

To:

1. Board of Director of Securities Company Conducting Business as a Broker-Dealer;
2. Board of Director of Indonesia Stock Exchange; and
3. Board of Director of Indonesia Central Securities Depository

CIRCULAR LETTER
NUMBER: SE-16/BL/2012
CONCERNING
ELUCIDATION OF RULE NUMBER V.D.3 CONCERNING INTERNAL CONTROL OF
SECURITIES COMPANY CONDUCTING BUSINESS AS A BROKER-DEALER

In order to support the implementation of Rule Number V.D.3 Concerning Internal Control of Securities Company Conducting Business as a Broker-Dealer, Attachment of Decision of the Chairman of Capital Market and Financial Institutions Supervisory Agency Number KEP-548/BL/2010 dated 28 December 2010, hereinafter referred to as Rule Number V.D.3, hereby convey the elucidation of the provisions of Rule Number V.D.3 as follows:

1. Conducting more than one Broker-Dealer functions

Prohibition for employee who carry out each Broker-Dealer function from conducting other function as referred to in number 5 letter a Rule Number V.D.3 only applies to marketing function, risk management function, bookkeeping function, custodian function, information technology function, compliance function, and research function as referred in to in number 3 and number 4 of Rule Number V.D.3.

2. Securities accounts and Securities Sub Accounts

a. Client as the Account Owner is a client who has a contract for opening regular Securities account and / or financing Securities account as referred to in number 7.a.2) and 7.a.3) of Rule Number V.D.3.

b. Other financial institution as referred to in number 7.b.1).c) of Rule Number V.D.3 is domestic financial institution and foreign financial institution under the supervision of banking authorities, capital market authorities, non-bank financial industry authorities, and other authorities in accordance with laws and regulations, and financial institution that is formed or conduct activities based on the rules and regulations.

c. Bank as referred to in number 7.b.2)a) of Rule Number V.D.3 is a commercial bank that has made an agreement with the Central Securities Depository (CSD) to carry out the administration of the Broker-Dealer Client Fund Account for the settlement of Securities transactions and placement of Broker-Dealer's client fund.

d. Client as the Account Owner shall follow the relevant provisions of the Securities account opening as follows:

1) Opening of Securities Sub Account;

2) Opening of fund account on behalf of each client in the bank, hereinafter is referred to as the Client Fund Account; and

3) Creation of Single Investor Identification (SID) for client on the CSD which has not had such identification.

e. For client who is excluded from the obligation to open securities account as referred to in number 7.b.1)b) and number 7.b.1)c) Rule Number V.D.3, Broker-Dealer is required to make a contract with the client that at least contains provisions regarding:

1) rights and obligations of Broker-Dealer and clients, including the client's obligation as set forth in item 7.b.3) i) Rule Number V.D.3; and

2) information and document related to receipt, identification, and verification of clients as stipulated in Rule Number V.D.10 concerning Know Your Client Principle by Financial Services Provider in Capital Market,

Attachment of Decision of the Chairman of Capital Market and Financial Institutions Supervisory Agency Number KEP-476/BL/2009 dated 23 December 2009, hereinafter referred to as Rule Number V.D.10.

