New Business Initiatives:
Central Counterparty for Over-the-Counter Interest Rate and Exchange Rate Derivatives Transactions
Agenda:

1. Background: CCP for OTC Derivatives Products
2. The Benefits
3. IDClear Preparation
Background
CCP for OTC Derivatives Products
The Beginning of CCP for OTC Derivatives

2008
Global Financial Crisis:
High volume of OTC derivative transactions were not monitored and regulated by the relevant authorities

2009
Pittsburgh, US:
G20 meeting regarding to OTC Derivative market reforms

2011
Cannes, France:
G20 meeting: additional aspects to OTC Derivative market reform agenda

2018
Indonesia
Indonesia’s response to G20 recommendations: establishment of CCP OTC Derivative’s Taskforce
(Source: Bank Indonesia)

Recommendations from the G20 Meetings in 2009 & 2011, as follows:

- All standardized OTC derivative transactions must be traded on exchange or ETP & cleared through CCP
- All OTC derivative transactions must be reported to Trade Repository (TR)
- Any derivative transactions uncleared through CCP must be subject to higher margin & capital requirements

Source: Blueprint of Money Market Development 2025
G-20 Countries Initiatives

as responses to G20 OTC Derivative Market Reforms

**US:** Issued law & regulation named Dodd-Frank Act (DFA)

**EU:** Issued law & regulation named European Market Infrastructure Regulation (EMIR)

**Japan:** Established CCP by providing clearing services (covering IRS & CDS) through JSCC

**India:** established CCP to give clearing services for forex settlement and interest rate derivatives segments through CCIL
Journey to Establish CCP OTC Derivatives in Indonesia

“By now, 18 of the 24 Financial Stability Board (FSB) member jurisdictions have provided for mandatory central clearing frameworks in place, covering at least 90 percent of all standardized OTC derivatives in their jurisdictions.”
- IMF Working Paper WP/22/14, January 2022-

2018
Establishment of CCP OTC Derivatives’ Taskforce

- Issuance of Bank Indonesia Regulation (21/11/PBI/2019) regarding CCP for OTC Interest Rate and Exchange Rate Derivative Transactions

2019

2020

- IDClear got Principle Approval from Bank Indonesia as CCP for OTC Derivatives
- Blueprint of Money Market Development 2025: CCP Implementation is included as Money Market Development Roadmap and being one of the priority

2021 - now

- IDClear submitted an application for Operating License to Bank Indonesia
The Benefits a CCP for OTC Derivatives Products
Benefits of Clearing through CCP

<table>
<thead>
<tr>
<th><strong>Clearing through a Qualified CCP</strong></th>
<th>provides a lower risk weight than clearing through a non-qualified CCP.</th>
</tr>
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<tbody>
<tr>
<td><strong>Standardized and enhanced</strong></td>
<td>risk management roles.</td>
</tr>
<tr>
<td><strong>Transparency and monitoring</strong></td>
<td>of OTC derivative transactions</td>
</tr>
<tr>
<td><strong>Netting Efficiency:</strong></td>
<td>operational efficiency benefits through the multilateral netting function.</td>
</tr>
<tr>
<td><strong>Collateral Efficiency:</strong></td>
<td>The CCP manages collateral based on PFMI standard where accepted collateral by FMI must have low credit risk, liquidity risk, and market risk</td>
</tr>
<tr>
<td><strong>Counterparty Risk Efficiency:</strong></td>
<td>the counterparty risk arising from transactions can be mitigated through CCP</td>
</tr>
<tr>
<td><strong>Capital Efficiency:</strong></td>
<td>the CCP function (margin management, netting and settlement) may increase the operational efficiency, reduce member costs, and reduce legal risk in terms of providing centralized rules.</td>
</tr>
<tr>
<td><strong>Integrated Monitoring:</strong></td>
<td>The transaction cycle can be monitored in an integrated manner through CCP system</td>
</tr>
</tbody>
</table>
IDClear Preparation
to be a CCP for OTC Derivatives Products
IDClear Preparation as CCP for OTC Derivatives

Research & Discussion

System Development

Structuring Rulebook

System Hands-on

Intensive group discussions with Market Players and Regulator (IFEMC, BI), consultant hiring, internal research

Clearing system; Risk Management System; Trading Gateway; BI Gateway; Connectivity Test with Central Bank System

Scoping: Collateral Management, Trade Management, Accounts segregation, Clearing & Settlement, Membership, Fee, and so on

With market players as potential participants
IDClear Preparation as CCP for OTC Derivatives: CCP Functions

**Membership**

- 2 types of members:
  - Individual Clearing Member
  - General Clearing Member

**Collateral Management**

- Accept collateral in form of Cash and Government Securities

**Clearing & Settlement**

- Account segregation in IDClear Omnibus Account:
  - Settlement Account
  - Collateral Account
  - Default Fund Account
  - KPEI’s Internal Account

**Risk Management**

- developed a Risk Management Framework consisting of various risk control tools.

**CCP Functions**

- Clearing Components:
  - Variation Margin
  - Price Alignment Amount
  - Fees & Charges
  - Default Fund Contribution
  - Minimum Cash Maintenance
General Process Flow of OTC Derivatives Transactions

The functions in which FMI is involved in implementing the OTC Derivatives Market Reform mandate based on figures below:

- **Payment System Providers**: BI-Real Time Gross Settlement System (BI-RTGS)
- **CSD & securities settlement system**: BI-Scriptless Securities Settlement System (BI-SSSS)
- **Central Counterparty**: IDClear
- **Trade Repository**: (currently being developed within the regulatory framework of Bank Indonesia)
Indonesia CCP’s Product Development Plan
for OTC Interest Rate and Exchange Rate Derivatives Transactions

OTC Derivatives through CCP

- Foreign Exchange
  - Domestic – Non Deliverable Forward
  - FX Forward
  - FX Swap

- Interest Rate
  - Interest Rate Swap
  - Overnight Index Swap

Phase I

Phase II

Plan for Next Phase
### D-NDF Transactions in Indonesia (2018 - 2022)

**Summary**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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<tbody>
<tr>
<td><strong>Total</strong></td>
<td>$855,790.23</td>
<td>240</td>
<td>$14,177,466.00</td>
<td>1233</td>
<td>$31,560,333.74</td>
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<td><strong>Highest</strong></td>
<td>$649,313.88</td>
<td>161</td>
<td>$2,663,853.14</td>
<td>183</td>
<td>$4,424,022.63</td>
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<td><strong>Lowest</strong></td>
<td>$0.00</td>
<td>0</td>
<td>$451,825.00</td>
<td>53</td>
<td>$778,231.37</td>
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<tr>
<td><strong>Mean</strong></td>
<td>$71,316.00</td>
<td>20</td>
<td>$1,181,455.00</td>
<td>103</td>
<td>$2,630,028.00</td>
</tr>
</tbody>
</table>

**Transactions in Indonesia (2018 - 2022)**
Thank you