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Implementation of Sustainable Finance Taxonomy Policy through Sustainable Credit: Regulations, Opportunities, and Challenges for Banks in Indonesia

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Abstract: Indonesia's commitment to the Sustainable Development Goals (SDGs) and the Paris Agreement has implications for banks in carrying out their business practices to lead to sustainable practices. The phenomenon occurs when banks indirectly contribute to causing environmental damage such as providing credit that is only oriented towards profit. The Financial Services Authority (OJK) as a regulator issues the Sustainable Finance Taxonomy Policy as a guideline for banks to maximize the implementation of sustainable finance, especially in providing credit. This study aims to analyze how the Sustainable Finance Taxonomy policy influences and plays a strategic role in increasing sustainable banking credit in Indonesia. This study uses a normative legal approach with analytical descriptive specifications and the object of research is PT Bank Mandiri (Persero) Tbk, this study found that the Sustainable Finance Taxonomy policy plays a strategic role in increasing sustainable credit. The results of this study are expected to provide knowledge for policy makers in creating a sustainable financial system with legal certainty.

Keyword: Sustainable Finance Taxonomy, Sustainable Credit, Sustainable Development Goals.

INTRODUCTION

Indonesia's commitment to the Sustainable Development Goals (SDGs) as a paradigm for pursuing sustainable economic growth based on environmental aspects as outlined in Presidential Regulation Number 59 of 2017 concerning the Implementation of Achieving Sustainable Development Goals (Perpres of Sustainable Development) and Indonesia's commitment to the Paris Agreement which has been ratified through Law Number 16 of 2016 concerning Ratification of the Paris Agreement To The United Nations Framework Convention On Climate Change, has brought implications for the regulation and function of the Financial Services Sector (FSS), especially banking (Abubakar & Handayani, 2019).

Banks as referred to in Article 1 Point (2) of Law Number 7 of 1992 as amended by Law Number 10 of 1998 concerning Amendments to Law Number 7 of 1992 concerning Banking

(Banking Law) and last amended by Law Number 4 of 2023 concerning Financial Sector Development and Strengthening (PPSK Law) are business entities that collect funds from the public in the form of deposits and channel them back in the form of credit or financing. Its function as an agent of development makes banking an important component in realizing the SDGs, especially goal eight which reads "increase inclusive and sustainable economic growth, productive and comprehensive employment opportunities, and decent work for all" with a global target of "strengthening the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all".

Given that banks control around 93% of the total assets of the financial industry and the rest is controlled by the non-bank industry, such as insurance and finance companies multi finance (Husein, 2003). Therefore, banks play a role in realizing SDGs, one of which is through the provision of credit to meet the costs required when organizing economic development (Imaniyati & Putra, 2016). The provision of credit aims to equalize development to achieve economic growth towards the welfare of society. (Djumhana, 1993). Therefore, to contribute maximally in realizing SDGs, banks should not only be profit-oriented in carrying out their business activities, but are obliged to integrate Environmental, Social, Governance (ESG) aspects in carrying out their business activities. In other words, banks are obliged to implement sustainable finance and its principles in carrying out their business activities as stipulated in Article 2 of the Financial Services Authority Regulation Number 51 of 2017 concerning the Implementation of Sustainable Finance for Financial Financial Services Institutions, Issuers, and Public Companies (POJK Sustainable Finance). Which is also a form of implementation of Law Number 32 of 2009 concerning Environmental Protection and Management (PPLH Law).

Sustainable finance according to Article 1 Point (8) POJK Sustainable Finance is a comprehensive support from the financial services sector to create sustainable economic growth by harmonizing economic, social and environmental interests. The principles of sustainable finance include the principle of responsible investment, the principle of sustainable business strategies and practices, the principle of managing social and environmental risks, the principle of governance, the principle of informative communication, the principle of inclusiveness, the principle of developing priority leading sectors and, the principle of coordination and collaboration. Based on Article 7 Paragraph (1) POJK Sustainable Finance, there are three priorities from the eight principles that must be implemented gradually by banks, these principles include the development of sustainable financial products and / or services including an increase in the financing portfolio, investment or placement in financial instruments or projects that are in line with the application of sustainable finance, development of internal capacity of Financial Services Institutions (FSIs), or organizational adjustments, risk management, governance in accordance with the principles of sustainable finance implementation.