- f. If Broker-Dealer has made client contracts as referred to in letter e through Securities account opening document, the client is not considered to have regular Securities account opening contract as referred to in letter a if:
 - 1) the client does not store its assets in Broker-Dealer; or
 - 2) the client buys the Securities only on Public Offering and does not buy or sell the Securities after the purchase transaction as referred to in number 3.b.1)a).
 - g. Based on risk management consideration, Broker-Dealer can set policies for opening regular Securities account for client who is excluded from the obligation to open Securities account as referred to in number 7.b.1)b) and 7.b.1)c) Rule Number V.D.3.
 - h. In the event that the Broker-Dealer as referred to in letter g opens regular Securities account and/or financing Securities account for client who is excluded from the obligation to open Securities account, then such client is categorized as a Client as the Account Owner that shall follow the provisions of sub-paragraph d above.
 - i. If a client opens more than one regular Securities account and/or financing Securities account in a Broker-Dealer, each Securities account opening shall be made with the Securities account opening contract as referred to in number 7.a.2) and 7.a.3) of Rule Number V.D.3.
 - j. For client who has more than one regular Securities account and/or financing Securities account in a Broker-Dealer, the Broker-Dealer is required to open at least one Sub Account and Client Fund Account as referred to in number 7.b.2)a) of Rule Number V.D.3.
 - k. If regular Securities account owned by the client as referred to in letter i has a negative balance, the negative balance can be offset by client assets in the regular securities account that has a positive balance as long as there is prior agreement between the client and the Broker-Dealer.
 - l. Each transfer of Securities that is aimed at settling of Securities transactions through Broker-Dealer, either Exchange Transactions or Over the counter, and distribution of the results of corporate action by the Issuer or Securities issuer must be done by Broker-Dealer through the Sub Account clients.
 - m. Broker-Dealer has to evaluate the compliance of Securities account opening contract for existing clients with Rule Number V.D.3 and this Circular Letter, and reports to Capital Market and Financial Institutions Supervisory Agency (CMFISA) regarding the plan to adjust Securities opening contract that is not in compliance with Rule Number V.D.3 and this Circular Letter no later than 31 December 2012. If there is a Securities account opening contract that does not comply with Rule Number V.D.3 and this Circular Letter, Broker-Dealer has to make adjustments no later than 1 (one) year from the enactment of this Circular Letter and reports the adjustment to CMFISA at the end of March, June, September and December 2013.
3. Client Fund Account (CFA)
- a. For each transfer of Securities that is aimed at settling a Securities transaction through Broker-Dealer, either Exchange Transactions or Over the counter, the placement of client funds such as initial deposit and the distribution of the results of corporate action by the Issuer or the Securities issuer must be done by the Broker-Dealer through the CFA.
 - b. Broker-Dealer is prohibited from opening CFA for the following clients:
 - 1) Client for whom other Securities account has been opened as referred to in number 7.a.4) Rule Number V.D.3, with the following conditions:
 - a) Client shall only deposit Securities in the Broker Dealer and does not conduct sale or purchase transaction over that Securities.
- Example of this Client is Client who obtains Securities from purchasing at primary market, the Employee Stock Ownership

Program (ESOP), the Management Stock Ownership Program (MSOP), grant, and /or inheritance.

- b) Client is the Issuer that only sell or purchase Securities related to corporate action in accordance with the CMFISA Rule.
 - c) Client is the person for whom Securities Account and Securities Sub Account has been opened for block sale in one transaction and followed with the closing of Securities Account and Securities Sub Account.
 - d) Client is a law enforcer or government agency for whom Securities Account and Securities Sub Account has been opened for the execution of its function.
- 2) Client for whom regular Securities account and/or financing Securities account has been opened as referred to in number 7.a.2) and number 3) Rule Number V.D.3 who has become a client of Broker Dealer prior to the enactment of this Circular Letter, does not conduct any transaction on that Securities, and do not place fund in Broker Dealer.
- c. For client as referred to in letter b.1)a) above, the Broker Dealer may only execute client instructions for:
 - 1) transfer of the Securities to the Securities account in the other Broker Dealer or other Custodian Bank on behalf of the same client and SID or on behalf of different client and SID as long as provided with supporting document, such as certificates of inheritance and court decision;
 - 2) the sale of Securities followed by the closing of accounts; and/or
 - 3) placing the funds received from the Issuer or Public Company as a result of the distribution of rights related to corporate actions and/or the sale of Securities to the bank account designated by the client or other ways agreed.
 - d. For client as referred to in letter b.2) above, the Broker Dealer can only execute client instructions for:
 - 1) The transfer of the Securities to the securities account of other Broker-Dealer or other custodian bank on behalf of the same client and SID or on behalf of different client and SID as long as provided with supporting document;
 - 2) the sales of the Securities followed by the closing of accounts, with the following provisions:
 - a) submit report to the Stock Exchange and CSD regarding the closing plan of Securities account; and
 - b) Period of the Securities selling and the closing of account is 3 (three) months since the plan is reported to the Stock Exchange and the CSD; and/or
 - 3) placing the fund received from the Issuer or Public Company as a result of the distribution of rights related to corporate actions and/or the sale of the Securities to the bank account designated by the client or other ways agreed.
 - e. Broker Dealer shall notify the CSD regarding Client as the Account Owner which has not been given the CFA, including client that cannot be contacted, and shall freeze the Securities Sub Account on behalf of the client in the CSD. In the case of the Broker Dealer intends to open the frozen Securities Sub Account, the Broker Dealer shall conduct verification against the client as referred to in Rule Number V.D.10.
 - f. If Client as the Account Owner has not been given CFA by the Broker Dealer, the Broker Dealer shall deposit the client funds in CSD by placing the fund in Securities Sub Account on behalf of each client.
 - g. In order to deposit Broker Dealer client fund as referred to in letter f above, CSD opens a settlement account at the bank and deposit the Broker Dealer client fund in that account.

