

## **ATTACHMENT**

Decision of the Chairman of Capital  
Market Supervisory Agency

Number : Kep-26/PM/1999

Date : December 31, 1999

### **RULE NUMBER V.D.4 : CONTROL AND PROTECTION OF SECURITIES ON DEPOSIT WITH A SECURITIES COMPANY**

#### 1. Definitions:

- a. Securities Ledgers are records with respect to Securities that are on deposit with or that belong to a Securities Company that are maintained in double entry form, indicating long and short positions and the location of such Securities.
- b. Securities Under the Direct Control of a Securities Company are Securities posted to the Securities Ledgers in the following positions:
  - 1) Securities in safekeeping in the Custodian Division of the Securities Company;
  - 2) Securities kept in a safe deposit box rented by the Securities Company in a Custodian Bank;
  - 3) Securities in a Securities Account in the name of the Securities Company in a Custodian Bank;
  - 4) Securities in a Securities Account in the name of the Securities Company in the Central Securities Depository.; or
  - 5) Securities receivable from an Issuer or Securities Administration Agency with a receipt of the Issuer or Securities Administration Agency that has been issued or confirmed within the last 15 days;
- c. Segregated Securities are Securities Under the Direct Control of the Securities Company that belong to clients of the Securities Company, i.e.:
  - 1) Securities that are kept in a safe or strong room and are clearly labeled as Securities belonging to clients of the Securities Company; or
  - 2) Securities that are in a Securities Account in a Custodian Bank or Central Securities Depository in the name of the Securities Company, but with an indication on the Securities Account that such Securities belong to clients of the Securities Company.
- d. Securities Differences are the number of Securities posted to the Securities Ledgers that indicate:
  - 1) an overage or shortage that has been found when counting Securities, such as the counts that are required by item 2 letter b of Bapepam Rule V.D.3;

- 2) an overage or shortage that has been found in the daily reconciliation between the General Ledgers and the Securities Ledgers, as is required in item 14 letter k of Bapepam Rule V.D.3; or
  - 3) an overage or shortage found in the daily reconciliation of the balance between the debits and credits of the Securities Ledgers as required in item 15 letter e of Bapepam Rule V.D.3.
- e. A Long Position is a debit balance in a certain account in the Securities Ledgers that indicates the amount of Securities that belong to the Securities Company or the number of Securities that must be delivered by the Securities Company to a client.
  - f. A Short Position is the credit balance in a certain account in the Securities Ledgers that indicates the number of Securities that have been sold but not yet purchased by the Securities Company, or the number of Securities that have been sold by a client but not yet delivered by the client to the Securities Company.
  - g. Collateralization Limitation for Clients is the maximum value of Securities and or credit balances that may be retained by a Securities Company as guarantee for open orders and other obligations of a client other than obligations registered in a margin account.
  - h. Free Securities are Securities that are posted as Long Positions in the Securities Ledgers of clients of the Securities Company that are in excess of the Collateralization Limit for Clients and that may be withdrawn by the client from the Securities Account at any time.
  - i. Collateral Securities are Securities that are in the Securities Account of a client of a Securities Company in a Long Position and that are not Free Securities.
2. Posting to Securities Ledgers
- a. A Debit balance in the Securities Ledgers indicates the ownership of Securities in such accounts as:
    - 1) Reselling Agreements;
    - 2) Long Positions in the Securities Company's Portfolio;
    - 3) Long Positions in Securities Accounts of clients;
    - 4) Securities Deliverable to other Securities Companies or to the Clearing Guarantee Institution;
    - 5) Securities belonging to General Clients;
    - 6) Securities belonging to Institutional Clients;
    - 7) Securities lent;
    - 8) Securities purchase transactions;
    - 9) Fails to deliver; or
    - 10) Securities overages that are under investigation on Securities Ledgers.