To implement the three priority principles gradually, in this case banks can start by developing sustainable credit products to increase their portfolio to sectors that are in line with sustainable finance, as stipulated in Article 12B of the PPSK Law which reads "commercial banks are obliged to channel credit or financing based on sharia principles for certain sectors, micro, small and medium enterprises, inclusive financing, and or sustainable financing". Sustainable credit is one part of the green banking concept (Yasmin & Akhter, 2021). Which green banking itself is a concept to strengthen bank risk management, especially those related to the environment in order to achieve a socially responsible green industry. (Mumtaz & Smith, 2019). sustainable credit is credit channeled by banks to Environmentally Friendly Business

Activities (EFBA) as stipulated in the Regulation of the Financial Services Authority of the Republic of Indonesia Number 60 of 2017 concerning Issuance and Requirements for Environmentally Sound Debt Securities (POJK Green Bond) (Nugrahaeni & Muharam, 2023). Where sustainable credit requires banks to actively offer their credit for activities related to environmental protection, energy conservation projects, and emission reduction, in addition to limiting loans to industries with high pollution, high emissions, and excess capacity (Furqan & Sutrisno, 2024).

However, problems occur when the opposite is found, where it is found that banks indirectly contribute to the problem of declining environmental quality (Budiantoro, 2014). One of these contributions occurs when banks provide credit only with a profit orientation without taking a sustainability role in it, such as banks that provide credit to debtors whose business activities harm the environment (Abubakar Dkk, 2021). This is in line with the data obtained from Forest & Finance which says that there are findings of bank loans that risk forests amounting to US \$ 307, where banks in Indonesia have also contributed to providing credit to the business sector that risks forests since 2016 amounting to US \$ 30.5 billion. One of the largest creditors funding the environmental damage is PT Bank Mandiri (Persero) Tbk, and the debtors receiving the credit include the pulp and paper sector at 31%, beef, soybeans 15%, and palm oil 55% (Forest & Finance, 2023).

As a strategic step in dealing with this, as well as implementing the POJK Sustainable Finance by making comprehensive sustainable finance guidelines, the Financial Services Authority in implementing the Sustainable Finance Roadmap Phase II (2021-2025) issued the Indonesian Green Taxonomy policy in 2022 as a guide for banks to define green activities to receive credit (Otoritas Jasa Keuangan, 2022), which the Indonesian Green Taxonomy policy is planned to be aligned with the Company Performance Rating Program in Environmental Management (PROPER) made by the Ministry of Environment (Sati, 2022). However, along with the increasing need for a broader sustainability that is not only based on environmental elements but includes ESG, therefore in 2024 the Indonesian Green Taxonomy policy was refined again, thus transforming into the Indonesian Sustainable Finance Taxonomy policy (Otoritas Jasa Keuangan, 2021).

The Taxonomy of Sustainable Finance is a classification of economic activities that support the SDGs that include ESG aspects as a guide to improve the allocation of sustainable capital to support the achievement of Indonesia's net zero emission (NZE) target. The Sustainable Finance Taxonomy aims to refine a broader green standardization that can minimize banks' multiple interpretations of sustainability, so that it can be the basis for policy development for both internal banks and policy makers. The Sustainable Finance Taxonomy works by classifying economic sectors into green classifications for activities that are in line with the Paris Agreement and fulfill social aspects, and transitional classifications, namely activities that are not yet in line with the Paris Agreement but are moving towards green classification within a certain period of time to serve as a guide for banks to increase their credit allocation to green sectors or projects and to increase capital allocation for sustainable financing to support the achievement of Indonesia's Net Zero Emission (NZE) target (Financial Services Sector, 2024).

In essence, the Sustainable Finance Taxonomy policy serves as a guideline for banks to meet environmental objectives and essential criteria in sustainability and to encourage credit for sectors or projects that are making the transition to environmentally friendly activities as mandated by chapter XVII on sustainable finance in the Banking Law (Financial Services Sector, 2024). In line with the theory of development law put forward by Mochtar Kusumaatmadja which says that law not only functions as a regulatory tool, but also as a catalyst for social change that encourages improvement towards a better direction (Kusumaatmadja, 2003). In this case the Sustainable Finance Taxonomy policy is expected to

bring positive changes to banks in terms of their concern for the environment through sustainable lending. Therefore, based on the phenomena that occur, it is necessary to examine more deeply whether it is true that the Sustainable Finance Taxonomy policy is a carrier of change in the banking sector and is a strategic step in increasing bank sustainable credit in Indonesia.

