professionals and securities rating agencies. One of the requirements expected from an issuer is that financial reports are audited by an accountant. A credible financial report are relied upon by

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

investors to assess the company's financial performance. Additionally, investors can also judge an issuer's performance through the rating set by securities rating agencies.

The focus in the next five years will be on enhancing the professionalism of public accountants and securities rating agencies. In order for supervision to be conducted more optimally, Bapepam-LK will develop the capacity of supervision, both through increasing the capacity of human resources and by improving the organizational structure.

STRATEGY 5 : IMPROVING DOMESTIC INVESTOR BASE AND LONG TERM FUNDS

The financial service industry is a dynamic industry that is globally inter-related and where shocks experienced by a financial industry in one country will affect the financial industries of other countries. For example, the global economic crisis triggered by the sub-prime mortgage situation in the United States in 2008 resulted in many foreign investors withdrawing their investments from Indonesia, which significantly affected Indonesian capital market liquidity and caused market performance to decline significantly.

The capital market and NBFi industries are also closely inter-related, with the condition of the capital market affecting the stability of the pension fund and insurance industries. This is because the industries have part of its investments in capital market instruments.

In order for the financial service industry to achieve sustainable growth and be resilient to external shocks, several matters need to be considered including the strength of the domestic investor base and the availability of investment or long term funds. In recognition of this, several strategic programs will be implemented to develop the industry's endurance in the next five years, namely by enhancing the role of industry players in increasing the number of domestic investors, implementing focused and integrated socialization and education initiatives and encouraging mandatory pension and insurance programs.

Program 1 : Enhancing Industry Players Role in Increasing the Number of Domestic Investors

The strength of the domestic investor base is determined not only by the value of domestic investments, but also by the number of domestic investors. High value investments will be prone to internal or external shock if it is only owned by several parties. Up to the end of 2009, although it increased, the total number of domestic investor securities accounts was only approximately 300 accounts; this was relatively small compared to the total Indonesian population, accounting for only 1% of the population. Accordingly, innovation and hard work from all related parties are required to increase the domestic investor base.

OBJECTIVE III

A STABLE, RESILIENT AND LIQUID INDUSTRY

Several efforts to increase the number of domestic investors has been carried out and will be carried out continuously through, inter alia, socialization and education. However, in order to significantly increase the number of domestic investors, other strategic efforts are required to complement socialization and education. Hence, in the future Bapepam-LK will require Stock Exchange Members to maintain a minimum number of domestic investors. The underlying rationale is that Stock Exchange Members are at the front line of the capital market and deal directly with investors; therefore, Stock Exchange Members should improve its role in strengthening the domestic investor base. Bapepam-LK will also enhance the collaboration between Stock Exchange Members and securities companies that are non members and explore the possibility of having other financial institutions act in partnership with Stock Exchange Members.

Program 2 : Implementing Focused and Integrated Socialization and Education

The capital market and NBFi industries play important roles in the country's economy. Their roles can be viewed from two perspectives, namely as a source of funds and as a means of investment. This means that on the one hand, companies may utilize the capital market as an alternative source of funds for business and on the other hand, the public may place their surplus funds by making an investment in the companies that need funds. In other words, the development of capital markets is greatly influenced by the total number of companies utilizing the capital market and NBFi industries as their source of funds (supply side) and the number of investors interested in making investments in the capital market (demand side). However, in reality, this has not been realized optimally as only a few companies utilize the capital market and only a small number of investors that are willing to invest their surplus funds.

Hence, efforts to increase the number of companies utilizing the capital market and NBFi as sources of funds and the number of investors are the responsibility of all industry players, including regulators. In order to achieve this, the information delivered needs to be accurate, fast, and interesting so as to attract companies and investors to utilize the capital market and NBFi industries as a source of funds and a means of investment.

In the future, socialization and education will be more focused and integrated. In the short term, socialization and education will be focused on increasing the number of companies that conduct IPOs, the number of retail investors in the capital market and the number of pension funds and insurance participants.

In the medium term, socialization and education will be focused on increasing the number of institutional investors. Institutional investors are generally more sophisticated than retail investors, in that they have a better understanding of capital markets. Currently, the total number of institutional investors that invest in the capital market is relatively small. Hence, efforts to carry out socialization and education will have to be enhanced in order to attract their interest to invest.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

In the long term, socialization and education will be directed at creating an investment culture for students and university students. Socialization and education for students and college students will continue to be increased. Moreover, efforts to include the capital market and NBFIs as part of the curriculum in schools and universities will continue.

Program 3 : Encouraging Mandatory Pension and Insurance Programs Implementation

The availability of long term domestic funds is imperative for the stability of the country's financial system. Premiums collected by the insurance industry and contributions for participation in pension funds are two of the long term sources of funds that can be developed to increase the resistance of the financial industry in Indonesia. Up until the end of 2009, the total assets of the pension fund and insurance industry were Rp428.12 trillion, or about 7.62% of GDP. Considering the importance of long term funds for the stability of the financial industry and given the ample opportunity to enhance the role of insurance and pension funds in Indonesia, strategic measures are needed to increase the contribution of these industries.

Up until the end of 2009, there were two mandatory insurance programs, i.e. the insurance program for the labor sector managed by PT Jamsostek and the traffic accident insurance program managed by PT Jasa Raharja. These programs have not been viewed as providing optimal benefits or meeting the basic needs of the people. Improved benefits, expanded insurance objects, and increased number of insurance participants become elements in providing basic protection to the public. This is in line with the social security program that is currently being developed by the Government. The development of the pension fund industry in Indonesia is influenced by two main factors affecting the willingness of employers to establish pension funds, namely the lack of awareness on the importance of pension funds in ensuring employees' retirement benefits and the cost of financing pension programs.

In the next five years, Bapepam-LK will stimulate the implementation of mandatory insurance programs and pension programs that will focus on resolving the constraints in developing mandatory pension and insurance programs. The development of the mandatory insurance program will be focused on disaster insurance, agricultural insurance and accident insurance. Therefore, Bapepam-LK will work together with other related technical departments to discuss the development of mandatory insurance programs in Indonesia. The development of an extensive mandatory insurance program is believed to be able to encourage the development of the insurance industry in Indonesia as it has in other countries.

OBJECTIVE III

A STABLE, RESILIENT AND LIQUID INDUSTRY

To stimulate the establishment of mandatory pension programs, the Law No. 11 of 1992 on Pension Funds will be harmonized with other related laws, such as Law No. 3 of 1992 on Jamsostek, Law No. 13 of 2003 on Employment and Law No. 4 of 2004 on National Social Security System. This is inter alia aimed at giving companies the opportunity to provide better pension benefits than the retirement programs managed by PT Jamsostek; empowering companies other than PT Jamsostek to manage the JHT program for employees (opting-out); reinforcing the opportunity to carry out set-off on the obligations of employers as is stipulated in the Employment Law; enabling pension funds to manage severance pay programs; and providing a legal basis for high-income workers to choose a pension fund to manage their pension program funds as mandated in the Law on National Social Security System. These efforts it is expected to stimulate and increase the interests of employers and participants in establishing pension funds as the total fees charged will no longer increase.