- b. A credit balance in the Securities Ledgers indicates the location of Securities in such accounts as:
- 1) Securities in the Custodian Division;
  - 2) Securities in a safe deposit box rented by the Securities Company in a Custodian Bank;
  - 3) Securities in a Securities Account in a Custodian Bank;
  - 4) Securities in a Securities Account with the Central Securities Depository;
  - 5) Securities in the Issuer or Securities Administration Agency;
  - 6) Securities as collateral to a bank loan or loan from another financial institution;
  - 7) Securities in transit between offices of the Securities Company;
  - 8) Securities in transit to other Securities Companies, Bank Custodians, the Clearing Guarantee Institution; or the Central Securities Depository, when proof of receipt has not yet been received;
  - 9) Securities receivable from foreign Securities Companies not licensed by Bapepam;
  - 10) Securities Accounts of Non-Clearing Members;
  - 11) Securities with Issuers or Securities Administration Agencies not confirmed in the last 15 days;
  - 12) Securities receivable from Issuers as a result of distribution of rights, such as stock dividends or preemptive rights on the record date;
  - 13) Securities repurchase agreements;
  - 14) Sales transactions;
  - 15) Securities sold but not yet purchased (Short Positions);
  - 16) Securities receivable from Securities Companies or the Clearing Guarantee Institution;
  - 17) Fails to receive;
  - 18) Securities receivable from General Clients;
  - 19) Securities receivable from Institutional Clients;
  - 20) Short positions in clients' accounts; or
  - 21) Securities Shortages that are under investigation on Securities Ledgers;
- c. Securities Ledgers must be maintained and reconciled each day with respect to the balances for each type of Securities and any overages or shortages must be posted to the Difference Accounts.
- d. Posting to the Securities Ledgers shall consist of:

- 1) the number of Securities in the case of shares, preemptive rights, warrants, and investment fund units;
  - 2) the par value of bonds, commercial paper, Bank Indonesia Certificate, and other debt instruments; and
  - 3) the number of contracts in the case of options, futures, and other standardized Securities contracts.
- e. Securities Ledgers must show separate balances for each type of Security.
- f. Each type of Security must be identified with an International Standard Identification Number (ISIN).
- g. Transactions that must be posted daily in the Securities Ledgers include changes in ownership status or location for Securities owned by the Securities Company or its clients, as follows:
- 1) the purchase or sale of Securities for the Securities Company's portfolio or for the account of clients;
  - 2) lending and borrowing of Securities;
  - 3) receipt and delivery of Securities;
  - 4) fails to deliver and fails to receive Securities;
  - 5) movements of Securities from one location to another; or
  - 6) Securities that arise from the distribution of entitlements by Issuers, such as Preemptive Rights or stock dividends.
- h. The purchase and sale of Securities for the account of the Securities Company must be posted as of the date the transaction binds the Securities Company.
- i. The purchase and sale of Securities for the account of clients must be posted as Long or Short Positions as of the contractual settlement date.
- j. Securities that are deliverable or receivable to or from another Securities Company or Institutional Client without a Securities account must be posted as of the date the trade becomes binding.
- k. Fails to deliver and fails to receive must be posted as of the contractual settlement date, if the trade is not settled, as of the actual settlement date, when settled.
- l. Movement of Securities between physical locations must be posted as of the date of the movement.
- m. Aging analysis of positions in the Securities Ledgers must be done daily.
- n. The Securities Ledgers must indicate aging of up to 15 days and more than 15 days in the following positions:
- 1) Securities receivable from Issuers and Securities Administration Agencies;
  - 2) Fails to receive or fails to deliver;

- 3) Securities in transit; or
    - 4) Securities differences.
  - o. Securities Companies must prepare a daily summary of all postings to the Securities Ledgers describing the basis for new balances in each sub-account of the Securities Ledgers.
  - p. Short and Long Positions in the Securities Ledgers must be identified with the Securities Account number of each respective clients.
  - q. Debit and Credit Balances in accounts that indicate Securities receivable and Securities deliverable to other Securities Companies, Custodian Banks, Issuers, Securities Administration Agencies, the Clearing Guarantee Institution, the Central Securities Depository, or other financial institutions must be indicated separately for each such Person.
  - r. Securities Ledgers must indicate sub-accounts for each Security with Long Positions of clients, as follows:
    - 1) Free Securities; and
    - 2) Collateral Securities.
  - s. Securities Ledgers must indicate Safekeeping Accounts separately from Securities Accounts.
3. The Obligation of Securities Companies to get Direct Control Over Securities of Clients
  - a. Securities Companies must take swift and effective action to ensure that Securities in Long Positions in clients Securities Accounts are under the Direct Control of the Securities Company.
  - b. Free Securities that are not under the Direct Control of the Securities Company in fifteen days must be replaced with Securities bought-in by the Securities Company.
  - c. Securities Companies may extend the 15 day period before effecting the buy-in mentioned in letter b above, provided that:
    - 1) the Securities Company has already set aside an amount of cash equal to the market value of Securities not in Direct Control of the Securities Company in a special escrow account (qq) in a bank to guarantee Free Securities that are not yet under Direct Control; and
    - 2) the Securities Company is actively taking effective steps to ensure that the Securities come under its Direct Control.
4. Segregation of Clients' Securities
  - a. Securities Companies must calculate each day the amount of Free Securities and Collateral Securities, as follows:
    - 1) the Collateral Limit is 150%;