- h. The Broker Dealer client fund that is placed in the settlement account in the CSD as referred to in letter g above, although recorded at the bank on behalf of CSD and recorded in the CSD on behalf of the Broker Dealer, does not belong to the CSD or Broker Dealer but to the Broker Dealer client.
 - i. For the Client as the Account Owner for whom CFA has not been opened :
 - 1) The Broker Dealer is prohibited from executing Securities transactions on behalf of respective client.
 - 2) free fund deposited in Broker Dealer owned by client for whom CFA has not been opened shall be deductible factor for the Net Adjusted Working Capital (NAWC) as referred to in number 3.f.1) Rule Number V.D.5 concerning Maintenance and Reporting of Net Adjusted Working Capital (Rule Number V.D.5), and the explanation of line 10 and line 20, Form V.D.5-6: Report of Fund Ledger, as well as the explanations of line 96 Form V.D.5-9: Calculation of Net Adjusted Working Capital Reports as set out in the Circular Letter Number SE-07/BL/2011 dated 31 October 2011 concerning Guidelines for Preparation of Net Adjusted Working Capital Forms.
 - c. Free fund owned by a client who can not be contacted and kept in Securities Sub Account on behalf of the client as referred to in letter f above does not reduce the NAWC as referred to in letter i.2) as mentioned above. A client can be categorized as an uncontactable client if Broker Dealer has conducted its best effort to respective client as proven by mail, email, fax, phone, short messaging services (SMS), announcements in the media and tried to return the funds to the client bank account listed in the Securities account opening form, but the funds cannot be received on that account.
 - d. CSD shall monitor every transfer at Securities Sub Account in the CSD that does not have CFA.
 - e. In order to supervise the implementation of the provisions as referred to in letter i, letter j, and letter k above, CMFISA assigns the Stock Exchange and CSD either individually or collectively to supervise any activity undertaken by Broker Dealer and client, in accordance with their respective functions and authority.
 - f. In carrying out the task of supervision as referred to in letter l above, the Stock Exchange and CSD shall:
 - 1) Create the processes and procedures which able to supervise any activity undertaken by Broker Dealer and respective client and submit that processes and procedures to CMFISA; and
 - 2) submit report on the first business day of each month or at any time if requested by CMFISA regarding the result of the Broker Dealer and respective client activity supervision.
4. Implementation of Securities Forced Sell

If Broker Dealer executes the Securities forced sell as referred to in number 7.b.3)f) Rule Number V.D.3, Broker Dealer shall meet the following requirements:

- a. The negative balance as stipulated in number 7. b. 3) f) Rule Number V.D.3 is when the obligation to deliver client fund on the settlement date is greater than the guaranteed fund balance and fund balance at the CFA of respective client.
- b. No later than the end of the 5th (fifth) Exchange day since the Exchange Transaction is executed or one day after the agreed completion date for the over the counter transaction, Broker Dealer shall inform the client regarding the negative fund balance position at the regular Securities account and request the client to settle the negative balance position.
- c. If on the 6th (six) Exchange day since Exchange Transaction is executed or two days after the agreed completion date for the over the counter transaction, the client still has not fulfilled its obligation, the Broker Dealer shall execute the Securities forced sell in the regular market.