METHOD

Based on the problems studied, the method of approach in this article uses normative juridical, namely examining theories, concepts, legal principles as well as laws and regulations and literature related to the problems studied (Soekanto & Mamudji, 2001). This research is juridical-normative legal research, namely research on the provisions of laws and regulations that apply as positive law in Indonesia (Efendi & Ibrahim, 2016). The object of this research is PT Bank Mandiri (Persero) Tbk. Secondary research data is collected through literature studies related to legal issues or problems raised in the research (Waluyo, 2008). Such as previous research which includes legal journals or articles and the publication of the bank's sustainable financial statements, as well as tertiary legal materials (Abubakar & Handayani, 2019). The data will be processed and analyzed further, resulting in an analytical descriptive nature which describes, describes and reviews the object of this research which relates between theories in law and practice in implementation with laws and regulations relating to the object of research, to later get some conclusions (Amirudin & Asikin, 2003).

RESULTS AND DISCUSSION

Sustainable Banking Regulation in Indonesia

Before going further to the Sustainable Finance Taxonomy policy, it is necessary to know that before the existence of the Sustainable Finance Taxonomy policy Indonesia already had regulations that directed the practice of sustainable banking, at the level of the law these regulations included the Banking Law, the Environmental Law which generally regulates the obligations of the government and business entities including banks to make efforts to protect and manage the environment. As explained in Articles 42 and 43 of the PPLH Law, it regulates the government's obligation to develop environmental economic instruments which are divided into three including development planning and economic activities, environmental funding, incentives and / or disincentives. One form of incentives and/or disincentives according to the explanation of Article 43 of the PPLH Law is the development of an environmentally friendly financial institution system and capital market, which means that here the Financial Services SJK, especially banks, are required to require environmental documents in carrying out their business practices, especially in granting credit. This is also emphasized by Articles 67 and 68 of the PPLH Law which states that every legal subject carrying out business activities is obliged to maintain the sustainability of environmental functions (Salim, 2018)

Referring to Articles 42 and 43 of the PPLH Law regulates the government's obligation to develop environmental economic instruments which are divided into three including development planning and economic activities, environmental funding, incentives and / or disincentives. Furthermore, one of the forms of incentives and/or disincentives according to the explanation of Article 43 of the PPLH Law is the development of an environmentally friendly financial institution system and capital market, which means that here the Financial Services SJK, especially banks, are required to require environmental documents in carrying out their business practices, especially in granting credit. This is also emphasized by Articles 67 and 68 of the PPLH Law which say that every legal subject carrying out business activities is obliged to maintain the sustainability of environmental functions. The latest sustainable banking practices are regulated in the PPSK Law, in this law there is a special chapter that regulates the obligation of banks to implement sustainable finance, namely in chapter XVII concerning the Application of Sustainable Finance, further in Article 222 of the PPSK Law

mandates banks to practice business practices and products in a sustainable direction such as providing credit to environmentally friendly sectors or projects.

The Banking Law, especially in Article 8 and the Explanation of Article 8 of the Banking Law, regulates in general the obligation to apply the precautionary principle in lending, which according to the explanation can be implemented by taking into account the Environmental Impact Analysis (AMDAL) as a condition for credit disbursement. Likewise, for the sake of creating a comprehensive sustainable financial system, prospective debtors who want to apply for credit can start by preparing an AMDAL document (Saragih Dkk, 2021). The latest sustainable banking practices are regulated in the PPSK Law, in this law there is a special chapter that regulates the obligation of banks to implement sustainable finance, namely in CHAPTER XVII concerning the Application of Sustainable Finance, further in Article 222 of the PPSK Law mandates banks to practice business practices and products in a sustainable direction such as providing credit to environmentally friendly sectors or projects.

In addition, financial services authority as a regulator that oversees the underlying Financial Services including banking, has also participated in issuing regulations related to sustainable banking. These rules include the POJK Sustainable Finance, in this regulation specifically regulates SJK, especially banking, to implement sustainable finance along with the principles of sustainable finance in its business activities, as stipulated in Article 2 of the POJK Sustainable Finance. This regulation also regulates the obligation of banks to make a Sustainable Finance Action Plan (SFAP) and report it to the public as stated in Article 4 POJK Sustainable Finance. POJK Green Bond, in this regulation contains the foundation and legal certainty for issuers who will conduct a public offering of environmentally sound debt securities.

Since financial services authority issued the Indonesian Green Taxonomy policy in 2022 which was then refined with the Sustainable Finance Taxonomy policy in 2024 which aims to provide banks with a solid standard in implementing sustainable finance, banks are required to integrate ESG elements in their credit assessment before disbursing to debtors. Given that the Sustainable Finance Taxonomy policy not only aims to direct capital flows to sustainable sectors, but also to influence bank credit risk assessment, especially ESG assessment, so as to reduce the possibility of environmental and social risks.

