Guidelines for closing-out outstanding Indonesian Rupiah

IDR TRANSACTIONS

The Singapore Foreign Exchange Markets Committee has formulated a set of guidelines for closing-out outstanding Indonesian Rupiah (IDR) transactions on a consensual basis for market participants. The SFEMC chairman issued the following to all treasury managers of Member Banks on 2 February 2001

To: All Treasury Managers

Notes of Meeting on Settlement of Indonesian Rupiah ("IDR") Transactions

Following the announcement earlier this month of imposition of currency restrictions on transactions involving IDR in Indonesia, the Singapore Foreign Exchange Markets Committee ("SFEMC") has held meetings with market participants on this matter. A meeting was held on 1 February 2001 to discuss new regulations issued by Bank Indonesia, and their implications for outstanding IDR transactions.

At the meeting, participants noted that the market for IDR had been severely disrupted by the recently announced measures, giving rise to settlement issues and potential risk exposures. After considered discussion, market participants agreed that the following guidelines, in the current circumstances, represent best practice for closing-out outstanding IDR transactions on a consensual basis:

a. Financial institutions should close-out all IDR-related transactions with counterparties by netting all outstanding transactions and settling the difference in USD. This relates to transactions maturing on or after 7 February 2001. Transactions maturing prior to 7 February 2001 will continue to be settled in accordance with normal market practice;

b. It was noted that the currency restrictions were issued as of 12 January 2001 and accordingly the last normal trading day in IDR prior to the currency restrictions was 11 January 2001. As such, it is recommended that the following methodology be used as it is considered a fair and equitable basis for valuing future payments with a view to discounting future cash flows:

1. The foreign exchange swap points, long dated swap rates, and foreign exchange option volatility rates prevailing at close of business Singapore time on 11 January 2001 are representative rates, and should be used as the guideline for bilateral settlement.

2. In order to impute the benchmark IDR yield curves falling under one year as of close of business Singapore time on 11 January 2001, a spot USD/IDR rate as of 11am Singapore time on 2 February 2001 posted on Telerate page 50157, together with the USD Libor rate posted on Telerate page 3750 at 11am London time on 1 February 2001 for USD interest rates falling under one year, will be used. Subsequent to this, the implied IDR interest rate curve as of close of business Singapore time on 11 January 2001 will be calculated and thereafter posted on 2 February 2001 by the SFEMC .

3. For USD interest rates extending beyond one year, the Telerate page 19901 as of close of business New York time on 1 February 2001 will be utilised.

4. The underlying rationale for the above methodology is that the USD/IDR forward points as at close of business Singapore time 11 January 2001 should be as accurate a reflection of market activity as of that date as possible. The rationale for utilising the USD interest rate curves as of 1 Feburary 2001 to impute benchmark IDR yield curves is based on the fact that the USD markets were open and freely tradeable over that period.

5. Conversions of residual IDR balances will be settled in USD using the spot USD/IDR rate as of 11am Singapore time on 5 February 2001 posted on Telerate page 50157.

6. The above rates will be made available by the SFEMC via The Association of Banks in Singapore on 2 February 2001. Further details of the methodology and other technical matters are attached at Appendix 1.

c. It is recommended that all affected parties should exert their best efforts to reach appropriate, and consensual, close-out arrangements with counterparties as soon as practicable. A practical date for making the net USD payment would be for value 7 February 2001.

Jeanette Wong CHAIRMAN

Appendix 1
I Spot US$ / IDR = 9543 as at 11am Singapore time 2 February 2001

MATURITY	NO. OF DAYS	MKT FWD POINTS	IDR ZERO COUPON RATES (%)	US Dollar LIBOR RATE (%)
S/N	1	1.9	12.81868	5.65000
1 week	7	13.4	12.80928	5.58000
1 month	31	67.0	13.75228	5.56000
2 month	59	132.9	14.05380	5.48000
3 month	90	219.0	14.69320	5.39000
6 month	181	464.6	15.15732	5.22000
9 month	273	692.9	15.06646	5.12000
12 month	365	921.9	15.13180	5.11000

IDR CROSS CURRENCY SWAP RATES s.a A/365 (%)		US Dollar Interest Rate Swap Curve annual, A/360 (%)
2 years	15.10	5.19750
3 years	15.20	5.33300
4 years	15.30	5.45950
5 years	15.30	5.55250
7 years	15.30	5.71600
10 years	15.30	5.88500

- Straight line interpolation of zero coupon rates to be used

- The cross currency swap rates will also be used to settle interest rate swaps contract
- Conversions of any residual IDR balances will be settled in USD using the spot USD/IDR rate as of 11am Singapore time on 5 February 2001 posted on Telerate page 50157

Appendix 2B

II Option Volatility

Spot	FX Vol % (ATM)
1 week	21.00
1 month	20.00
2 month	20.75
3 month	22.30
6 month	23.90
12 month	25.60

- Use of US$ forward delta for everything.
- Use zero correlation for curves and ATM volatility curves for both currency legs.
- Smile adjustment to be bilaterally agreed.