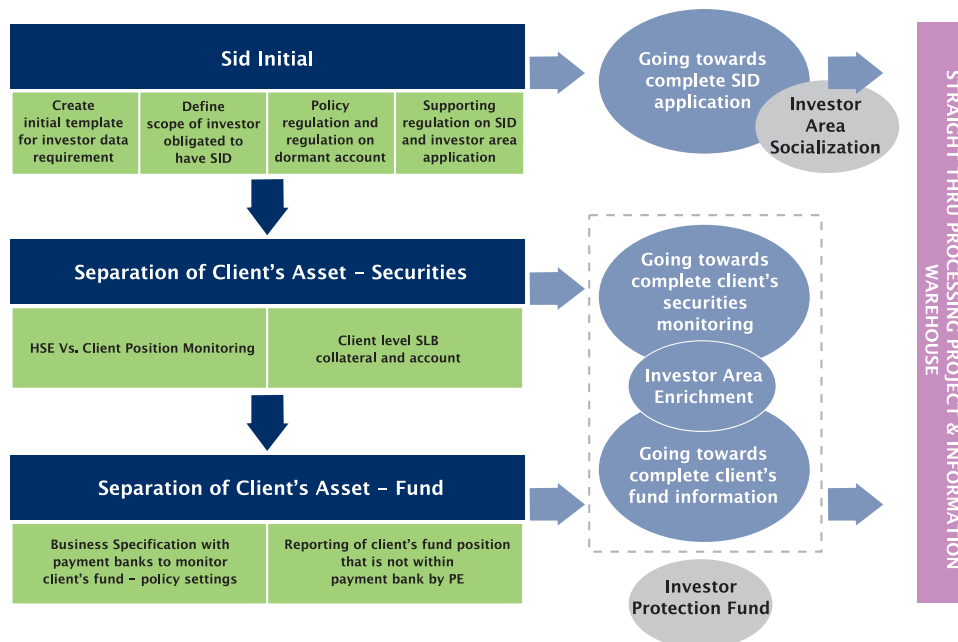
THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Capital Market Infrastructure Development

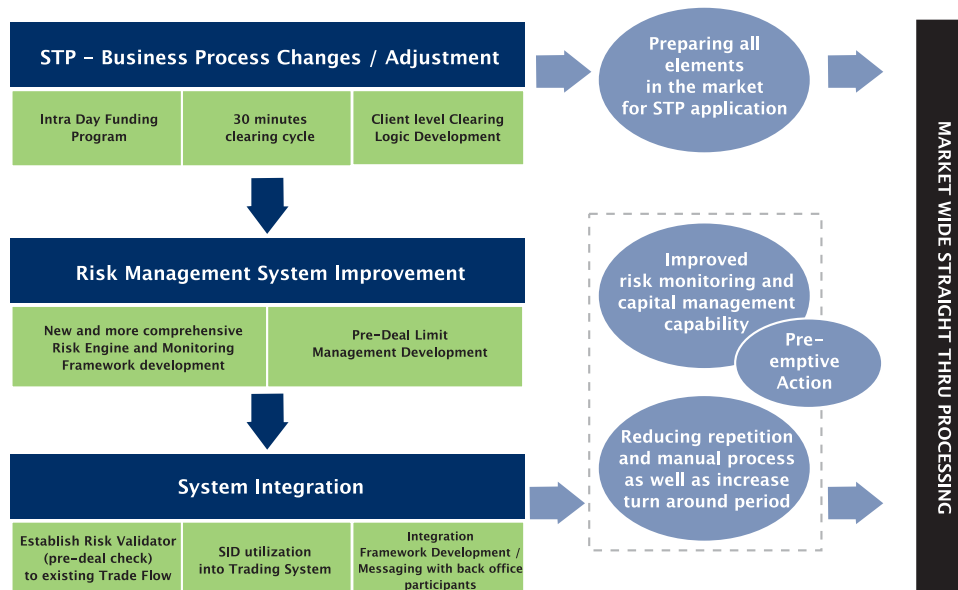
OBJECTIVE III

A STABLE, RESILIENT AND LIQUID INDUSTRY

DEVELOPMENT OF SID APPLICATION



STP DEVELOPMENT



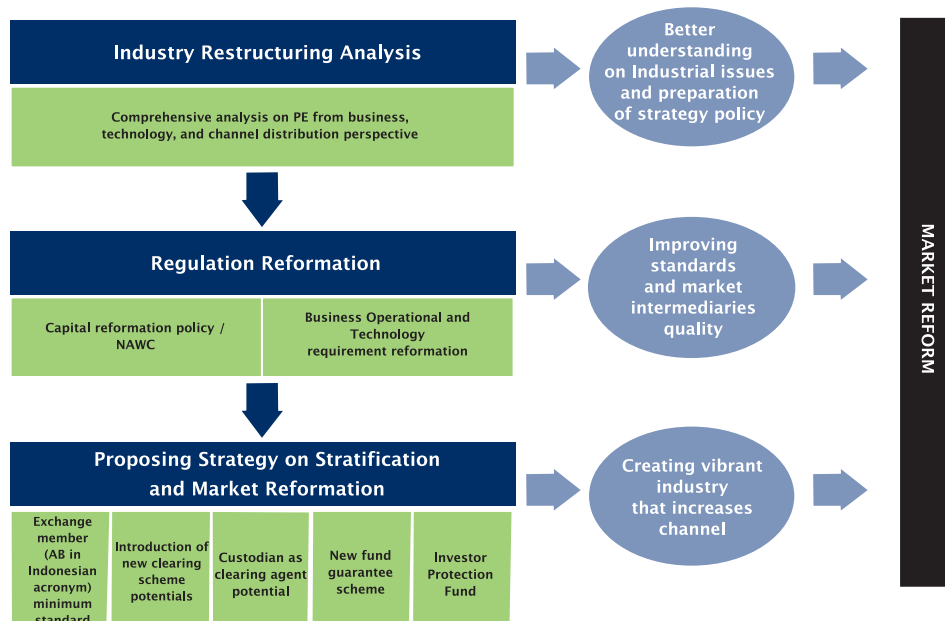
Description:

Activity performed

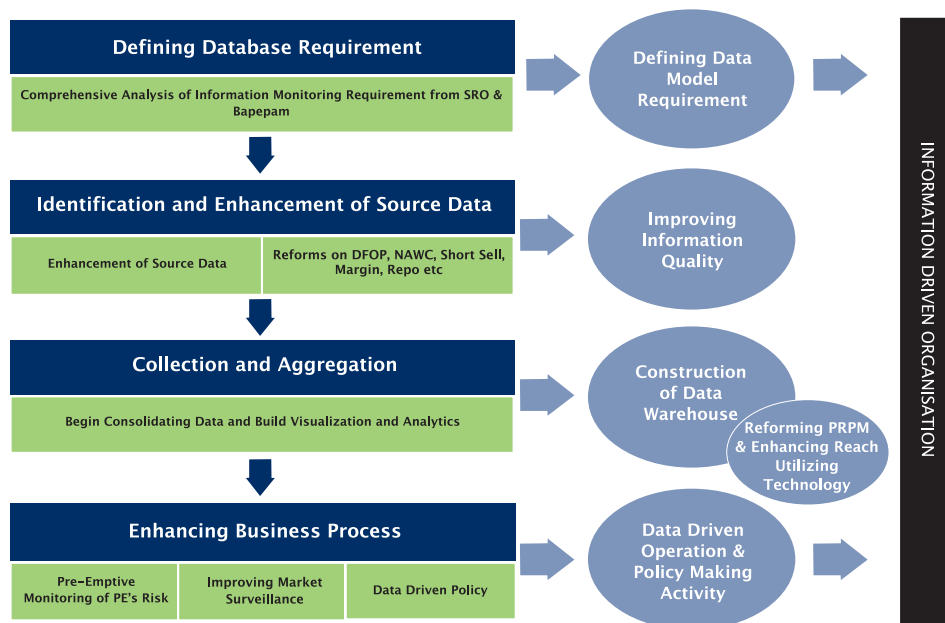
Inter-activity / dependent activity

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AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

CAPITAL MARKET INFRASTRUCTURE DEVELOPMENT SUPPORTING ACTIVITY



DATA WAREHOUSE



Description:

Activity performed

Inter-activity / dependent activity

Objective IV

Fair and Transparent
Regulatory Framework
which Guarantees
Legal Certainty

strategy 1

Improving legal
enforcement quality

strategy 2

Harmonizing regulation among the industries
and meeting international standard

strategy 3

Drafting regulations based on the need and
development of the industry

strategy 4

Improving the quality of financial information
transparency of players of
capital market and NFBFI

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AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014



OBJECTIVE IV

4

Fair and Transparent Regulatory Framework which Guarantees Legal Certainty

A solid legal framework is one of the prerequisites in establishing solid and globally competitive capital market and NBFIs industries. A solid legal framework does not simply cover regulatory aspect but also covers the legal enforcement aspects which are inter-related. Improvement in the quality of supervision and law enforcement of the industry players will create legal certainty based on justice and transparency.

