

RULE NUMBER III.C.6 : INTERNAL CONTROLS AND ADMINISTRATIVE PROCEDURES OF THE CENTRAL SECURITIES DEPOSITORY

Attachment :
Decision Of The Chairman Of Bapepam
Number : Kep-29/PM/1998
Date : June, 19 1998

1. The Head of the Audit Unit is responsible to audit the operational activities of the Central Securities Depository on a continual daily basis and report the results to the directors of the Central Securities Depository.
2. With respect to item 1 of this rule, the Head of the Audit Unit must:
 - a. supervise a staff that consists of professional personnel with the authority and responsibility for such things as the following:
 - 1) the daily reconciliation of balances in Securities Accounts of Issuers and banks in the Central Securities Depository;
 - 2) the planning and implementation of a continual auditing program of the electronic data processing systems of the Central Securities Depository;
 - 3) field inspections of Issuers and Securities Administration Agencies to compare account balances at the Central Securities Depository with records of the Issuers; and
 - 4) testing compliance of the Central Securities Depository in all areas relating to the Capital Market Law and rules thereunder, particularly this rule;
 - b. inform the Internal Control Committee, the directors of the Central Securities Depository and Bapepam, if at any time the Head of the Audit Unit detects a situation or receives an indication of a material violation of the internal controls and operating system of the Central Securities Depository; and
 - c. report monthly the results of the daily inspections of operational activities along with an evaluation of internal controls of the Central Securities Depository and the implementation of the inspection program the following month to the Internal Control Committee with a copy to the directors and to Bapepam.
3. The determination of salaries and other facilities, the scope, area, duties and restrictions for the Head auditor and changes must receive approval from the Director of Operations, the Internal Control Committee and Bapepam.
4. The daily operations of the Central Securities Depository must be led and directed by the Director of Operations who is assisted by at least 5 (five) division heads, as follows:
 - a. the head of the division that is responsible for general administration that covers:
 - 1) the company's financial accounting;

- 2) the company's finances;
 - 3) financial planning and budgets;
 - 4) cost accounting;
 - 5) general administrative services, office supplies and office space; and
 - 6) human resources, recruitment and training.
- b. the head of the division that is responsible for the security system that covers:
- 1) the operational security system including the background of employees and suppliers of goods and services;
 - 2) physical security, including the securities unit, access control, alarms, fire equipment and passwords;
 - 3) communication security, including firewalls, secret codes, computer break-ins, wire taps; and
 - 4) computer software security, including prevention of Persons, that do not have the right, to access the computer, computer viruses, software damage, sabotage through software and assaults of other kinds.
- c. the head of the division that is responsible for the development of systems and products that covers:
- 1) software development, including design, coding and testing;
 - 2) software maintenance;
 - 3) methods and procedures, including the preparation of manuals and job descriptions;
 - 4) market research; and
 - 5) supervisory services including development of instruction manuals and training brochures;
- d. the head of the division that is responsible for customers' Securities Accounts that covers:
- 1) the transfer of cash balances and Securities between Securities Accounts;
 - 2) the transfer of cash balances with banks;
 - 3) entrance and exit of Securities into and from Collective Custody;
 - 4) the administration of entitlements of Securities including dividends, bonuses, Preemptive Rights and voting rights;
 - 5) administration of the distribution of annual reports and announcements; and

- 6) tax reports related to Securities Accounts, administration of tax reports related to Securities Accounts, including tax complaints and settlements;
- e. the head of the division that is responsible for data processing and record keeping that covers:
 - 1) management of the daily operation of the primary computer;
 - 2) management of the supporting computer in another location, including the recovery program if an emergency occurs;
 - 3) management of the principal electronic data;
 - 4) delivery of reports and confirmations to holders of Securities Accounts; and
 - 5) management of the back-up data from the primary computer at another location.
5. Each division head must report immediately to the Head of the Audit Unit on every violation of standard operating procedures and the security system and internal controls including those done by the Operations Director.
6. Decisions on salaries and other facilities, scope, area, duties and restrictions for the Operations Director and changes must receive approval from the Internal Control Committee and Bapepam.
7. With respect to the operational activities of the Central Securities Depository, the Operations Director representing the directors makes and is responsible for matters such as:
 - a. quarterly reports to the shareholders of the Central Securities Depository and Bapepam with copies to the board of commissioners;
 - b. proposed rules and internal procedures of the Central Securities Depository to be given to the board of commissioners and the Rules Committee for approval before submission to Bapepam to obtain its approval;
 - c. proposed changes in business plans, new services, or fee adjustments to be given to the Business Committee for approval before submission to Bapepam to obtain its approval;
 - d. the work plan and annual budget of the Central Securities Depository that is to be given to the Annual Meeting of Shareholders for approval before submission to Bapepam for its approval; and
 - e. reports on security procedures and internal controls to be given to the Internal Control Committee and to the Auditing Unit each month.
8. On the recommendation of Shareholders that are members of the Internal Control Committee, the directors must call a General Meeting of Shareholders to decide matters that are indicated by the committee, including changing directors and commissioners of the Central Securities Depository.
9. The Business Committee, the Rules Committee and the Internal Controls Committee shall

be organized in accordance with the following:

