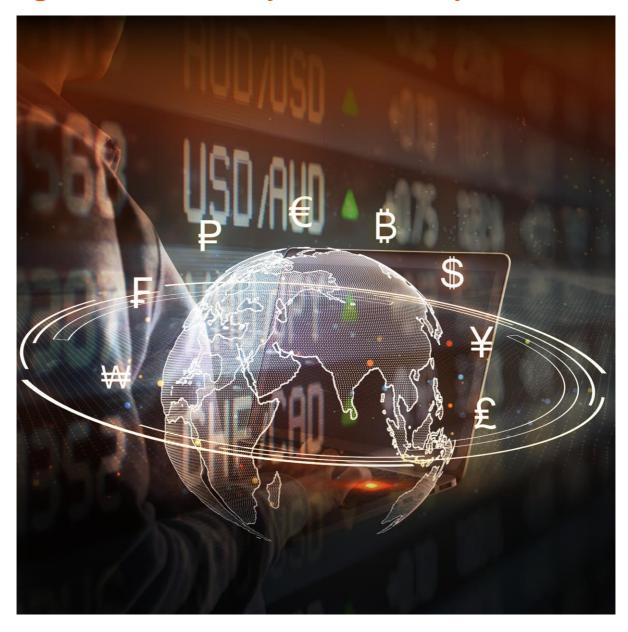


Indonesia Client Update

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BANKING, FINANCE & PROJECT

Enhancing Bank Indonesia's Authority in Foreign Exchange Management: A Proactive Step to Safeguard Financial System Stability



On 16 December 2024, Bank Indonesia ("**BI**") issued BI Regulation No. 9 of 2024 on the Management of Foreign Exchange Traffic ("**Regulation**"), which came into force on 23 December 2024. This Regulation establishes a comprehensive framework for managing *lalu lintas devisa* ("**LLD**") or foreign exchange traffic, which is the flow of foreign currency into and out of Indonesia. While the existing foreign exchange regulatory framework and LLD reporting procedures remain unchanged, the Regulation consolidates existing rules under a single umbrella, providing a structured approach to LLD management.

BI's authority to manage LLD derived from Law No. 24 of 1999 on Foreign Exchange Traffic and the Exchange Rate System, and was further strengthened by Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (often called the PPSK Law). The PPSK Law mandates BI to issue implementing regulations related to LLD management.

The Regulation aims to support: (1) Rupiah stability, a robust payment system, and financial system stability to promote sustainable economic growth; (2) macroeconomic stability and the prevention and management of financial system crises; and (3) the smooth flow of international trade, investment, and payments.

Specifically, the Regulation addresses:

- LLD reporting, monitoring, and supervision.
- Policy responses to LLD fluctuations.
- BI's coordination with relevant authorities.
- Administrative sanctions for non-compliance with these requirements.

Below is an overview of the specific changes and authorities introduced by the Regulation.

What's New?

The Regulation strengthens BI's oversight and management capabilities related to foreign exchange traffic by granting BI greater access to information and data. This enhanced authority allows BI to take a more proactive and comprehensive approach to LLD management. Specifically, the Regulation introduces the following new authorities for BI concerning LLD:

- Authority to impose administrative sanctions for non-compliance with LLD reporting requirements, including payment obligations. This includes the power to determine additional sanctions as needed.
- Enhanced monitoring of LLD activities to assess and maintain financial system stability.
- Authority to develop and implement policy responses to address LLD-related risks and optimise the benefit
 of LLD.
- Mandate to coordinate with relevant authorities on matters related to LLD activities.
- Authority to access relevant information systems and take supervisory actions, including enforcement measures, against residents engaged in LLD activities.

To effectively exercise these authorities, the Regulation clarifies the scope of BI's LLD management by defining the following key categories of foreign exchange transactions:

- **Current account:** Encompasses transactions related to the import and export of goods and services, as well as primary income (e.g. wages, interest, dividends) and secondary income (e.g. remittances, aid).
- Capital account: Includes capital inflows and outflows, such as foreign direct investment and loans.
- **Financial account:** Covers transactions involving direct investment, portfolio investment (e.g. stocks and bonds), financial derivatives, and other types of investments.
- Other foreign exchange transactions: Includes any other foreign exchange transactions as determined by BI.

Reporting, Monitoring and Supervision

In line with existing regulations, the Regulation establishes LLD reporting obligations, requiring all Indonesian residents to submit complete, accurate, and timely information and data on their LLD activities. This can be done directly or through a third party designated by BI. The Regulation also allows for alternative reporting mechanisms, beyond standard LLD reports, as determined by BI.

Building on this, BI now has an enhanced mandate to monitor LLD developments. This monitoring uses data and statistics from LLD reports, as well as information gathered from other sources, such as news, AI, and cloud computing. This comprehensive monitoring plays a crucial role in assessing the benefits and risks associated with LLD and contributes to BI's integrated financial system stability assessments, both under normal and crisis conditions.

BI also conducts supervisory oversight of parties involved in LLD activities, in accordance with existing regulations. As part of this oversight, BI may require residents involved in LLD to provide: (1) explanations, evidence, records, and/or supporting documentation; (2) access to relevant information systems; and (3) other necessary information or materials.

These enhanced authorities empower BI with broader supervisory powers over LLD activities. Given its right to access information systems and take necessary supervisory actions, residents should be aware that non-compliance with these supervisory obligations may result in administrative sanctions, such as written warnings.

Policy Responses

The Regulation empowers BI to develop and implement policy responses for LLD management. These policy responses are designed to maximise the benefits of LLD while mitigating potential risks. All parties involved in LLD activities are required to comply with these policy responses.

Failure to comply with the policy responses may result in administrative sanctions, including written warnings, financial penalties, and other sanctions as determined by BI.

BI Coordination with the Relevant Authorities

To maximise the effectiveness of LLD management, BI will coordinate with relevant government authorities, institutions, and other stakeholders. This coordination involves sharing BI's assessment results, implemented policy responses, and recommendations for LLD management policies. This collaborative effort will focus on:

- Monetary and fiscal policy coordination.
- Policies to maintain financial system stability.
- Policies to ensure the smooth flow of trade and financing of the national economy.
- Other areas of policy coordination as needed.

Key Implications and Next Steps

Regulation clarifies and strengthens Bl's authority over foreign exchange traffic management. While the existing regulatory framework and reporting procedures remain largely unchanged, the enhanced focus on monitoring, policy responses, and inter-agency coordination signals a more proactive approach by Bl. Businesses should carefully review their LLD activities, ensure compliance with reporting obligations, and stay informed about potential policy adjustments.

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