- d. Regular Securities account opening contracts between Broker Dealer and a client contains the authority to conduct Securities forced sell and the provision regarding the sequence of client Securities for forced sell.
5. The implementation of lending or borrowing of Securities and/or Fund
 - a. Lending or Borrowing of Securities and/or Fund as referred to in this clause is lending of clients Securities and/or Fund by Broker Dealer.
 - b. The implementation of lending or borrowing clients Securities and/or fund can only be conducted if written agreement has been made separately between Broker Dealer and each client.
 - c. The Implementation of the securities lending or borrowing agreement and/or funds by Broker Dealer with clients as stipulated in number 7.b.4) Rule Number V.D.3, shall also contains:
 - 1) benefits for and risks borne by the client due to changes of status:
 - a) from client to lender and from Broker Dealer to borrower in terms of lending or borrowing of Securities; and
 - b) from client to creditor and from Broker Dealer to debtor in terms of lending or borrowing of fund,
so that the client assets are no longer the asset of the client but the Broker Dealer;
 - 2) the clients credit risk;
 - 3) amount and value of the Securities and/or the amount of fund lent;
 - 4) rights and obligations of each party;
 - 5) if there is a change in the agreement clausul, the parties shall change the agreement (*addendum*); and
 - 6) the use of the Securities and/or fund borrowed.
 - d. Broker Dealer shall submit lending or borrowing agreement as referred to in letter c to its client especially regarding the change of status of the client, so that the client understand the content of the agreement and the consequences for the client.
6. Risk Management Function
 - a. The person implementing risk management function as referred to in number 3.b Rule Number V.D.3 can also be responsible for the working unit or acts as an officer who handle the implementation of Know Your Customer as referred to in Rule Number V.D.10.
 - b. Broker Dealer shall assign at least 1 (one) employee in each function required by Rule Number V.D.3. Broker Dealer can employ the Risk Management Committee with the requirement that employee serves as Committee member does not conduct other function as referred to in number 5.a Rule Number V.D.3.

7. Bookkeeping functions and Custodian functions

With regard to the implementation of Bookkeeping functions and Custodian functions as referred to in number 9 and number 10 Rule Number V.D.3, Broker Dealer shall meet the following requirements:

- a. In keeping and recording Broker Dealer fund as referred to in number 10.e.4) of Rule Number V.D.3, bookkeeping functions shall separate the employee who records and the employee who conducts transfers Broker Dealer fund.
- b. Keeping and recording client fund and/or Securities is the responsibility of Custodian function.
- c. Custodian function shall separate employee who records and the employee who transfers clients fund.

8. Information Technology Function

In conducting Information Technology Function as referred to in number 11 Rule Number V.D.3, Broker Dealer shall meet the following requirements:

