

# Development and Strengthening of Transactions and Securities Institutions: Key Insights into OJK Regulation No. 32 of 2024

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The Financial Services Authority (*Otoritas Jasa Keuangan* or “**OJK**”) introduced a new regulation regarding the other services by securities institutions, securities transaction settlements, the use of guarantee funds, and conditions threatening the business continuity of securities institutions, as outlined in OJK Regulation No. 32 of 2024 on Development and Strengthening of Transactions and Securities Institutions (“**OJK Reg. 32/2024**”).

## Background and Legal Framework

The issuance of OJK Reg. 32/2024 aligns with the mandate of Law No. 4 of 2023 on Financial Sector Development and Strengthening (“**UU P2SK**”), which seeks to modernize Indonesia’s financial sector. It addresses key shortcomings in the outdated Law No. 8 of 1995 on the Capital Market (“**Capital Market Law**”), which no longer sufficiently meets the evolving needs of Indonesia’s capital market or its stakeholders. By introducing updated legal frameworks and innovative solutions, the regulation seeks to enhance competitiveness, efficiency, and inclusivity while adapting to technological advancements and global challenges. This represents a significant step in ensuring legal certainty by aligning provisions with UU P2SK, fostering growth, and ultimately creating a robust foundation for the sustainable development of Indonesia’s capital market.

## Key Provisions of OJK Reg. 32/2024

### 1. Strengthening Roles and Services of Security Institutions

One of the primary objectives of OJK Reg. 32/2024 is to reinforce the roles and responsibilities of essential security institutions, namely the Stock Exchange (*Bursa Efek*), Clearing and Guarantee Institutions (*Lembaga Kliring dan Penjaminan*), and Securities Depositories Institutions (*Lembaga Penyimpanan dan Penyelesaian*). These entities are integral to the smooth functioning of Indonesia’s capital market, and the regulation assigns them a broader set of responsibilities to modernize and enhance financial infrastructure.

The Stock Exchange, as the market organizer, facilitates the trading of securities and financial instruments while offering other services like alternative market operations, carbon trading through the carbon exchange, electronic public offering systems, and market data or index, with a growing focus on emerging markets like digital assets transactions, which are becoming increasingly important in global finance.

Meanwhile, the Clearing and Guarantee Institution, in addition to providing clearing and/or transaction settlement guarantee services, can also offer various other capital market services, including managing triparty repurchase agreements, bilateral securities lending, collateral management, risk management facilities, electronic public offering systems, and providing information, data, and reports of the capital market activities. These services play a crucial role in enhancing the capital market infrastructure. By ensuring the availability of efficient and transparent infrastructure, information, and data, the regulation enhances trust among market participants by making the information can be accessed and managed in real time and promotes a conducive environment for innovation.

Furthermore, the Securities Depositories Institutions, which provide central custodian and transaction settlement services, may also provide additional capital market services, such as electronic record-keeping of non-collectively deposited securities, fund storage, data and information management for clients, transaction administration, electronic general meeting services for securities holders, international securities codes, and other activities mandated to support capital market infrastructure.

In providing the other services mentioned above, the security institution must ensure that the provision of such services does not conflict with applicable laws and is based on adequate risk management to mitigate arising risks.

Moreover, these efforts demonstrate the OJK's commitment to creating a robust and forward-thinking capital market ecosystem that aligns with global standards.

## **2. Enhancing Framework for Securities Transaction Settlement and Guarantee Fund Management by the Clearing and Guarantee Institution**

As regulated under the Capital Market Law, the Clearing and Guarantee Institution is responsible for ensuring the settlement of securities transactions, which may be carried out through book-entry settlements, physical settlements, or other methods. OJK Reg. 32/2024 elaborates that book-entry settlements are now conducted electronically, while physical settlements apply to transactions involving scrip-based securities.

Other settlement methods include:

- a. direct settlement, where transactions are recorded directly on the securities holder's registry without using a custodian account, such as in carbon trading on a carbon exchange;
- b. international settlement or settlement through other countries, which includes offshore collateral settlements through global custodians;
- c. digital settlement or other mechanism developed and implemented in future technology, including the use of blockchain technology; and
- d. other settlements required by applicable laws and regulations

These alternative settlement methods are subject to prior approval from the OJK.

