



## Insight

# The Existence of Bullion Bank in Indonesia

Fathan Akram Alius, S.H.



## ADP Counsellors at Law

Plaza Simatupang 6th Floor Kav. IS No. 01, Jl. T.B. Simatupang, RT.2/RW.17, Pd. Pinang, Kec. Kby. Lama, Kota Jakarta Selatan, Daerah Khusus Ibukota Jakarta 12310 | [info@adplaws.com](mailto:info@adplaws.com)

## Introduction

The regulation of bullion in Indonesia is governed under Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (“**P2SK Law**”) and Financial Services Authority Regulation Number 17 of 2024 (“**POJK 17/2024**”). In this context, Bullion Business Activities refer to financial service activities related to gold, which may include:

1. **Gold Deposits**, refers to the safekeeping of a standardized quantity of gold entrusted by the public to a Financial Services Institution conducting Bullion Business Activities, based on an agreement between the parties;
2. **Gold Financing**, refers to the provision of a standardized quantity of gold by a Financial Services Institution conducting Bullion Business Activities to another party, based on an agreement or approval, whereby the financed party is obliged to return the same quantity of gold within a certain period, accompanied by compensation or profit-sharing;
3. **Gold Trading**, refers to the transaction of buying and selling standardized gold carried out based on mutual agreement between the parties, which is not intended for Gold Financing and/or Gold Custody purposes;
4. **Gold Custody**, refers to the safekeeping of gold owned by the public by a Financial Services Institution conducting Bullion Business Activities for the purpose of generating service fee-based income, as implemented based on an agreement between the parties.
5. Other activities conducted by Financial Services Institutions (LJK).

Essentially, a bullion bank is a financial institution that manages and trades gold as a financial asset. Pursuant to Article 21 paragraph (1) of POJK 17/2024, the Financial Services Institutions eligible to conduct Bullion Business Activities are those whose core business involves the provision of credit or financing, excluding:

- a. Rural Banks,
- b. Sharia Rural Banks, and
- c. Microfinance Institutions.

## Business Activities Bullion Bank in Indonesia

In conducting Bullion Bank business activities, POJK 17/2024 stipulates that the Operation of Bullion Bank Business Activities may only be carried out by Financial Services Institutions (LJK) whose main business activity is the provision of credit or financing, excluding rural banks, rural sharia banks, and microfinance institutions.

To be eligible to operate Bullion Business Activities, a Financial Services Institution must have a minimum soundness rating of composite level 2 (two), in accordance with the applicable provisions governing the financial soundness assessment for Financial Services Institutions submitting the application. This rating must be based on the most recent assessment period conducted by the Financial Services Authority (OJK) prior to the submission of the application.

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Financial Services Institutions whose main business activity is the provision of credit or financing include, among others, conventional commercial banks, sharia commercial banks, sharia business units of conventional commercial banks, pawnshop companies, financing companies, and/or other financial services institutions engaged in the provision of credit or financing.

In establishing a Bullion Bank business in Indonesia, there are core capital requirements. The term "core capital" refers to core capital as defined under the provisions of the laws and regulations in the banking sector. The term "equity" refers to equity as defined under financial accounting standards. As stipulated in POJK 17/2024, it is explained that:

1. For a commercial bank, it must have a minimum core capital of IDR 14,000,000,000,000 (fourteen trillion rupiah);
2. For a Syariah business unit of a conventional commercial bank, the conventional commercial bank that has a Sharia business unit must have a minimum core capital of IDR 14,000,000,000,000 (fourteen trillion rupiah); and
3. For Financial Services Institutions other than conventional commercial banks, Syariah commercial banks, and/or Syariah business units of conventional commercial banks, they must have a minimum equity of IDR 14,000,000,000,000 (fourteen trillion rupiah).

Gold is considered a legal means of payment and can be transacted globally when it takes the form of gold bars officially recognized to have a minimum fineness of 99.9%, in accordance with **London Bullion Market Association ("LBMA")** standards. In POJK 17/2024 it is explained that The applicable gold standard is in accordance with international practices, including those issued by the LBMA.

LBMA plays a central role in the global gold industry as it represents the interests of its member banks and international gold refiners. On the other hand, the Bank of England also holds a significant role through its function as a provider of gold custody vaults and lender of gold to central banks and LBMA members. Given the substantial influence of the gold market on a global scale, the Bank of England, in collaboration with the LBMA, has developed international regulations for gold derivative transactions, which have now become a reference framework for many countries in monetizing gold within financial activities, particularly in gold sales and trading.

Due to their dominant positions, market movements within the UK gold market significantly affect the dynamics of the global gold market. The LBMA currently has approximately 85 full members and includes 11 market makers. These members' investment gold complies with the Good Delivery standards established by the LBMA. The LBMA has officially established a list of gold refining companies that comply with industry gold standards, known as the **Good Delivery List**. This list is widely accepted as a reference point in identifying credible and high-quality gold refiners. In the Republic of Indonesia, the entity recognized by the LBMA in the determination of gold refining is **PT Aneka Tambang (Persero)**.

PT Aneka Tambang is the only precious metals processing and refining company in Indonesia that has been accredited by the LBMA.

Pursuant to the provisions of the LBMA, gold in financial services is classified into two categories, namely:

- **Allocated Gold Account**, refers to a bilateral agreement between two parties, namely a bullion bank and its customer, whereby the bullion bank acts as a custodian, holding physical gold in the name of the customer pursuant to the terms of a legally binding agreement.
- **Unallocated Gold Account**, refers to an account in which the customer holds a claim against the bullion bank for a specific quantity of gold, and the bullion bank bears a liability to the customer for an equivalent amount of gold. Transactions in this type of account are represented solely by bookkeeping entries of debits and credits, and there is no physical gold underlying the customer's holdings. According to the LBMA, approximately 90% of gold transactions in the London market are conducted in the form of unallocated gold.

In Indonesia, Article 5 of POJK 17/2024, an Unallocated Account refers Customer-owned gold held under a gold deposit scheme in which the Customer does not have physical possession of the gold but holds a legal claim to it, as established based on an agreement between the Customer and the Financial Services Institution conducting Bullion Banking Business Activities.

## Conclusion

Bullion banks play a crucial role in today's financial system, providing access to gold, driving gold market growth, and contributing to economic growth. Through adequate regulation, bullion banks can serve as a strategic element in national gold governance and financial sector integration.

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*This article is intended for general informational purposes only and does not constitute legal advice. For legal assistance or inquiries specific to your situation, please contact us at [info@adplaws.com](mailto:info@adplaws.com).*

### ADP Counsellors at Law

#### Office

Plaza Simatupang 6th Floor Kav. IS No. 01, Jl. T.B. Simatupang, RT.2/RW.17, Pd. Pinang, Kec. Kby. Lama, Kota Jakarta Selatan, Daerah Khusus Ibukota Jakarta 12310

#### Email

[info@adplaws.com](mailto:info@adplaws.com)

#### Tel.

+6221 2270 2291



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