- a. has human resource who is competent to carry out technology information aspect of Broker Dealer as referred to in number 11.a.1) Rule Number V.D.3 among others proven by educational certificate, work experience, or certificate of expertise in information technology.
- b. has a system capacity that is able to anticipate transaction growth as referred to in number 11.a.2) of Rule Number V.D.3 and can be measured by utilization threshold of among others, hard disc, memory, processor, bandwidth, based on the needs, business planning, and common practice of Broker Dealer.
- c. conducts periodic capacity testing as referred to in number 11.a.3) Rule Number V.D.3 at least once a year, by testing a Securities transaction from order to settlement and bookkeeping which at least cover the following:
 - 1) total of orders;
 - 2) total of transactions that have occurred;
 - 3) total of changes of transaction instruction;
 - 4) total of cancellation of transaction;
 - 5) number of transactions per second;
 - 6) number of seconds per transaction; and
 - 7) the utilization of hard disc, memory, processors, bandwidth.
- d. Testing as referred to in letter c shall be documented.
- e. If system capacity has reached the threshold as referred to in letter b and letter c, Broker Dealer shall conduct assessment and follow-up on those system, among other by increasing the capacity and/or renewing the hardware;
- f. Assessment of the performance and weaknesses of technology as referred to in number 11.a.4) Rule Number V.D.3 is conducted by analyzing records related to system problem, if any.
- g. In order to build and install a system that can help to detect and prevent access by unauthorized parties as referred to in number 11.a.8) Rule Number V.D.3:
 - 1) Broker Dealer shall conduct separation of access rights according to their function (user privileges);
 - 2) Broker Dealer shall have a monitoring system in a form of records (log activity) in a system that includes time record, user name (user id), internet protocol address (IP address), and activities that has been conducted;
 - 3) Brokerage Office System that includes back office and front office shall have electronic recording system for data changes, so that reconstruction or tracking of any occurring event (audit trail) that includes time record, user id, IP address, and activities that has been done, can be conducted; and
 - 4) audit trail function shall be active at any time.
- h. Continuous supervision and crisis management procedure as referred to in number 11.a.9) Rule Number V.D.3 consist of consistent and periodic monitoring mechanism and system operational evaluation, and handling

management of information technology operational problem from incidental level to crisis level.

- i. Using encryption, authentication, and non-repudiation techniques as referred to in number 11.a.12) Rule No.V.D.3 proven by obtaining a digital certificate from the certification authorities with the following conditions:
 - 1) Broker Dealer shall use authentication in the system, including infrastructure, Brokerage Office System, and the operating system from the end user.
 - 2) Authentication process shall use the password and apply the following password policy:
 - a) password which has complexity element;
 - b) maximum user error in inputting the password before the user account is disabled;
 - c) The period of time a user can use a password before the password must be changed; and
 - d) Assignment of the parties that has the authority to reset the passwords.
- j. Secure the system from disruption as referred to in number 11.a.13) Rule No. V.D.3 such as by installing a firewall.
- k. Professional information technology auditor appointed to audit the information technology as referred to in number 11. a.14) Rule No. V.D.3 must be independent and has a valid certificate on information systems from the authority.
- l. Material change as referred to in number 11. a. 14) Rule Number V.D.3 is a change that could affect the running system, which can be:
 - 1) a software that includes system addition, system replacement, system updates, and system improvements that directly affect the functionality, capacity, and security of the system; and
 - 2) hardware tool, among other replacement of information technology infrastructure such as servers, firewalls, and network topology.
- m. Database and application server that can be used to reconstruct financial transactions as referred to in number 11.a.15) Rule Number V.D.3 shall be located in Indonesia.
- n. As referred to in number 11.c. 1), 3), 4), 5), and 6) of Rule Number V.D.3, the information to be presented on the website must be accompanied by a proof that the customer has read, understood, and/or agreed to the information.
- o. Broker-Dealer shall keep records and store document on all activities related to the information technology function.
- p. Broker-Dealer must formulate standard operating procedures for information technology function that includes:
 - 1) procedures for addressing technical issues;
 - 2) the implementation of data back-up and applications, including verification of the results of the data back-up; and
 - 3) business continuity plan.
- q. Broker-Dealer must use the time on the Stock Exchange trading system as the reference time of all information technology equipment.

9. Compliance Function

Regarding the implementation of the compliance function stipulated in number 12 Rule Number V.D.3, Broker-Delaer shall meet the following conditions:

- a. If Broker-Dealer has an internal audit function, the function can be combined with the compliance function that must be owned by Broker-Dealer as stipulated in number 3. f Rule Number V.D.3.
- b. Charter as referred to in number 12.b Rule Number V.D.3 is an official document signed by the directors of the company stating the principles, roles, responsibilities, and authority of the compliance function, as well as its

relationship with the board of directors and other functions on the Broker-Dealer.