The legal enforcement is a disciplining function which is repressive in a supervisory system. As a repressive effort, legal enforcement is a tool which gives deterrent effect to convicts who are punished for the violation they commit. Besides, law enforcement is also intended to prevent other violations in the future. This means that there is a real consequence for any in compliance with the existing regulation. Based on the consideration, in the future, Bapepam-LK will emphasize to enhance the legal enforcement quality which should be more effective and provide deterrent effect to the convicts.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

STRATEGY 1 : IMPROVING LEGAL ENFORCEMENT QUALITY

One of the duties of Bapepam-LK is to conduct preventive or repressive supervision in the capital market and NBFi industries through law enforcement. The effectiveness of law enforcement will affect the credibility of Bapepam-LK. From the industry point of view, an effective law enforcement is a crucial factor in establishing the level of confidence and legal certainty in the financial market. Therefore, in the next five years, enhancing the quality of law enforcement will be one of the strategies implemented in supporting the realization of legal certainty, fairness and transparency.

Legal enforcement quality among others is reflected from process rapidity, reliability of examination result and the integrity and consistency of legal enforcement apparatus. In order to support the realization of an effective and efficient legal enforcement, a comprehensive strengthening of legal framework in various aspects is required, namely the authority in examination and investigation, substance of criminal penal provisions, and sanctions that could give deterrent effect.

Law violation in financial services involves cross-jurisdiction so Bapepam-LK needs the capability to cooperate with both domestic and international law enforcement authorities. At the international level, the capability to cooperate with law enforcement authority of other country is one of the principles that has to be implemented by Bapepam-LK.

In response to the need for strengthening the above legal framework, one of the programs focused is the amendment of law particularly in the capital market and NBFi industries. To improve the quality of legal enforcers, a comprehensive training program will be implemented, which include among others, the improvement of intelligence capability to access data and information on the industry.

Program 1 : Providing Additional Authority to Obtain Important Information

Violation in capital market is a complex violation in the economy. Currently, Bapepam-LK has a reasonably comprehensive authority in examination and investigation process. However, there are authorities that still need to be enhanced, among others are those relating to the access to important information which confidentiality is still protected by prevailing law. Considering that data and information are imperative in handling a case, the said additional authority becomes mandatory, both in the authorities of examination and investigation process.

OBJECTIVE IV

FAIR AND TRANSPARENT REGULATORY FRAMEWORK WHICH GUARANTEES LEGAL CERTAINTY

Important data and information, which law enforcement in the capital market has limited access, is the information regarding financial condition and/or flow of funds from and to the parties allegedly committing or involved in a violation, the information sent or received by subscribers of telecommunication services, as well as information on ownership of securities of a party, either as a registered owner or beneficial owner. Considering that principally, the information concerning financial condition or flow of funds from and to a party and information sent or received by subscribers of telecommunication services constitutes confidential information based on prevailing laws and regulations, providing an additional authority to access the confidential information needs to be carried out through the administrative procedure of relevant authority. The administrative procedure is in essence intended to give a balance between the interest in giving confidentiality protection of information and the interest of law enforcement. Further, the additional authority in law to access important information, in particular banking records, would facilitate Bapepam to become the signatory for IOSCO multilateral MOU related to information sharing.

Program 2 : Improving Criminal Provisions and a more firm Sanction Formulation

Law enforcement in capital market and NBFI industries involves other law enforcers such as District Attorney's office and judiciary. The difference in the perception of criminal provisions is often faced by law enforcers in handling such criminal cases, which could result in a slow handling of cases. To avoid further difference of perception, criminal regulations in the capital market law need to be improved. Additionally, considering the modus of violation in capital market and insurance industries becomes more complex nowadays, new criminal regulations need to be drafted in the capital market law.

Sanction imposed is said to be effective if the sanction could give a deterrent effect to the perpetrators and could serve as a warning to the people regarding the consequence of a violation. A few sanctions regulated under the Capital Market and Insurance Law need to be amended to provide a more strict and deterrent effect.

Program 3 : Providing Additional Authority to Encourage an Effective Coordination among Legal Enforcers Domestically and Overseas

Violation and crime in capital market generally is of multidimension, involving jurisdiction of domestic or even cross-border institutions. Settlement of this matter cannot only be managed by law enforcers of Bapepam-LK. The demand of information sharing between law enforcers and other relevant institutions should be fulfilled in order to implement an effective and efficient law enforcement. Often times issues on legal actions arise from the different perception of law enforcers in the judiciary system as well as provisions of the existing laws. Therefore, an effective cooperation needs to be enhanced with other law enforcers in a criminal judiciary system with the police, district attorney's office, court as well as other law enforcers and regulators. A harmonious cooperation and commitment and integrity of all law enforcers becomes a prerequisite for an effective law enforcement.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

To combat cross-border crime, an effective cooperation needs to be enhanced with the regulator overseas. The effective cooperation demonstrates the commitment in meeting international principles, among others IOSCO Principle for capital market industry.

To be more specific, in the context of law enforcement in the capital market, currently Bapepam-LK has participated in the IOSCO Multilateral Memorandum Of Understanding (IOSCO-MMoU) on Consultation and Cooperation and the Exchange of Information. However, Bapepam-LK is only listed in Appendix B as an authority who has demonstrated commitment to become a signatory. One of the constraints that needs to be solved in order to be able to be listed in Appendix A, as an authority with full signatory, is that Bapepam-LK does not have the authority to cooperate with authorities of other country's capital market and/or other parties including exchange of information. The commitment of Bapepam-LK to improve the status to be included in Appendix A of IOSCO MMoU requires additional authorities in the Capital Market Law.

Additional authority in the Capital Market Law for Bapepam-LK covers the authority to cooperate with the authorities of other country's capital market and/or other parties including exchange of information and use of resources, as well as the authority to conduct a cooperation and provide assistance to the authority of other country's capital market related to examination and investigation. Specifically to cooperation and assistance extended related to examination and investigation, the principle to be promoted is mutual cooperation and consistency with public interests.

Program 4 : Developing Capital Market Intelligence Capability

Some cases in capital market are carried out by perpetrators of organized violation/crime of capital market and involved parties outside the supervision of Bapepam-LK, which poses a very difficult challenges to Bapepam-LK in settling cases effectively and efficiently. Meanwhile, some other cases occur due to the lack of ability in detecting the early signs of violation that adversely affect investors and public in general.

Learned from the experience of handling existing cases, the development of capital market intelligence capability is much needed to carry out legal enforcement function in the capital market. The information and data of intelligence activities will be very useful for Bapepam-LK in accelerating law enforcement process in the capital market. Additionally, considering the capital market is an industry which promotes disclosure principles, whereas information plays an important role in making an investment decision, the intelligence data that has been processed and analyzed well in the intelligence unit, constitutes important resources to prevent and anticipate early the cases of violation and crime in the capital market.

OBJECTIVE IV

FAIR AND TRANSPARENT REGULATORY FRAMEWORK WHICH GUARANTEES LEGAL CERTAINTY

Within the next five years, the development of capital market intelligence capability will be implemented by establishing a new Bapepam-LK organizational structure with a capital market intelligence function, preparing human resources as capital market intelligence people, and preparing a working mechanism to implement the function and duties of Bapepam-LK as supervisor and law enforcer, including the availability of an integrated database as one of data intelligence.

