



JOINT PRESS RELEASE

SP - 71/KLI/2022

No.24/151/DKom

SP 28/DHMS/OJK/VI/2022

No. IFEMC/01/05/2022

Overseeing LIBOR Transition Together and Strengthening Alternative Reference Rates in Domestic Financial Markets

The global benchmark transition from the discontinued London Interbank Offered Rate (LIBOR) to more credible benchmarks, coupled with strengthening domestic interest rate benchmarks, has remained the attention of authorities in various jurisdictions, including Indonesia. Towards that end, it is critical for market participants to understand the benchmark reform agenda as well as the necessary anticipatory measures. That was the key takeaway of the hybrid international seminar, entitled ‘Best Practices and Lessons Learnt on LIBOR Transition in Developing a Robust and Credible Reference Rate’, held today (13/6) in Jakarta. The seminar is part of a series of side events of Indonesia's G20 Presidency organised in synergy with Bank Indonesia (BI), the Indonesia Financial Services Authority (OJK), Ministry of Finance (MoF) and Indonesia Foreign Exchange Market Committee (IFEMC).

During the Leader’s Insight event, Senior Deputy Governor of Bank Indonesia, Destry Damayanti, emphasized the importance of credible market benchmark rates to ensure market function and financial stability. Through the National Working Group on Benchmark Reform (NWGBR), Indonesia strives to strengthen benchmark rate credibility in the post-LIBOR era



by providing comprehensive information for market participants and recommending alternative reference rates (ARR) for the domestic market. We expect a seamless transition during this change, thereby strengthening optimism as we sustainably recover together.

The Vice Minister of Finance, Suahasil Nazara, took the opportunity to reiterate that the transition represents an important perspective in the recovery process to achieve economic stability since benchmark rates have a long-term effect on the financing strategy for sustainable development. Coordination among institutions is therefore important, to ensure stability in the financial and real sectors.

In terms of anticipatory measures in the financial services sector, on behalf of the OJK Chief Executive of Banking Supervision, Heru Kristiyana, the Head of the Banking Research and Regulation Department, Anung Herlianto, stated that banks need to take adequate steps to mitigate potential risks associated with LIBOR discontinuation. Such measures include identifying exposure, communicating intensively with customers, identifying potential legal and tax consequences, managing potential conflicts of interest, exploring hedging schemes for contracts exposed to significant financial risk, managing market risk appropriately and preparing the appropriate IT infrastructure required for the LIBOR transition.

Representing the market players, IFEMC Co-Chairman, Ali Setiawan, confirmed that market participants undertook various measures in preparing the LIBOR transition, while encouraging the use of Indonesia Overnight Index Average (IndONIA) as a benchmark rate for financial products. Representing the business community, Hendri Saparini, Financial Sector and Monetary Policy Member of the Chamber of Commerce and Industry (KADIN Indonesia), welcomed the benchmark reform initiative towards establishing credible



alternative reference rates that are not vulnerable to manipulation. Business players require interest rate reference during various financial and investment strategies evaluation process.

Furthermore, various steps taken by global authorities in preparation for a smooth benchmark rate reform and global LIBOR transition process were discussed, such as the publication of the 'IOSCO Principles for Financial Benchmarks' by the International Organisation of Securities Commissions (IOSCO) as well as the 'ISDA 2020 IBOR Fallbacks Protocol' by the International Swaps and Derivatives Association (ISDA). Both publications are supported by national market participants, with the IFEMC stating that market players have embraced preparations for the LIBOR transition, including the use of IndONIA as a reference rate for financial products.

In Indonesia, to oversee a smooth and timely LIBOR transition process by domestic market players, Bank Indonesia, in synergy with the Ministry of Finance, OJK and IFEMC, on 23rd November 2021, has established the National Working Group on Benchmark Reform (NWGBR) and published a White Paper on LIBOR transition. As an effort to strengthen domestic interest rate benchmark, NWGBR has re-affirmed IndONIA as overnight reference rate for domestic financial markets, with plans to expand to 1 week - 12 months tenors with reference to the international market convention.

The discussion panel format of the seminar presented two subthemes, namely 'International Best Practices and Lessons Learnt on LIBOR' and 'Domestic Benchmark Reform: Where We Are and the Way Forward'. The seminar was presented directly by the Executive Director of the Financial Market Development Department at Bank Indonesia, Donny Hutabarat, Head of the Banking Research and Regulation Department at OJK, Anung Herlianto, Director of



Loans and Grants at the Ministry of Finance, Syurkani Ishak Kasim, IEFMC Co-Chairman, Ali Setiawan, and Financial Sector and Monetary Policy Member of the Chamber of Commerce and Industry (KADIN Indonesia), Hendri Saparini. A number of international practitioners and authorities also participated in the discussions, including Technical Specialist of Benchmark Policy IOSCO, Toby Williams, Head of Benchmark Reform ISDA, Ann Battle, Global Director of Sales Strategy & Execution Refinitiv at LSEG, David Rickard and Executive Director of Monetary & Domestic Markets Management Monetary Authority of Singapore (MAS), Ethan Goh.

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