



Draft Design and Monitoring Framework

Project Number: 32507
September 2007

Republic of Indonesia: Capital Market Development Program Cluster (Subprogram I)

A design and monitoring framework is an active document, progressively updated and revised as necessary, particularly following any changes in project design and implementation. In accordance with ADB's public communications policy (2005), it is disclosed before appraisal of the project or program. This draft framework may change during processing of the project or program, and the revised version will be disclosed as an appendix to the report and recommendation of the President.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators ¹	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Greater financial sector diversification and resilience</p>	<p>Increase in nonbank financial sector's share of total financial sector assets from 20% to 25% from 2005 to 2009</p>	<p>Reports and statistics published by BI, MOF, and SROs</p>	<p>Assumptions</p> <p>Macroeconomic stability</p> <p>Sustained strong commitment of the Government to capital sector reforms</p> <p>Political stability</p> <p>Resistance to reforms from vested interest</p> <p>Risks</p> <p>Exogenous economic shocks</p>
<p>Outcomes</p> <p>Increased contribution by the capital market to domestic financing</p>	<p>Increase in market capitalization by 30% from 2006 to 2009</p> <p>A doubling of the number of individual holders of market securities, equity and government bonds, including through mutual funds from 2006 to 2009.</p>	<p>Reports and statistics published by BI, MOF, and SROs</p> <p>ADB review mission</p>	<p>Assumptions</p> <p>Sustained public confidence</p> <p>Risks</p> <p>Delays in legislative changes</p> <p>Ability of Bapepam LK to coordinate effectively with all the agencies involved</p> <p>Absorptive capacity in Bapepam-LK</p>
<p>Outputs</p> <p>1. Enhancing information disclosure and improving price discovery</p> <p>Strengthen price information disclosure</p> <p>Enhance market valuation of fixed income instruments.</p> <p>2. Deeper and more liquid financial</p>	<p>Bond pricing agency established by 2008</p> <p>Reduction in spreads from 20-30 basis points to under 10 basis points in the Benchmark issues of Government bonds from 2006 to 2009</p>	<p>Bapepam-LK and industry reports</p> <p>Market reports and feedback Bapepam reports ADB review misisions</p>	

¹ In the absence of a timeframe it is expected that the indicated outputs will occur latest by end of the Program period

Design Summary	Performance Targets/Indicators ¹	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>markets</p> <p>Development of government bond market</p> <p>Development of new market products including hedging instruments.</p> <p>Improved market liquidity</p> <p>Enhanced performance of contractual savings industry.</p> <p>3. Improving market surveillance and investor protection</p> <p>Strengthened autonomy,</p>	<ul style="list-style-type: none"> • Benchmark for 3, 5, 7, 10,15 and 20 year bonds created- 2007-2009 • T-Bills issued for maturities ranging from 12 months down to one month--2007-2008. • Increased number of new products issued such as Shariah based investment products, asset backed securities, exchange traded funds, , municipal bonds and other derivative products such as stock options-2007-2009 • Increase in number of listed companies by 15 percent to 400-by 2009 • Increase in number of IPOs- percentage of IPOs to market captilization increased by 1.5% to 2% per year by 2009 • Increase in issues of corporate securities from Rp68 trillion in 2006 to Rp100 trillion in 2009, an increase of 47 percent • Trading value/market capitalization increased by 5-7% every year • Assets of private pension funds increased by 5-7% every year. Private Gross premium to GDP increased from 1.6% to 2% by 2009. <p>Regulatory framework for strengthening Bapepam-LK to provide more financial flexibility and operational autonomy implemented. Draft</p>	<p>Market reports/ Bapepam reports</p> <p>MOF/DMO data Announcement of offerings on BI website</p> <p>Bapepam LK reports' SRO reports</p> <p>Bapepam LK reports SRO reports</p> <p>JSE annual reports Bapepam LK annual reports Industry feedback</p> <p>JSE annual reports Bapepam LK annual reports Industry feedback</p> <p>JSE annual reports Bapepam LK annual reports Industry feedback</p> <p>Bapepam LK reports Pension industry/Association report</p> <p>Draft laws/Bapepam-LK reports</p>	<p>Assumptions Market for such products</p> <p>Assumptions Propensity to save for old-age</p>