- 2) this calculation must be done by the Credit Officer in the Division of Orders and Trading;
    - 3) based on this calculation, the Credit Officer must instruct the Custodian Division to separate Segregated Securities in the amount of at least equal to that of Free Securities; and
    - 4) based on this calculation, the Credit Officer shall instruct the Accounting Division as to the amounts to be posted as Free Securities and Collateral Securities in the Long and Short Positions of clients.
  - b. Based on the instruction of the Credit Officer, the Custodian Division must increase or decrease the amount of Segregated Securities, as follows:
    - 1) for Securities in physical form that are in custody, the changes (increase or decrease) must be done physically; or
    - 2) for Securities with a Bank Custodian or Central Securities Depository, the changes (increase or decrease) must be done by issuing instructions to the Custodian to transfer Securities from one account to another.
5. Posting and Settlement of Securities Differences
  - a. Securities Differences must be posted daily;
  - b. The Securities Company must immediately undertake an investigation with the necessary steps to find the causes and resolve the Securities Differences; and
  - c. Securities Differences that are not settled in 15 (fifteen) days must be resolved by a buy-in.
6. Daily Evaluation of the Securities Ledgers
  - a. The Fair Market Value of the following types of Securities must be valued each day:
    - 1) Bank Indonesia Certificate or other debt instruments issued by the Indonesian Government;
    - 2) commercial paper issued by Indonesian companies that have been rated by a rating agency licensed by Bapepam;
    - 3) equity Securities listed on Indonesian Securities Exchange;
    - 4) debt Securities listed on Indonesian Securities Exchange;
    - 5) other Securities as an object of Registration Statement to Bapepam and Securities that have to meet continuous disclosure requirements; or
    - 6) Securities that are listed and actively traded, with daily quotations, in foreign Securities Exchanges.
  - b. The value of the portfolio accounts in the General Ledger must be adjusted daily to reflect Fair Market Value and posted to the following control accounts:
    - 1) Bank Indonesia Certificate or other debt instruments issued by the Indonesian Government;

- 2) commercial paper and other evidences of indebtedness, issued by Indonesian companies that have been rated by an Indonesian Securities rating agency;
  - 3) Securities listed on an Indonesian Securities Exchange;
  - 4) debt instruments listed on an Indonesian Securities Exchange;
  - 5) other Securities registered with Bapepam that must meet continuous disclosure requirements; or
  - 6) Securities that are listed and actively traded, with daily quotations, in foreign Securities Exchanges and the market price is available every day in Indonesia.
- c. The Fair Market Value of Long and Short Positions in the Securities Accounts of clients must be summarized as follows:
- 1) the value of Long Positions of affiliated clients;
  - 2) the value of Long Positions of non-affiliated clients;
  - 3) the value of Short Positions of affiliated clients;
  - 4) the value of Short Positions of non-affiliated clients;
  - 5) the value of Free Securities of affiliated clients;
  - 6) the value of Free Securities of non-affiliated clients;
  - 7) the value of Collateral Securities of affiliated clients; or
  - 8) The value of Collateral Securities of non-affiliated clients.
- d. The Fair Market Value of Securities Under Direct Control of the Securities Company must be summarized and posted to the following control account:
- 1) Securities in the Custodian Division;
  - 2) Securities in a safe deposit box at Custodian Bank;
  - 3) Securities in a Securities Account at Custodian Bank;
  - 4) Securities in a Securities Account at the Central Securities Depository; or
  - 5) Securities at Issuers or Securities Administration Agencies.
7. Responsibility of Directors of Securities Companies for Securities Ledgers
- a. Securities Companies must report to Bapepam the names of two directors that are responsible for supervising the daily posting to Securities Ledgers, assuring that client's Securities are under the Direct Control of the Securities Company, grouping into Segregated Securities, resolving the Securities Differences and buying-in of Securities for replacing securities as required in this rule; and
  - b. One of these two directors must sign the daily Net Adjusted Working Capital report that is filed in the records of the Securities Company, and the two directors must sign the Net Adjusted Working Capital report that is submitted to Bapepam each month.

Enacted in : Jakarta  
Date : December 31, 1999

Chairman of Capital Market Supervisory Agency

Signed

Jusuf Anwar  
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Based on the original document  
Executive Secretary

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