STRATEGY 2 : HARMONIZING REGULATION AMONG THE INDUSTRIES AND MEETING INTERNATIONAL STANDARD

The synergy between the capital market and NBFi industries is a very important factor considering the relation between both industries is characterized by supply and demand. Supply and demand should be synergized as such that capital market and NBFi industries may grow together, strengthening each other and eventually capable to become a driver for a solid economy.

Globalization in the financial service sector, including capital market and NBFi is inevitable. The international financial service industry is open and interrelated and it demands capital market and NBFi industry players to always strive for not to be excluded from global activities of the industry. Regulatory aspect becomes a strategic factor in improving the global competitiveness; for the reason, the effort to formulate regulations to align with international standards and practice is continuing.

The capability of a regulation to grow a synergy among the industries and to enhance a strong industrial competitiveness is determined by the quality of the regulation drafting process. In drafting regulations Bapepam-LK has conformed and will enhance its compliance to the various principles, namely the principle of clear objective, proper authority drafting the regulation, conformity between type and substance of the regulation, effectiveness, clarity and disclosure.

Program 1: Preparing Regulation that Grows Synergy between Capital Market and NBFi

As an institution responsible for formulating regulations, conducting development and supervision in the capital market and NBFi industries, Bapepam-LK should be able to encourage the growth of those industries. To promote industries growth, a regulatory framework in harmony across industries is necessary. It is expected that cross-industries harmony could generate a synergy between capital market and NBFi industries.

Several efforts to promote synergy between industries will be carried out through quality improvement in the review process to ensure that the regulation drafted is prepared according to the need, meet the target and implementable. Another important factor in creating synergy between

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

industries is the involvement of stakeholders in the drafting process. Involvement of cross-industries stakeholders needs to be enhanced to expand the knowledge in resolution and to draft a regulation that is understood and accepted. Additionally, Bapepam-LK will monitor and evaluate the implementation particularly those cross-industries regulations.

Program 2 : Developing and Drafting Regulations According to International Standard / Practice

To ensure regulations drafted by Bapepam-LK accommodate the industry dynamic and provide legal certainty, review and enhancement of the existing regulation should be carried out. One of the measures to be taken is to harmonize and align the existing regulations with the international standards, among others with the standards issued by the International Organization of Securities Commission (IOSCO), Organisation for Economic Co-operation and Development (OECD), International Association of Insurance Supervisors (IAIS) and International Auditing and Assurance Standards Board (IAASB). In addition to the above-mentioned international standards, regulation of the capital market and NBFI should also observe the international practice arising from bilateral, regional and international agreements such as Asean Linkage which is related to the settlement of cross border dispute, cross border trading and cross border transaction.

The efforts to develop and prepare a regulation which is in accordance to international standard/practice should be made by observing the national interests, namely the benefit for the capital market and NBFI industries development in Indonesia and the legal environment in Indonesia, considering the capital market and NBFI regulations constitute the Indonesian legal system. As such there should be a precondition that becomes a foundation in harmonizing the regulation with international standard or practice, whereby the precondition among others emphasizes on the acceptance of the mutual recognition and mutual principles between supervisory institutions and industrial players.

STRATEGY 3 : DRAFTING REGULATIONS BASED ON THE NEED AND DEVELOPMENT OF THE INDUSTRY

In protecting the interests of investors and the people, enhancement to the existing regulations should be carried out. Regulation enhancement includes a review of existing regulations and identification of provisions which are no longer suitable with market requirements which has becoming more complex and dynamic. Capital market and NBFI industry dynamics and development will not be well understood and anticipated by the regulator without the cooperation and participation of industry players because industry players are the ones involved directly in economic activities of the capital market and NBFI industries.

OBJECTIVE IV

FAIR AND TRANSPARENT REGULATORY FRAMEWORK WHICH

As one of the implementations of legal certainty principle, every activity in capital market and NBFi industries should be based on a sound regulation. For that reason and considering the strategic position of industrial players, involvement of industrial players in drafting a regulation is critical in drafting a regulation according to the need of the industry (market friendly). Despite the industry players' strategic position in drafting a market friendly regulation, this does not mean the regulator is losing its strategic position. The industry development map with a wider and more extensive horizon is a responsibility of the regulator, in which it can only be achieved through research on industry development and products. This strategy will be implemented through two main programs, namely encouraging industry players participating in drafting regulations and promoting research-based regulations.

Program 1 : Encouraging the Participation of Industrial Players in the Process of Drafting the Regulation

As described in Strategy 2, to generate a harmonious regulation and to encourage synergy between capital market and NBFi industries, a solid role of industry stakeholders is required. This is related to the various issues faced by the industry players, both judicially and technically.

To encourage participation of industry players in regulation drafting process, Bapepam-LK will periodically organize Focused Group Discussion (FGD). The objective of FGD is to capture industry players' initiatives in the development of capital market and NBFi industries. The FGD will be more beneficial if the initiatives of the industrial players are equipped with a comprehensive study regarding the regulation to be prepared.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Program 2 : Promoting Research-Based Regulation

Regulation drafting and policy formulation should be based on a series of in-depth analysis and research activities, in order to create a regulation according to the objective. Bapepam-LK in drafting regulations and formulating policies should review the legal aspect and also analyze the interconnection with other regulations.

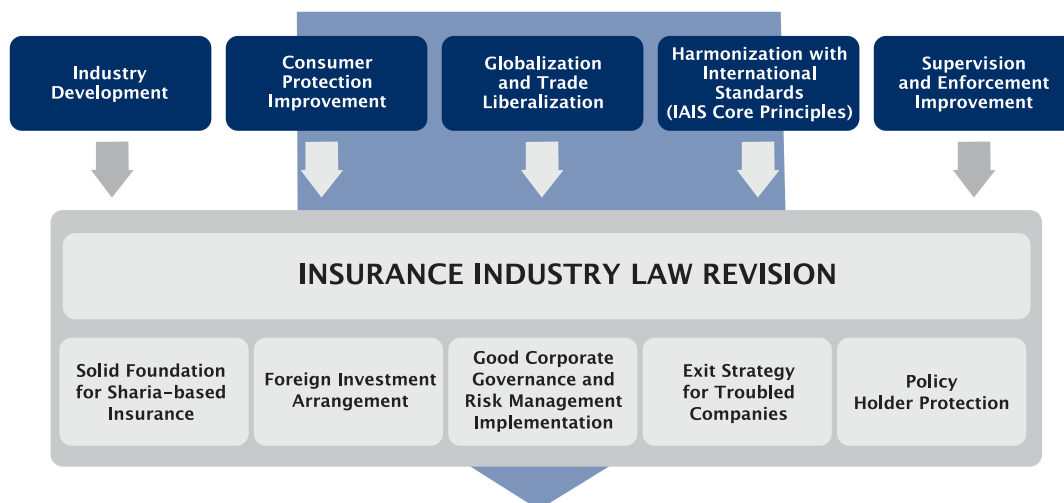
Within the next five years Bapepam-LK will improve qualitative and quantitative analysis to ensure that the regulation and policy formulation are according to the objectives. This initiative is important to mitigate risks and to warrant that the regulation does need to be implemented, from the economy and commercial aspects.

