

**RULE NUMBER III.B.6 : EXCHANGE TRANSACTION SETTLEMENT  
GUARANTEE**

**Attachment**

Decision of the Chairman of Bapepam

Number : Kep-25/PM/2000

Date : June 30, 2000

1. Definition

- a. Exchange Transaction is a contract made by the Exchange Members in compliance with terms required by the Stock Exchange regarding buying and selling of Securities, lending and borrowing of Securities, or other contracts concerning Securities or Securities price.
- b. Clearing is a process to determine the rights and obligations raised from an Exchange Transaction.
- c. Netting is a clearing activity, which raises rights and obligations for every clearing member to deliver or receive certain balance of certain securities and to receive or pay certain amount of fund for every Security transacted.
- d. Exchange Transaction Settlement Guarantee is the obligation of Clearing Guarantee Institution to immediately and directly take over the responsibility of any clearing member, which fails to fulfill its obligation regarding Exchange Transaction Settlement and to settle the transaction in the same time and terms required for the respective clearing member.
- e. Guarantee Account is Securities Account of clearing members in the Clearing Guarantee Institution, which can be used by Clearing Guarantee Institution to settle Exchange Transaction or to settle obligation of the clearing member to the Clearing Guarantee Institution.
- f. Guarantee Reserve is an accumulated fund originated from operational allowance surplus by Clearing Guarantee Institution and income from Guarantee Fund management service in the form of cash and cash equivalents used to pay for the Exchange Transaction Settlement Guarantee.
- g. Guarantee Fund is a pool of fund and or Securities administrated and managed by Clearing Guarantee Institution, which can be used to pay for the Exchange Transaction Settlement Guarantee by Clearing Guarantee Institution.
- h. Credit Network is clearing members which are, either individually or collectively, required to fulfill the obligation of Clearing Guarantee Institution regarding the Exchange Transaction Settlement Guarantee regulated by this rule and Rule number III.B.7 concerning Guarantee Fund.

2. Securities Exchange is required to regulate every kind of Exchange Transaction referred to in item 2 of Rule No. III.A.10 concerning Securities Transaction, and to make contract with Clearing Guarantee Institution concerning the procedures of Exchange Transaction Settlement Guarantee, which contains the following provisions:
  - a. Clearing Guarantee Institution may determine which clearing member is allowed to execute transaction and which clearing member is forbidden to execute exchange transaction according to the result of guarantee risk analysis.
  - b. Securities Exchange must ensure Clearing Guarantee Institution to have facilities to analyze the clearing member risk level and have the right to approve or disapprove every order prior to order execution in Securities Exchange.
  - c. Clearing Guarantee Institution may object at every time, without prior warning or hearing, to approve any new order of Securities Transaction from any clearing member according to the result of guarantee risk analysis.
  - d. Clearing Guarantee Institution has the right to obtain any information regarding the Guarantee account of every clearing member and is required to have the facilities to receive the related information every time, as well as to stipulate the requirement of guarantee which has to be maintained in the account, without any approval from Securities Exchange.
  - e. Clearing Guarantee Institution is required to obligate any clearing member to deliver its Securities Exchange shares held as collateral.
  - f. Clearing Guarantee Institution may require the clearing members to ensure any substantial shareholder of clearing members to deliver its clearing member shares that it holds as collateral resulting from clearing members' obligation to Clearing Guarantee Institution.
  - g. Clearing Guarantee Institution is required to obligate every clearing member to bear responsibility of credit network according to this rule.
3. Clearing Guarantee Institution is responsible for the losses suffered by any Person as a result of the delay of Exchange Transaction settlement guaranteed by Clearing Guarantee Institution.
4. Directors and/or Commissioners of Clearing Guarantee Institution may be asked for responsibility, either individually or collectively, for the losses suffered by Clearing Guarantee Institution or any other Person, as a result of regulatory negligence or violation, which cause Clearing Guarantee Institution's default to meet the obligation of Exchange Transaction Settlement Guarantee.
5. In performing the function of Exchange Transaction Settlement Guarantee, Clearing Guarantee Institution establishes a Guarantee Reserve, with the following provisions:
  - a. The source of Guarantee Reserve is originated from main operational allowance surplus of Clearing Guarantee Institution and income of Guarantee Fund investment management of as stipulated in item 12 of Rule Number III.B.7.
  - b. The amount of operational allowance surplus allocated in Guarantee Reserve, which is originated from the current year main operational revenue of Clearing Guarantee Institution, is determined by the General Meeting of Shareholder.
  - c. The amount of revenue originated from Guarantee Fund investment management service should be 100% (one hundred percent) allocated into Guarantee Reserve.