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<p>accountability, and powers of Bapepam-LK</p> <p>Increased investor confidence and investment in capital market products</p> <p>Improved governance in stock exchange through merger of the two stock exchanges</p> <p>4. Strengthening governance and human resource capacity</p> <p>Strengthened overall financial sector risk management</p> <p>Enhanced industry skills and capacity for capital markets and contractual savings</p> <p>Strengthened actuarial profession</p>	<p>amendments to capital markets, insurance, and pension laws submitted to Parliament in 2008 for approval</p> <p>Investor protection fund set up by 2009</p> <p>Jakarta Stock Exchange and Surabaya Stock Exchange merged in 2008</p> <p>Ministry of Finance Decree issued to establish and operationalize the Financial Sector Stability Forum by end September 2007</p> <p>Strengthened insurance companies with increase in capital and full implementation of risk-based capital framework by end of 2009. Risk based supervision introduced for private pension industry in 2008</p> <p>Medium-term plan to develop regulatory information and research capabilities implemented by end September 2007</p> <p>Increased number of training programs provided through Society of Actuaries (PAI)-continuous</p>	<p>SRO reports Bapepam-LK reports</p> <p>JSE/SSX reports Bapepam-LK reports Industry feedback ADB review missions</p> <p>MOF/BI/LPS reports</p> <p>ADB TA reports Industry feedback Bapepam LK reports</p> <p>Copy of adopted plan</p> <p>Society of Actuaries feedback ADB TA reports ADB Review Missions</p>	
<p>Activities with Milestones – Program One</p> <p>1. Bapepam-LK Capital Market Institutions Bureau issues (1) Rule X.M.3 on 31 July 2006, (2) Rule No. IX.C.11 on 14 December 2006 for secondary trade reporting</p> <p>2. Bapepam-LK issues regulation on bond pricing agency by August 2007</p> <p>3. Bapepam-LK issues (1) Rule X.M.3 on 31 July 2006, and (2) Rule No. IX.C.11 on 14 December 2006 for securities companies to submit audit financial report</p> <p>4. Bapepam-LK Accounting Standards and Disclosure Bureau issues revised Rule X.K.7 in December 2006 for additional information on code of ethics on corporaion</p> <p>Activities with Milestones – Program One</p> <p>5. Bapepam-LK issues rule VIII.G.13 on 28 November 2006 relating to guidelines on</p>		<p>Inputs</p> <ul style="list-style-type: none"> • ADB Program loan of [\$300] million • ADB TA \$700,000 • Support from ongoing AusAid TA for an amount of \$385,000 to complement the capacity building component 	

the development of the repo market

6. Bapepam- LK finalizes regulations on short-term/margin trading to meet international best practices by 30 September 2007
7. DMO/Bapepam-LK announces issuance of government debt securities with tenures of 3,5,7,10,15, and 20 years by August 2007
8. DMO initiates issuance of T- bills of 12 months maturity in May 2007-and progressive issuance of short-term bills down to one month
9. DMO/Bapepam-LK establishes the system of Primary Dealers with mandatory responsibilities of market making and underwriting commitments in December 2006
10. Bapepam-LK approves exchange rules to implement screen based trading in 2006
11. MOF/DMO issues retail bonds in August 2006 and March 2007
12. Bapepam- LK issues rules for the establishment of exchange traded funds in December 2006
13. MOF issues decree and Bapepam-LK rules to facilitate the issuance of municipal bonds in April 2007
14. MOF prepares draft bill for Government to issues Shariah compliant government bonds (Sukuk) and submit for Parliamentary approval in February 2007
15. Bapepam- LK facilitates development of Shariah based capital market by establishing a mechanism for effective cooperation and coordination between Bapepam-LK and the National Shariah Board; and (2) adopting regulations to enable the issuance of Shariah-based securities in November 2006
16. Bapepam-LK submits draft amendments to the Presidential Decree (No..) to the Minister, MOF by September 2007 which enable PT SMF to lend for tenures up to 15 years in order to develop a critical mass of primary mortgage backed receivables
17. Bapepam-LK participates and completes in a study on introduction of stock options and index-based options by 30 September 2007
18. Bapepam-LK provides technical support to Indonesian Accounting Association (IAA) to adopt accounting standards for the application of Shariah principles in Shariah-based capital market by 30 September 2007
19. Bapepam-LK drafts amendments to the Pension Law to permit alternative payout options in addition to annuitization of defined contribution accumulation by 30 September 2007
20. Bapepam-LK drafts amendments to the Insurance Law to strengthen the legal basis for takaful operations and submits to the Minister of Finance by 30 September 2007
21. Bapepam-LK pursues and accelerates the merger process of the Jakarta Stock Exchange and Surabaya Stock Exchange- to formalize the merger by 30 September 2007
22. MOF facilitates parliamentary discussions by 30 September 2007 on relevant provisions in draft tax laws to allow for more conducive tax environment for capital market development
23. MOF.DMO.BI formalizes establishment of inter-agency committee to improve coordination among-MOF, BI and other market players for development of the Government bond market by 30 September 2007
24. Bapepam-LK submits draft law by 30 September 2007 to Minister of Finance giving Bapepam-LK greater operational and financial autonomy and strengthened power to regulate and supervise all non-banking sector laws
25. Bapepam-LK submits by 30 September 2007 to Minister of Finance draft amendments to the three sector laws (capital market, pension and insurance) to achieve greater compliance with international best practices and principles (IOSCO, IAIS and OECD)
26. Bapepam-LK establishes internal compliance bureau to strengthen governance, and (ii) develops and adopts an internal code of conduct for officials and staff in December 2006 and January 2007
27. Bapepam-LK enters into further bilateral MOUs with foreign securities regulators by 30 September 2007 to strengthen information sharing particularly in connection with cross-border securities fraud
28. Bapepam-LK completes an assessment by 30 September 2007 of its ability to meet benchmarks under the IOSCO multilateral memorandum of understanding