OBJECTIVE IV
FAIR AND TRANSPARENT REGULATORY FRAMEWORK WHICH
GUARANTEES LEGAL CERTAINTY

REGULATION REFORM IN THE CAPITAL MARKET INDUSTRY

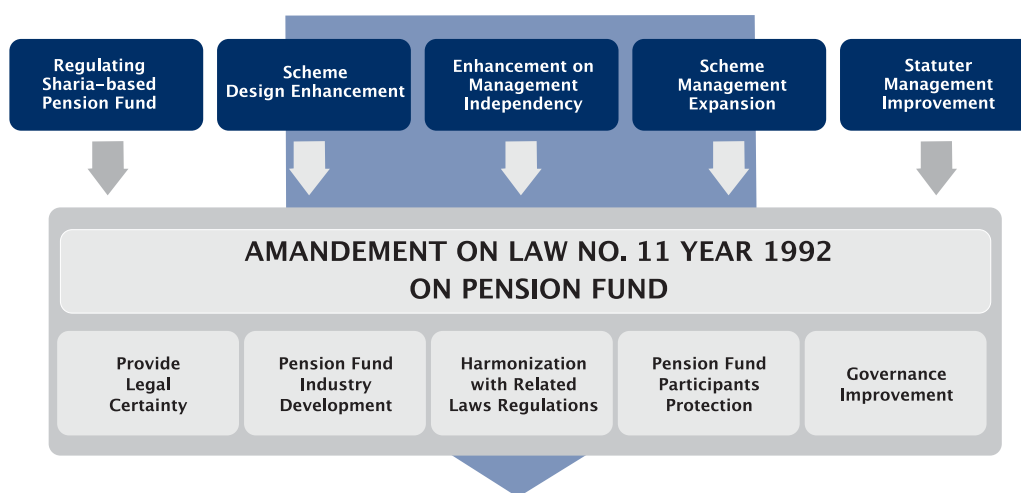


REGULATION REFORM IN THE INSURANCE INDUSTRY



THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

REGULATION REFORM IN THE PENSION FUND INDUSTRY



**STRATEGY IV : IMPROVING THE QUALITY OF FINANCIAL INFORMATION
TRANSPARENCY OF PLAYERS OF CAPITAL MARKET
AND NBF**

Financial information provides a basis for the investors, creditors, and other stakeholders in making a business decision. In the capital market industry, financial information transparency is an implementation of information disclosure which is the spirit of capital market. Investment decision made by investors will be affected by the information obtained from financial reports. Institutions supporting capital market activities should also demonstrate transparency in regard to their financial condition in order to maintain public trust.

In line with that above, institutions NBF industry must also convey their financial information to the public. As a service institution managing public fund, or involved in activities related to public funds, these institutions should be able to maintain the public confidence to utilize their services. Quality of financial information transparency from players of capital market and NBF industries should always be enhanced in line with international efforts in improving the quality of financial reporting. The enhancement of transparency quality is also expected to be able to improve competitiveness in capital market and NBF industries in Indonesia.

OBJECTIVE IV
FAIR AND TRANSPARENT REGULATORY FRAMEWORK WHICH
GUARANTEES LEGAL CERTAINTY

Program 1 : Supporting Convergence of Accounting Standard

In seeking to align the Indonesian financial accounting standard with the international standard, Indonesia is committed to converge the Indonesian financial accounting standard (PSAK in Indonesian acronym) in 2012. The main driver of the alignment is the Financial Accounting Standard Board (DSAK in Indonesian acronym)- Indonesian Accountant Association (IAI in Indonesian acronym), as the accounting standard setter in Indonesia.

As a regulator of capital market and NBFi industry players, Bapepam-LK supports the convergence program. The support given among others is conducting assessment on the adoption of international accounting standard, improvement of a number of PSAK and socialization of PSAK issued to the relevant industry players.

Program 2 : Improving / Issuing Accounting Regulation According to the Statement of Financial Accounting Standard / International Standard

As the regulator of capital market and NBFi industries, Bapepam-LK has the authority to make accounting rules in those industries. However, preparation of accounting regulation by Bapepam-LK generally is made in conformity with the normal accounting standard.

PSAK convergence has generated changes in the current accounting standard which has caused accounting regulations issued by Bapepam-LK prior to the convergence process do not conform to the new PSAK. The improvement/issuance of accounting regulation should continuously be made to be in conformity with PSAK and international accounting standard.

Program 3 : Developing Accounting Standard for Capital Market and NBFi Players

The dynamic development of financial accounting standard on the one hand could improve the quality of financial information provided by the capital market and NBFi industry players; on the other hand, the improvement has also increased complexity of financial reporting process. Development of accounting reference for industry players is the initiative needed to improve the comprehension and to bridge different perceptions among capital market and NBFi industry players in implementing the abovementioned standards, ultimately to improve the quality of their financial reporting.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Bapepam-LK is reviewing the accounting guidelines for securities companies (PAPE in Indonesian acronym). In addition, Bapepam-LK has issued accounting guidelines for 17 industries, among others are manufacturing, banking, toll-road, telecommunication, plantation, etc. These accounting guidelines should also be enhanced to be in-line with the PSAK convergence process.

Objective V

A Credible, Reliable
International Standard
Infrastructure

strategy 1

Developing integrated securities trading system
(straight through processing)

strategy 2

Developing reliable information system

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014



OBJECTIVE V

5

A Credible, Reliable International Standard Infrastructure

Efforts to embody capital market and NBFIs to become easily accessible, competitive and reliable investment vehicles and risk management require the support of credible and reliable international infrastructure availability. Presence of the aforementioned infrastructure significantly affect effectiveness in conducting the business process, especially those related to securities trading supervision, data center availability to support policy making and services to industry player and the public.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Provision of credible, reliable and international standard infrastructure is a continuous process of the future work plan. In the next five years, Bapepam-LK will continuously identify and develop infrastructure to enhance the credibility of clearing process and transaction settlement, trading system supervision, technology-based services and database. In addition, Bapepam-LK will also arrange IT governance and Bapepam-LK Business Continuity Plan. Improvements of infrastructure quality related to clearing and securities settlement will be developed according to international standards as recommended by the Group of Thirty. Meanwhile, development of IT infrastructure will be adjusted to international IT management best practice such as Control Objective for Information and related Technology (COBIT).

Efforts toward provision of credible, reliable, and international standard infrastructure in the next five years will be focused on implementation of two strategies, namely to develop reliable integrated securities trading and information system.

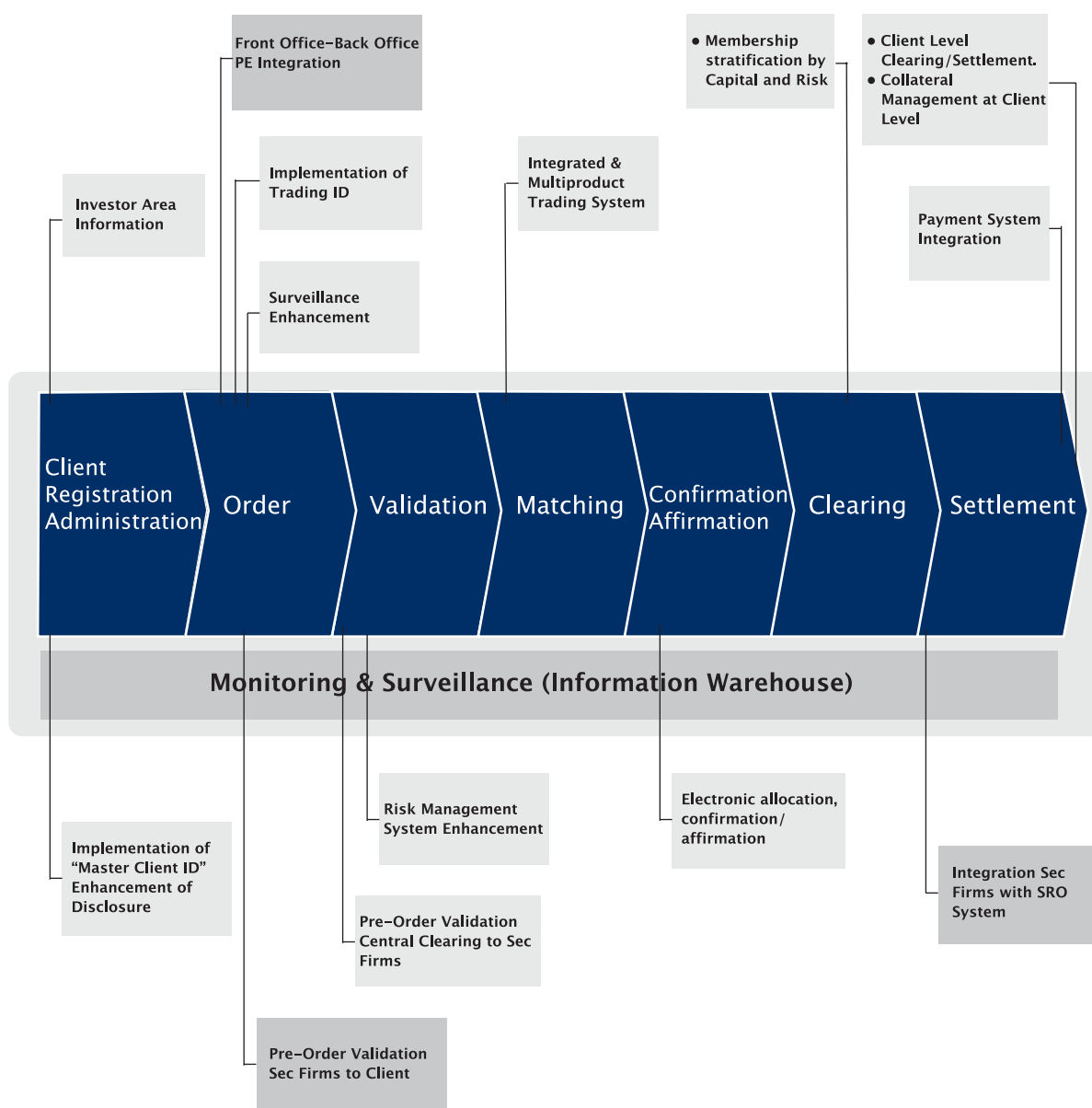
STRATEGY 1: DEVELOPING INTEGRATED SECURITIES TRADING SYSTEM (STRAIGHT THROUGH PROCESSING)

