

Carbon trading on the IDX from 26 September 2023 through the Carbon Exchange

The Indonesian Carbon Exchange (“**IDX Carbon**”) was officially launched on Tuesday 26 September 2023 by President Joko Widodo. PT Bursa Efek Indonesia (“**BEI**”) will be the operator of IDX Carbon (the “**Operator**”) on the Indonesian stock exchange. The Indonesian Financial Services Authority (*Otoritas Jasa Keuangan* or “**OJK**”) issued relevant regulations related to among others carbon units and carbon exchange, followed by BEI issued several regulations and circulars on carbon registration, trading schemes, carbon service and supervision of the Operator.

OJK Regulation 14/2023

In view of the Government’s commitment to reduce greenhouse gas (GHG) emissions and in conducting and supervising carbon trading as mandated by Law No. 4/2023 on the Development and Strengthening of the Financial Sector (“**Law 4/2023**”), OJK issued Regulation No. 14 of 2023 on Carbon Trading through a Carbon Exchange (“**OJK Regulation 14/2023**”) which came into effect on 2 August 2023. Followed in September 2023 OJK issued Circular Letter No. 12/SEOJK.04/2023 on the Procedure to Operate Carbon Trading through Carbon Exchange and BEI also issued several regulations related to carbon trading in BEI.

OJK Regulation 14/2023 addresses several fundamental aspects of carbon trading including the requirements for parties engaging in carbon trading through a carbon exchange and for the establishment of carbon exchange operators.

Carbon Units

Under OJK Regulation 14/2023, a carbon unit is a “Security” (*efek*) which can be traded on the IDX Carbon under one of the following categories:

- (1) Emissions Ceiling Technical Approval for Business Actors (*Persetujuan Teknis Batas Atas Emisi – Pelaku Usaha /PTBAE-PU*); and
- (2) Greenhouse Gas Emissions Reduction Certificate (*Sertifikat Pengurangan Emisi Gas Rumah Kaca /SPE-GRK*).

The above carbon unit categories must already be registered with the (a) Indonesian Climate Change Control National Registry System (*Sistem Registri Nasional Pengendalian Perubahan Iklim/SRN-PPI*) and (b) the Carbon Exchange Operator before they can be traded.

In addition, OJK Regulation 14/2023 also facilitates cross-border carbon trading. Carbon units from offshore which are not registered with SRN-PPI, must meet the requirements specified in OJK Regulation 14/2023, which include, that the overseas carbon units must already have been registered, validated, and verified by an accredited international registration system and be eligible for trading on an offshore carbon exchange. The OJK may also determine further requirements after coordinating with the Ministry of the Environment and Forestry.

Carbon Exchange Operator

OJK Regulation 14/2023 requires a Carbon Exchange Operator to be an Indonesian limited liability company (*Perseroan Terbatas*) possessing a minimum issued and paid-up capital of

IDR100 billion (approximately USD6.6 million at the current exchange rate) and secure a business license from OJK. It is expressly stated that capital cannot originate from a loan but must be paid up in cash. A carbon exchange operator can only be owned (after obtaining OJK's approval) by *sui generis* institutions (Indonesian limited liability companies), Indonesian citizens, Indonesian legal entities, and/or foreign legal entities that have obtained licenses or are supervised by the financial service regulator in the country of origin. Foreign shareholders may only possess (directly or indirectly) up to 20% of shares with voting interest. Further this regulation specifically prohibits the shareholders of the Carbon Exchange Operator to use a nominee arrangement.

The Operator's Board of Directors ("BOD") and Board of Commissioners ("BOC") must each have at least two members. One director must have expertise or experience in the field of climate change control and carbon markets and reside in Indonesia. All candidate members of the BOD and BOC must undergo and pass the OJK's fit and proper person test prior their appointment by the company's general meeting of shareholders.

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