OJK Reg. 32/2024 emphasizes digital transformation as a cornerstone of modernizing Indonesia's capital market, encouraging the adoption of technology and blockchain to reduce inefficiencies and improve security. This technology enables transparent and immutable records of financial activities, positioning Indonesia as a leader in digital finance and aligning with global trends.

To ensure transaction settlements, the Clearing and Guarantee Institution manages a Guarantee Fund, which must be fulfilled by its service users. The Clearing and Guarantee Institution is required to separate funds for the settlement of exchange transactions, securities transactions, and inter-market financial instrument transactions. This structured approach aims to strengthen the integrity and reliability of Indonesia's capital market settlement system while advancing innovation and modernization.

## **3. Flexibility for the LPS to Issue Debt Securities and/or Sukuk**

OJK Reg. 32/2024 provides the Indonesia Deposit Insurance Corporation (*Lembaga Penjamin Simpanan* or "LPS") with greater flexibility in issuing debt securities and *sukuk* (Islamic bonds) in the secondary market without undergoing the standard registration process. This exception is designed to enable the LPS to act swiftly in addressing liquidity needs or other financial objectives. However, any issuance of bonds or *sukuk* by the LPS must still be reported to the OJK electronically to ensure compliance and oversight.

To ensure prudent risk management, access to these instruments is restricted to qualified institutional buyers or professional investors who possess the expertise and financial capacity to manage associated risks. By enabling this flexibility, the regulation broadens the range of financing options available in the market, which is particularly crucial for responding to economic challenges and supporting financial stability. The introduction of LPS-issued instruments is also expected to enhance market liquidity, diversify the portfolio of investable instruments, and deepen Indonesia's secondary market. This policy underscores the OJK's effort to strike a balance between innovation and risk management, catering to the sophisticated needs of institutional and professional investors. As of now, there are no specific provisions from the LPS governing the technical details related to the issuance of bonds or *sukuk*.

#### 4. Mitigation of Systemic Risks

Recognizing the potential impact of systemic risks on the stability of the capital market, OJK Reg. 32/2024 outlines detailed mechanisms to address and mitigate such risks effectively. It grants the OJK the authority to take specific actions if security institutions face conditions threatening their business continuity, as described in the regulation. In such cases, security institutions must submit a detailed report to the OJK no later than the same day the condition occurs. The OJK will then assess the condition and if necessary formally declare the institution to be in distress.

Security institutions are required to implement recovery plans, which must be submitted to the OJK. These plans may include capital injections, management restructuring, and improving risk management systems. Institutions must also report on the execution of these recovery measures within two working days of implementation.

The regulation empowers the OJK to oversee and adjust recovery plans to ensure their effectiveness, demonstrating a proactive approach to minimizing disruptions and safeguarding market operations. Additionally, it provides early warning guidelines to identify and address potential risks before they escalate, further strengthening Indonesia's capital market resilience and appeal to domestic and international investors.

#### Conclusion

OJK Reg. 32/2024 addresses the evolving needs of Indonesia's capital market by aligning regulatory frameworks with the UU P2SK to ensure legal certainty. It integrates provisions for digital assets and blockchain-based transactions, reflecting Indonesia's commitment to technological innovation and modernization. Additionally, the regulation strengthens market institutions and infrastructure to enhance global competitiveness, attract investments, and foster cross-border collaboration. By combining legal clarity, technological readiness, and institutional resilience, OJK Reg. 32/2024 positions Indonesia's capital market for sustainable growth and global recognition.

In summary, the regulation addresses foundational challenges in the capital market while preparing Indonesia for future opportunities. By combining legal clarity, technological readiness, and institutional strength, OJK Reg. 32/2024 represents a significant milestone in Indonesia's journey toward becoming a globally recognized financial hub.

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*The article above was prepared by Dentons HPRP's lawyers*

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