The increasing trading value and volume in the capital market requires capacity and efficiency trading system enhancement. Furthermore, the growing online trading needs to be supported by enhancements of securities trading system infrastructure that is capable to execute transaction delivery and settlement quickly and efficiently.

To accommodate this, an integrated securities trading system will be developed in the next five years, to process order handling through settlement (Straight Through Processing/STP), automatically without manual process. In addition to improve cost efficiency and accelerate trading cycle and securities transaction settlement, this system can also decrease operational risks created by the use of manual system. Process of STP development begins with the integration of stock exchange trading system (JATS Next-G), clearing and guarantee systems (E-Clears), and settlement and central custodian system (C-BEST).

OBJECTIVE V
A CREDIBLE, RELIABLE INTERNATIONAL STANDARD
INFRASTRUCTURE

**TRANSACTIONAL INFRASTRUCTURE &
 INFORMATION INFRASTRUCTURE
 ENHANCEMENT**



THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Program 1: Maximizing the Capacity of Stock Exchange Trading System

In 2005-2009 Master Plan, one of the programs successfully completed is the Indonesian Stock Exchange trading system upgrade. This is characterized by the use of new version of securities trading system called JATS-NextG on the second quarter of 2009. Besides having more ability to process securities transaction, the new system also has more facilities that can accommodate various needs. This system is one of trading systems that operate in a more modern and compatible mechanism when compared to other operating systems. With this system, Indonesian stock exchange will have the ability to trade all financial products, including stocks, derivatives, mutual funds, and obligations in a single platform. This system can also accommodate the rapid and dynamic growth of capital market.

Currently not all securities trading system capabilities and features available on JATS-NextG have been utilized. One of the important facilities available on this new trading system is the facility of Single Investor ID (SID). To implement an integrated securities trading, SID is mandatory when an order is inputted to the trading system. SID will then be used as reference number for clearing, guarantee, and securities transaction settlement purposes in a series called STP.

SID implementation will provide many benefits to enhance supervision quality, as records on each client's activity will be more transparent thus monitored more easily. With this transparency, indications of market manipulation, insider trading and other forms of manipulations will be more easily monitored by the regulator.

Program 2: Enhancing the Capacity of Clearing and Guarantee Institution System (LKP in Indonesian acronym)

To support STP, the quality of Clearing and Guarantee Institution system will be improved through provision of system that validates each order, before the order is inputted to securities trading system. This validation is required to see each order's potential risks toward the trading limit. By adding such a mechanism, each order enters to trading system has passed validation of several pre-determined variables. The validation process is real-time based, thus when the inputted order cannot be forwarded to the trading system, investors can find out the cause.

In line with STP development purpose - to improve the efficiency of stock exchange transaction settlement, LKP also facilitates continuous settlement process. With this facility, clearing members who already fulfilled the securities handover obligation can receive payment immediately, without waiting buyers to perform the payment. This facility, provided by LKP, is expected to improve value and frequency of transaction in the stock exchange.

OBJECTIVE V
A CREDIBLE, RELIABLE INTERNATIONAL STANDARD
INFRASTRUCTURE

Program 3: Enhancing the Capacity of Central Securities Depository System

(LPP in Indonesian acronym)

In the next five years, Central Securities Depository (CSD) institution will focus on infrastructure development activities on the efforts to ensure that Central Depository-Book Entry Settlement System (C-Best) as the main system used to support implementation of settlement and depository function can work well. In developing C-BEST system, it is important to note C-BEST system compatibility towards other SRO systems, E-Clear or JATS NextG. Compatibility between systems is required for the system to be integrated and able to produce reliable system, so that flow of command within those systems can work continuously well from one process to the next.

Complete review on C-BEST will be performed to ensure system compatibility. This review will provide overview of current C-BEST system conditions, for C-BEST to enable support towards STP implementation, so actions to repair, upgrade or replace with a new system can be performed when necessary.

Program 4: Integrating the System of Stock Exchange, Clearing and Guarantee, and Central Securities Depository with Participants

Currently each exchange member is connected to securities trading system through special network provided by the exchange and each clearing member is connected to clearing system through special network provided by clearing and guarantee institution. Similarly, CSD participants are also specifically connected to CSD system. Notwithstanding the respective members or participants have already connected to those three institutions, SRO inter-system has not been completely integrated. Validation process and delivery of inter SRO are still manually performed.

In order to implement STP, exchange trading system, clearing and guarantee institution, and depository and settlement system in CSD institution have to be completely integrated. With the integration of the three SRO main systems with all exchange and clearing members as well as the participants, all SRO systems are connected with a network, which has already been connected to the three SRO. In addition, to support STP implementation, the integration of SRO system with its participants will facilitate the availability of real-time data. The data, furthermore, can be utilized for supervision, policy setting, and research activities benefits.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

STRATEGY 2 : DEVELOPING RELIABLE INFORMATION SYSTEM

The role of information technology and communication in supporting the operational and managerial system at government institution such as Bapepam-LK nowadays is deemed to be increasingly important. The significant development in Communication Information Technology has caused various fundamental changes on all aspects. Information and Communication Technology is one of the very important resources, thus needs to be well and properly managed. Considering the importance of data and information management function, particularly in supporting the activities for regulation and supervision activities, efforts to place data and information management are equally important as the management of other resources in running the business process.

The availability of reliable information system will be the basic framework for all Bapepam-LK activities and allows managerial function to manage current resources more efficiently and effectively. Given the importance of the role of information system and the rapid development of information technology and communication, a good planning is needed, particularly in utilizing information and communication technology, for example in selection or implementation of information and communication technology both for Bapepam-LK and the industry.

Based on the above, in order to develop reliable information system and improve the quality of ruling and supervision, Bapepam-LK in the future will strive to optimize the use of Information and Communication Technology, develop data warehouse center, improve Information and Communication Technology (TIK in Indonesian acronym) governance, and prepare business continuity plan.