- d. The utilization of Guarantee Reserve does not require approval from the General Meeting of Shareholder.
6. Obligation of Clearing Guarantee Institution with regard to Exchange Transaction Settlement Guarantee has to be accomplished with source of fund, manner and sequence as follow:
  - a. Source of fund of clearing member who fails to settle the Securities transaction;
  - b. Securities and or fund in Guarantee Account of the default clearing member;
  - c. The Guarantee Reserve and or bank credit, whenever determined necessary by the directors of Clearing Guarantee Institution;
  - d. The fund raised from the selling of Securities in the Guarantee Account of default clearing member, after Clearing Guarantee Institution settles the default Exchange Transaction;
  - e. The process of selling of the Securities Exchange shares owned by clearing members and or shares of clearing member securities company which are owned by the majority of its shareholders has started;
  - f. Guarantee Fund, if the source of fund, manner and the sequence above mentioned referred to in point a, point b, point c and point d has been utilized, but not sufficient and if any legal action which result in clearing member insolvency has started, and after the clearing member membership in the securities exchange has been terminated;
  - g. Source of fund originated from other Credit Network Members, if the entire source of fund above have been utilized but are not adequate, with the following distribution:
    - 1) 20% (twenty per cent) of the amount needed to pay for the obligation of Clearing Guarantee Institution is equally divided among the rest of Credit Network members;
    - 2) 80% (eighty per cent) of the amount needed to pay for the obligation of Clearing Guarantee Institution is proportionally divided among the rest of Credit Network members based on the clearing value of each respective Credit Network member within the last six month; and
    - 3) The amount of fund which has not been paid within 30 (thirty) days by certain Credit Network members is again divided among the rest of Credit Network members in accordance to the provisions in point 1) and 3) mentioned above, in condition that a legal action for statement of bankruptcy for any Credit Network member which does not pay has been initiated by Bapepam based on request from Clearing Guarantee Institution.
7. The result of the selling of Securities Exchange shares owned by any clearing member or shares of Securities Exchange member, which is also a clearing member, that are owned by its shareholders referred to in point 6 letter e must be used to complete the required fund necessary for the Exchange Transaction Settlement referred to in point 6 mentioned above.
8. Credit Network members must designate 5 (five) directors of clearing members that come from unaffiliated Securities Companies as members of Risk Management and Credit Policy Committee, to recommend the risk management policy of Exchange

Transaction Settlement Guarantee to the directors and commissioners of Clearing Guarantee Institution and to oversee its execution, with the requirement as follow:

- a. The committee of credit policy and risk management must hold a meeting at least once a month and must make minute for the meeting.
  - b. Directors of Clearing Guarantee Institution shall report to the committee of credit policy and risk management, in a manner that has been determined by the committee of credit policy and risk management, so that the committee has sufficient information in order to recommend and supervise the policy of risk management of Exchange Transaction Settlement Guarantee.
  - c. The committee of credit policy and risk management shall recommend the directors and commissioners of Clearing Guarantee Institution and the shareholders concerning the percentage of operational surplus of Clearing guarantee Institution that should be allowed to establish Guarantee Reserve.
9. The directors of Clearing Guarantee Institution are responsible for ensuring that all of the Exchange Transaction orders from clearing member prior to execution have sufficient collateral in guarantee account of respective clearing member and the respective account may be controlled for the settlement of the clearing member obligation to Clearing Guarantee Institution, with the following requirement:
- a. The collateral should be in the form of securities and or fund stored in the Guarantee Account, which can be used directly to settle the obligation of the default clearing member.
  - b. Securities, which can not be sold immediately, or are temporary suspended for any transaction, can not be used as collateral in the Guarantee Account, except to secure the settlement of securities selling itself.
  - c. Clearing Guarantee Institution should require the clearing members to deliver additional collateral to the guarantee Account, in case the market price of the collateral falls below the collateral value limit determined by the committee of credit policy and risk management, and the Clearing Guarantee Institution has the right to reject the Exchange Transaction order from the clearing member until the additional collateral is fulfilled.
  - d. Clearing Guarantee Institution should reject the new Exchange Transaction order from any clearing member that has debit balance or fail to deliver securities to Clearing Guarantee Institution, until the obligation is fulfilled.
10. Violations of the provisions of this rule are subject to sanctions provided in the Capital Market Law and rules and regulations thereunder.