- c. Indication of violation of rules and regulations made by the Broker-Dealer and/or its clients that must be reported confidentially by the compliance function to Broker Dealer commissioners and CMFISA as referred to in number 12.c. Rule Number V.D.3 is the indication of violation that meets the following criteria:
 - 1) has been reported to the Board of Director incidentally/periodically but no follow up has been taken, can not be fixed, or can not be resolved by the Broker Dealer so that the violations continue to occur.
 - 2) potentially harmful to the interest of investors or the public, and or cause any harm to the interest of capital market, either the violation has been resolved or not by the Broker Dealer; and/or
 - 3) is indicated as a criminal offense.
- d. In order to comply with number 12.a.5) Rule Number V.D.3, the compliance function shall establish a compliance arrangements and prepare a working paper to monitor the level of Broker Dealer compliance to regulations in carrying out its activities, which at least contain the following items:
 - 1) A summary of all related rules and regulations in the capital market including revised and/or new regulations;
 - 2) activities that must be implemented by related functions in order to comply with the provisions referred to in number 1) including implementation preparation of the revised and/or new regulations;
 - 3) the time that the activity referred to in number 2) is conducted; and
 - 4) Person in charge of the implementation of the activities as referred to in number 2).

10. Outsourcing of Broker Dealer functions

Regarding outsourcing of Broker Dealer function to other parties as stipulated in number 13 Rule Number V.D.3, Broker Dealer shall meet the following requirements:

- a. Broker Dealer shall ensure that the performance standard of the functions outsourced which at least equal to the performance of Broker Dealer functions as stipulated in Rule Number V.D.3.
- b. Activities related to reporting to the regulator is not included in the outsourced functions.
- c. Broker Dealer shall designate at least one employee to be responsible for the functions outsourced.
- d. In accordance with the provisions number 13.a. 1) Rule Number V.D.3, Broker Dealer may appoint other party (outsourcing) to perform marketing functions by referring to Rule Number V.D.9 regarding Guidance of Agency Agreement for Exchange Member Securities Company, Attachment of Decision of Chairman of Capital Market and Financial Institutions Supervisory Agency Number KEP-28/PM/2000 dated 30 June 2000.
- e. Broker Dealer activities are not categorized as outsourcing of marketing function, as long as they meet the following criteria:
 - 1) Broker Dealer performs marketing function by themselves and does not delegate the function to other party. Broker Dealer can accept reference regarding prospective investors from other Party to become its clients and then employee of the Broker Dealer performs marketing function in compliance with Rule Number V.D.3 and Rule Number V.D.10.
 - 2) Broker Dealer does not provide any economic benefits such as commission/fee to other party that provides reference of prospective investors.

- 3) Broker Dealer maintain and keep the confidentiality of client data as mentioned in Article 35 and Article 47 of Law Number 8 Year 1995 concerning Capital Market.
- f. In the event that Broker Dealer delegate the implementation of Custodian function to a custodian bank or other Broker Dealer that performs custodial function, hereinafter called Depository services provider, then the Broker Dealer required to complete the following additional documents:
 - 1) The power of attorney of Broker Dealer on the handing over of the CSD and CGC system access to the Custodian service providers;
 - 2) Letter of notification to inform client that the Broker Dealer custodial function is handed over to the Custodian service providers;
 - 3) Confidentiality Agreement (non disclosure agreement) agreed by Broker Dealer and Custodian service providers; and
 - 4) The Custodian service providers are subject to the provisions of Article 47 of Law Number 8 Year 1995 concerning Capital Market.
11. Circular Letter Number SE-01/BL/2012 dated 30 January 2012 concerning Fund Account Opening on Behalf of Each Customer is revoked and declared ineffective since the enactment of this Circular Letter.
12. This Circular Letter becomes effective on 1 January 2013. Early adoption of this Circular Letter is highly recommended.

So that you are fully aware.