Program 1 : Optimizing Information and Communication Technology Utilization

To increase the quality of duties and function as supervisor of capital market and NBF, one of the efforts performed by Bapepam-LK is by optimally utilizing information and communication technology. Optimum utilization of information and communication technology will be focused on regulating management system and working process. Information and communication technology utilization will cover two activities, first is data and information processing, and electronic management system and working process. Second is by utilizing the information and communication technology advances so that the service extended by players in the capital market and NBF industries as well as Bapepam-LK can be more easily and accessible by a wider community. Several fundamental aspects in optimizing the use of information technology in the future are the strengthening of network infrastructure, the use of high performance application system, of metadata standardization, the implementation of transaction and electronic data exchange and electronic documentation system for players in the capital market and NBF industries as well as other institutions.

OBJECTIVE V
A CREDIBLE, RELIABLE INTERNATIONAL STANDARD
INFRASTRUCTURE

Information and communication technology is needed by industrial players to increase effectiveness and efficiency in operational activities. Additionally, the development of information and communication technology would enable players in the industry to improve their services to the people through electronic products. Considering the use of information and communication technology may increase the risks faced by industrial players, thus services provider, capital market players, and NBFi industries must implement effective risk management.

Hereinafter, Bapepam-LK will implement e-government with realistic stages and measurable targets. The purpose of electronic government is to establish a quality network of information and electronic service transaction for industrial players, and establish an interactive relationship with the industrial players to improve competitiveness in facing global financial market. E-government program will be focused on provision of transaction services website such as e-registration, e-licensing and e-reporting to players of capital market, non bank financial industry and the people. In addition, e-government implementation will also be supported with the development of application and data, connected to other institutions.

Given the development of information and communication technology between capital market players and NBFi provider, in the future, Bapepam-LK will prepare a guideline on information and communication technology for capital market players and NBFi and coordinate with the capital market and NBFi industry players to explore the regulation on the use of information and communication technology (technological advancements). The objective of the said regulation is to have a credible development of information flow among players of capital market, non bank financial institution industry, authorities and the people by continuingly considering the aspects of investors protection and prudential.

According to Law on Information and Electronic Transaction and Law on Public Information Disclosure, Bapepam-LK will review each technological issue such as retention of electronic record, the capability of capital market players and NBFi industry in organizing and providing the electronic document to fulfill of Bapepam-LK's requests as well as the reliability and security aspects of the system used.

Furthermore, in anticipating information and communication system development, Bapepam-LK will regularly meet the SRO, association, capital market players and NBFi and capital market information technology system providers. Considering the use of information and communication technology has been increasing and not only in daily operations but also in terms of decision making process, Bapepam-LK will prepare IT Master Plan that will be used as guidance in developing information technology and communication.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Program 2 : Developing Data Center

Bapepam-LK has many data recorded in the database. The database is very valuable, particularly related to historical data. Given the importance of database in supporting tasks implementation, Bapepam-LK will develop data warehouse so the available data can be accessed easily. Data in the data center will be partly sourced from the industry players data such as issuer and financing company database, which will produce a dynamic report and can assist Bapepam-LK in making a decision based on data collection and analysis. Information produced from data center will be useful in preparing capital market and financial industry rules and policy formulation. Data center development will support Bapepam-LK's business units in preparing policy arrangements.

Within the next five years Bapepam-LK will cooperate with SRO, association, and vendor, starting from procurement, installation, business intelligence design and development (data warehouse, data mining, scenario development and reporting system), all market data and system component integration, implementation and maintenance, operating system, and relational database management system (RDBMS) to build a comprehensive warehouse data and business intelligence system (DWBIS). In building the data center, development of infrastructure and collection data process will also be made for research and regulation purposes, reporting and charting with multi-dimensional drill down capabilities.

Program 3 : Improving Communication Information Technology Governance

Utilization of information and communication technology in Bapepam-LK, capital market players, and NBFi industry increases along with the industry development. To ensure that TIK utilization can really support Bapepam-LK's vision and mission, in the future resources utilization efficiency and risk management quality in utilizing information and communication technology will be improved. Hence a general guideline of information and communication technology utilization is needed, for Bapepam-LK, capital market and NBFi players. The guideline should be in the form of information and communication technology good governance. In addition, capital market and NBFi industry players must implement risk management in utilizing information and communication technology.

In the future, information and communication technology risks will be a part of operational risks of players of capital market industry and financial institution. Thus the scope of information and communication technology utilization risk management for players of capital market and NBFi industry will at least include management supervision, policy and procedure in using information and communication technology, identification process adequacy, monitoring and controlling risks and internal control system in information and communication technology utilization. Meanwhile

OBJECTIVE V
A CREDIBLE, RELIABLE INTERNATIONAL STANDARD
INFRASTRUCTURE

the policies and procedures of using information and communication technology should at least cover the management aspects, development and procurement, information technology operation, communication network, information security, business continuity plan and IT Strategic Plan.

Program 4 : Preparing Bapepam-LK Business Continuity Plan

Occurrence of breakdowns/damages caused by natural factors, human factors, and others is inevitable to each activity. The damage will not only impact to the technology capability, but also impact to Bapepam-LK business process, particularly to the service to the public. If not specifically addressed, aside from facing operational risks, it can also affect the reputation. To minimize such risks, Bapepam-LK will develop a business continuity plan (BCP), which is an integrated and overall management process to ensure that the operational activities of Bapepam-LK will function despite of disruptions, to protect stakeholders. BCP will become a written document that contains a series of planned and coordinated activities concerning measures to mitigate risks, managing disturbance/disaster and recovery process in order to maintain Bapepam-LK operational activities and services to the public.

The written plan will involve all information technology resources including human resources that support business function and critical operational activities. BCP covers disaster recovery plan and contingency plan. Disaster Recovery Plan (DRP) emphasizes more on technological aspects and focuses on data restoration plan and critical application and information technology infrastructure. Whereas contingency plan emphasizes on action plan to maintain operational sustainability should disturbance or disaster occurs, including anticipatory action to face the worst condition, for example, if the information technology cannot be totally restored for a while. Contingency plan covers plans to ensure the sustainability of all Bapepam-LK services to the public.

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

Action Plan



ACTION PLAN

OBJECTIVE I :

EASILY ACCESSIBLE, EFFICIENT AND COMPETITIVE SOURCE OF FUNDS

No.	Strategy and Program	Year of Implementation
1.1.	REDUCING CONSTRAINTS FOR BUSINESS COMMUNITIES TO ACCESS CAPITAL MARKET FOR SOURCE OF FUNDS	
	a. Streamlining Requirements, Processes and Procedures of Public Offerings	2010 - 2014
	b. Rationalizing Information Disclosure Obligations for Issuers	2010 - 2014
1.2.	INCREASING PUBLIC ACCESSIBILITY TO FINANCE AND GUARANTEE INSTITUTIONS	
	a. Encouraging Expansion of Finance and Guarantee Institution Networks	2010 - 2014
	b. Encouraging the Development of Finance and Guarantee Products	2010 - 2014
1.3.	IMPROVING THE ROLE of PROFESSIONALS, SUPPORTING INSTITUTIONS AND UNDERWRITERS IN PUBLIC OFFERINGS	
	a. Repositioning of Professional Functions in Public Offerings and Corporate Actions	2010 - 2014
	b. Encouraging Fair Competition among Professionals, Supporting Institutions, Underwriters and Rating Agencies	2013 - 2014

OBJECTIVE 2 :

CONDUCTIVE AND ATTRACTIVE INVESTMENT CLIMATE AS WELL AS RELIABLE RISK MANAGEMENT

No.	Strategy and Program	Year of Implementation
2.1.	INCREASING THE DISTRIBUTION AND QUALITY OF INFORMATION DISCLOSURE	
	a. Increasing the Effectiveness in the Implementation of E-Reporting	2010 - 2014
	b. Encouraging the Industry to Provide Quality Information	2010 - 2014
2.2.	ENCOURAGING DIVERSIFICATION OF CAPITAL MARKET INSTRUMENTS AND NBFI SERVICE SCHEMES	
	a. Enhancing the Flexibility of Financing Schemes and Voluntary Pension Program Benefit Payment Schemes	2010 - 2014
	b. Encouraging Development of Insurance Products that Support Long-Term Family Financial Planning	2010 - 2014
	c. Encouraging the Development of Insurance Products for Risk Mitigation Including Micro Insurance	2010 - 2014
	d. Encouraging the Development of Securitized Products and Hedging Instruments	2010 - 2014
	e. Enhancing the Availability of Retail and Small Medium Enterprises Investment Products	2010 - 2014