- a. each committee shall consist of 5 (five) members;
 - b. each committee member shall represent a different shareholder of the Central Securities Depository;
 - c. a committee member is prohibited from being a member of another committee;
 - d. committee members are appointed by the directors of the Central Securities Depository from shareholders that are most active in the Capital Market in order to be able to obtain approval in the General Meeting of Shareholders, specifically members of the Internal Control Committee are chosen by the directors from Custodian Bank shareholders that are the most active in the Capital Market;
 - e. Officials that are appointed by the shareholders as representatives for a committee must possess appropriate competence with regard to the scope of functions of the committee of which the official becomes a member;
 - f. committee members shall hold a monthly meeting at the time and location that was determined by members at the previous meeting;
 - g. decisions of the committees shall be taken by a majority vote at a meeting that is attended by 5 (five) members of the committee; and
 - h. minutes of the meeting must be kept and a copy must be delivered to Bapepam and the directors of the Central Securities Depository.
10. The Central Securities Depository must have a written contract with Issuers whose Securities are placed into collective custody in order to assure that:
- a. the Issuer or Securities Administration Agency will confirm the balance of Securities that are registered in the name of the Central Securities Depository on the Issuer's register of Securities holders every workday; and
 - b. the Central Securities Depository may send its inspection staff to verify agreement between the Central Securities Depository balance and the balance recorded on the Issuer's register of Securities holders every workday.
11. The Central Securities Depository must make a written agreement with each Securities Account holder, which among other things contains a promise of the Central Securities Depository to send a daily statement to each account holder and the account holder must reply not later than the end of the next workday.
12. the Central Securities Depository must permit Securities Account holders to send auditors to the Central Securities Depository to verify the agreement between the balances in Central Securities Depository customers' Securities Accounts and balances that are recorded in the name of the Central Securities Depository on the Issuer's register of Securities holders and cash balances that exist at the bank for the account of the Central Securities Depository in escrow for Securities Account holders.
13. In Implementing the audit in item 12, secrecy of the names of Securities Account holders must be maintained.

14. Securities Account holders of the Central Securities Depository are limited to national financial institutions that have been approved or licensed by Bapepam or foreign financial institutions whose account opening has been approved by Bapepam.
15. Cash positions that are recorded in a Securities Account in the Central Securities Depository must be placed in a bank that has been approved by the Internal Control Committee in a special account called “Central Securities Depository in escrow for Securities Account Holders”.
16. Access to the data processing and bookkeeping division, the customer Securities Account division, and the systems and products division is restricted to staff members assigned to such divisions.
17. The Head of the Inspection Unit along with its staff and directors may have access to any division that is under them, if accompanied by staff assigned to the division for that purpose.
18. Other Persons that desire access to any division must be accompanied by the head of the relevant division and with the approval of the head of the division responsible for the security system.
19. The Central Securities Depository must have a primary computer and a back-up computer that are at different locations,

that enables the back-up computer to continue processing data within 2 (two) hours, from the time of a breakdown of the primary computer.
20. The Central Securities Depository must keep duplicates of electronic data regarding Securities Accounts in a separate place that is secure and not closer than 30 (thirty) kilometers from the principal location.
21. Software development and maintenance may only be done by the computer division that is responsible for the development of systems and products.
22. Employees of the Central Securities Depository must be investigated by the division that is responsible for security to assure that they do not have a criminal record, are not involved in gambling, forbidden drugs and other misdeeds or external situations that may cause a security risk to the Central Securities Depository.
23. All computer equipment, communication systems, software and suppliers must be professionally investigated by the division that is responsible for security to assure that they do not cause a security risk to the Central Securities Depository.
24. The head of the general administration division must control the use of bank accounts for the operations of the Central Securities Depository, whereas the head of the division that is responsible for customer Security Accounts must control the cash accounts that relate to the Securities Accounts.
25. Changes of cash and Securities in Securities Accounts must be based on instructions of the account holder and under the control of the head of the division that is responsible for customer Securities Accounts.

26. The head of the division that is responsible for data processing and book keeping must ensure that all postings to Securities Accounts are approved by the head of the division that is responsible for customer Securities Accounts.
27. The directors must assign an independent auditor that has international experience and reputation in analyzing internal control systems, to evaluate and report on the effectiveness of the internal control system of the Central Securities Depository, including protection against fraud, embezzlement, natural disruptions, and electronic damage.
28. The report of the independent auditor mentioned in item 27 must be delivered to the directors and all shareholders, along with the annual report of the Central Securities Depository, and a copy must be delivered to the commissioners and Bapepam.
29. In the report mentioned in item 28, the auditor must also evaluate the capability of the Central Securities Depository to restore the situation if an emergency occurs, when one or both of the computers is damaged and also to give an estimate of the financial loss, the time and the expense that is involved.
30. All functions that are performed by the Central Securities Depository in connection with the settlement of trades with certificates must be managed in a separate division that is under the direct responsibility of the Operations Director