Activities with Milestones – Program One

(MMoU)

- Government commitment of approximately \$18 million over the 2008-2012 period to support NBF1 and capital market related human resource development incremental to current budget levels.

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| <p>29. Bapepam-LK develops a plan by 30 September 2007 to move toward functional regulation in order to address gaps in regulatory and supervisory oversight and harmonize regulation and supervision</p> <p>30. Bapepam-LK reviews by 30 September 2007 the risk-based parameters used in the insurance industry with a view to strengthening risk-based supervision.</p> <p>31. Bapepam-LK analyzes by 30 September 2007 the feasibility of creating a securities market investor protection fund</p> <p>32. Bapepam-LK strengthens regulations for collective investment schemes by preparing draft amendments to the Capital Market Law and submitting to the Minister of Finance by 30 September 2007</p> <p>33. Bapepam-LK provides clear rules and guidelines by 30 September 2007 on asset valuation and disclosure rules on asset valuation and require the prospectus for each investment fund disclose the valuation method</p> <p>34. Bapepam-LK issues three new rules in August 2006 concerning mutual fund sales agents-to improve the professionalism of mutual fund sales agents and representatives by requiring a licensing, examination, and registration system.</p> <p>35. Bapepam-LK improves the quality of debt issuance by issuing rules requiring issuer of debt securities to provide rating information annually in.2006</p> <p>36. Financial System Stability Forum established and formalized by 30 September 2007 through a Joint Decree between Ministry of Finance and Bank of Indonesia</p> <p>37. Government issues the National Strategy for the Prevention and Eradication of the Crime of Money Laundering in Indonesia (2007-2011) in March 2007, Minister of Finance issues Regulation 74/PMK.012/2006 in August 2006 covering pension, insurance and finance companies, and Bapepam-LK issues similar rules covering capital markets by September 2007.</p> <p>38. Bapepam-LK supports PAI in pursuing programs to strengthen actuarial profession-through ADB assisted TA.-by 30 September 2007</p> <p>39. Bapepam-LK develops and adopts a plan by 30 September 2007 to create a research institute to serve the needs of the capital markets and the contractual savings industries</p> <p>40. Bapepam-LK develops and adopts a medium-term plan to develop regulatory information and the research capability at Bapepam-LK to meet current and future needs</p> | |
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ADB = Asian Development Bank, BI = Bank Indonesia, CMDP = Capital Market Development Plan, DMO = Debt Management Office, IPO = initial public offering, JSX = Jakarta Stock Exchange, LPS = Lembaga Penjamin Simpanan, MOF = Ministry of Finance, SEC = Securities and Exchange Commission, SRO = self-regulatory organization, SSX = Surabaya Stock Exchange.