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

**2.3. DEVELOPING SHARIA CAPITAL MARKET AND SHARIA
NON BANK FINANCIAL INDUSTRY (NBFI)**

- | | |
|--|-------------|
| a. Developing Regulatory Framework that Supports the Development of Sharia Capital Market and Non Bank Financial Industry (NBFI) | 2010 - 2014 |
| b. Developing Sharia Capital Market and NBFI Products | 2010 - 2014 |
| c. Promoting Equality Between Sharia Based Financial Products and Conventional Financial Products | 2011 - 2014 |
| d. Enhancing the Development of Human Resources in Sharia Capital Market and NBFI | 2010 - 2014 |

2.4. IMPROVING THE EASE OF TRANSACTIONS

- | | |
|--|-------------|
| a. Encouraging the Development of Effective Marketing Channels for Insurance and Investment Products | 2010 - 2014 |
| b. Encouraging the Implementation of E-Channel in Investment Management Industry | 2010 - 2014 |

2.5. DEVELOPING SCHEME TO PROTECT INVESTORS AND CUSTOMERS

- | | |
|--|-------------|
| a. Increasing the Use of Investor Area | 2010 - 2014 |
| b. Establishing Securities Investor Protection Fund/SIPF | 2010 - 2012 |
| c. Increasing Securities Portfolios and Customers Funds Monitoring in Securities Companies | 2010 - 2012 |
| d. Developing Insurance Guarantee Scheme | 2010 - 2014 |
| e. Establishing Mediation Institution by the Pension Funds Association | 2010 - 2012 |

**2.6. DEVELOPING SECONDARY MARKET OF BONDS AND SUKUK
AS WELL AS A SUPERVISORY MECHANISM**

- | | |
|--|-------------|
| a. Developing Repurchase Agreement Market | 2010 - 2012 |
| b. Increasing Supervision of Bond and Sukuk Markets | 2010 - 2014 |
| c. Improving Infrastructure of Bond and Sukuk Trading | 2014 |
| d. Setting Benchmark for Evaluating the Credible Fair Market Price | 2014 |

OBJECTIVE 3 :

A STABLE, RESILIENT AND LIQUID INDUSTRY

No.	Strategy and Program	Year of Implementation
3.1. INCREASING MARKET PLAYERS QUALITY		
a.	Enhancing Individual Players Quality	2010 - 2014
b.	Enhancing Institutional Players Quality	2010 - 2014
3.2. ENCOURAGING GOOD CORPORATE GOVERNANCE PRACTICE		
a.	Developing Good Corporate Governance Guidelines	2010 - 2014
b.	Improving Good Corporate Governance Regulations According to International Standards	2010 - 2014

ACTION PLAN

	c. Enhancing Good Corporate Governance Implementation Quality	2010 - 2014
3.3.	IMPROVING RISK MANAGEMENT INDUSTRY CAPABILITY	
	a. Enhancing Corporate Risk Management Quality	2010 - 2014
	b. Enhancing Clearing and Settlement Guarantees Risk Management for Market Transactions	2010 - 2011
	c. Preparing Business Continuity Plan (BCP)	2011 - 2014
	d. Implementing and Developing Crisis Management Protocol (CMP)	2010 - 2013
3.4.	IMPROVING SUPERVISION CAPACITY ON INDUSTRY PLAYERS	
	a. Supporting Risk Based Supervision Implementation	2010 - 2014
	b. Developing Single Identity for Investor (Single Investor Identity/ SID)	2010 - 2014
	c. Developing and Utilizing Early Warning System on Risks Related to Securities Transactions, Market Manipulation and Insider Trading	2010 - 2014
	d. Enhancing Public Accountants and Securities Rating Agencies Supervision	2010 - 2014
3.5.	IMPROVING DOMESTIC INVESTOR BASE AND LONG TERM FUNDS	
	a. Enhancing Industry Players Role in Increasing the Number of Domestic Investors	2010 - 2014
	- Perform Continuous National Campaign Program for Capital Market Investment Along with Industry Players and SRO Association	2010 - 2014
	- Requiring stock exchange members to have a certain number of domestic client	2010 - 2014
	b. Implementing Focused and Integrated Socialization and Education	2010 - 2014
	c. Encouraging Mandatory Pension and Insurance Programs Implementation	2010 - 2014

OBJECTIVE 4 :

FAIR AND TRANSPARENT REGULATORY FRAMEWORK WHICH GUARANTEES LEGAL CERTAINTY

No.	Strategy and Program	Year of Implementation
4.1.	IMPROVING LEGAL ENFORCEMENT QUALITY	
	a. Providing Additional Authority to Obtain Important Information	2010 - 2014
	b. Improving Criminal Provisions and a More Firm Sanction Formulation	2010 - 2014
	c. Providing Additional Authority to Encourage an Effective Coordination Among Legal Enforcers Domestically and Overseas	2011 - 2014
	d. Developing Capital Market Intelligence Capability	2010 - 2014
4.2.	HARMONIZING REGULATION AMONG THE INDUSTRIES AND MEETING INTERNATIONAL STANDARD	
	a. Preparing Regulation that Grows Synergy between Capital Market and NBFI	2010 - 2014
	b. Developing and Drafting Regulations According to International Standard/ Practice	2010 - 2014

THE CAPITAL MARKET
AND NON BANK FINANCIAL
INDUSTRY MASTER PLAN
2010 - 2014

4.3. DRAFTING REGULATIONS BASED ON THE NEED AND DEVELOPMENT OF THE INDUSTRY

- | | |
|--|-------------|
| a. Encouraging the Participation of Industrial Players in the Process of Drafting the Regulation | 2010 - 2014 |
| b. Promoting Research-Based Regulation | 2010 - 2014 |

4.4. IMPROVING THE QUALITY OF FINANCIAL INFORMATION TRANSPARENCY OF PLAYERS OF CAPITAL MARKET AND NBFI

- | | |
|--|-------------|
| a. Supporting Convergence of Accounting Standard | 2010 - 2014 |
| b. Improving/Issuing Accounting Regulation According to the Statement of Financial Accounting Standard /International Standard | 2010 - 2014 |
| c. Developing Accounting Standard fo Capital Market and NBFI Players | 2010 - 2014 |

OBJECTIVE 5 :

A CREDIBLE, RELIABLE INTERNATIONAL STANDARD INFRASTRUCTURE

No.	Strategy and Program	Year of Implementation
5.1.	DEVELOPING INTEGRATED SECURITIES TRADING SYSTEM (STRAIGHT THROUGH PROCESSING)	
	a. Maximizing the Capacity of Stock Exchange Trading System	2010 - 2014
	b. Enhancing the Capacity of Clearing and Guarantee Institution System (LKP in Indonesian acronym)	2010 - 2014
	c. Enhancing the Capacity of Central Securities Depository System (LPP in Indonesian acronym)	2010 - 2014
	d. Integrating the System of Stock Exchange, Clearing and Guarantee, and Central Securities Depository with Participants	2010 - 2014
5.2.	DEVELOPING RELIABLE INFORMATION SYSTEM	
	a. Optimizing Information and Communication Technology Utilization	2012 - 2014
	b. Developing Data Center	2010 - 2014
	c. Improving Communication Information Technology Governance	2011-2014
	d. Preparing Bapepam-LK Business Continuity Plan	2014

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