Implementation Practices of Sustainable Finance Taxonomy at Bank Mandiri

With the Sustainable Finance Taxonomy policy, banks are forced to continue to develop products and services that lead to sustainable economic activities and do not overexploit resources that result in environmental damage (Handayani Dkk, 2023). Which means that banks are required to behave ethically in their lending activities which are not solely focused on profit but pay attention to environmental and community aspects in order to maintain sustainability in the long term (Anggaraini Dkk, 2020). Based on this, it has a positive impact on banks regarding their sensitivity to the environment, one of which is an increase in the proportion of the number of bank sustainability loans to the EFBA sector.

Based on data processed from financial services authority and Databoks, it is known that there will be a significant increase in the number of sustainable loans from 2019 to 2023

Table 1. increase in the number of sustainable loans in Indonesia from 2019-2023

Year	Sustainable Credit Score
2019	927T
2020	1.181T
2021	1.409T
2022	1.571T
2023	1.959T

Source: Processed Based on financial services authority and Databoks Data

From table 1, it is known that OJK recorded the realization of credit growth increasing every year, which peaked in 2023 reaching 1,959T. Furthermore, this realization refers to the category of sustainable business as regulated in the POJK Sustainable Finance, POJK Number 60 of 2017 concerning the Issuance and Requirements of Environmentally Sound Debt Securities and the Sustainable Finance Taxonomy policy.

On the other side, Bank Mandiri continues to encourage the practice of Sustainable Finance Taxonomy policies by creating an ESG framework which includes sustainable banking guidelines (integrating ESG aspects in business processes, developing sustainable service portfolios and products, influencing regulators to accelerate the low carbon economy), sustainable operations (data privacy and security, expanding equality and diversity, achieving NZE 2030), and sustainability outside banking (community empowerment) (PT Bank Mandiri (Persero) Tbk, 2024). In addition, as an effort to maximize the implementation of the Taxonomy of Sustainable Finance, in October 2024 Bank Mandiri published a sustainable finance framework Version 1.1 which aims to align bank mandiri's business strategy with Indonesia's sustainability goals and SDGs. In terms of guiding the Sustainable Finance Taxonomy policy in granting credit, Bank Mandiri has made a credit policy related to ESG aspects which contains general requirements for debtors before making a credit application, these requirements include having environmental management documents based on the industrial sector and applicable laws and regulations, such as AMDAL documents or Environmental Management Efforts (EME) -Environmental Monitoring Efforts (EME) documents, having the results of the assessment of the Company Performance Rating Program in Environmental Management (PROPER), having environmental management permits or certifications according to applicable regulations in each business sector. Bank Mandiri's sustainable credit policy also contains a list of exceptions to Bank Mandiri lending, including financing projects that endanger the environment, illegal logging, financing new peatlands, gambling businesses, pornography and human rights violations, narcotics abuse, business activities that endanger the environment, including disturbing protected areas such as unesco world heritage sites, other sectors prohibited by laws and regulations (PT Bank Mandiri (Persero) Tbk, 2024).

Given that the Sustainable Finance Taxonomy Policy contains sectors that are prioritized in providing sustainable credit, Bank Mandiri has also made sectoral credit policies related to ESG aspects. This means that Bank Mandiri will deeply and comprehensively assess, review, and evaluate environmental risks up to the completeness of environmental documents that must be owned by the sector. Sectors included in Bank Mandiri's sectoral credit policy include (PT Bank Mandiri (Persero) Tbk, 2024):

- 1) Agriculture sector, required for blue PROPER, no new land clearing, mandatory waste management, ISPO and RSPO.
- 2) Energy sector, must have PROPER, must have ISO 14001/ISO 45001.
- 3) Coal sector, mandatory green PROPER, mandatory ISO 14001/ISO 45001.
- 4) The Construction Sector, is required to have environmental management certification such as ISO 14001/ISO 45001 and have internal policies related to the environment and labor.

- 5) Mining Sector, must have green PROPER ISO 14001/ISO 45001, work plan and budget and have internal policies related to the environment.
- 6) The Conveyance Industry sector is required to have environmental management certification such as ISO 14001/ISO 45001, and an energy efficiency policy.
- 7) Fast Moving Consumers Goods sector, mandatory blue PROPER, environmental policy and energy efficiency.
- 8) Oil and Gas sector, required to have EIA, energy efficiency policy, and ISO 14001/ISO 45001 certification.
- 9) Biodiversity sector, must have a forest and timber management license document, and no activities in protected areas.
- 10) Health Services Sector, fulfills the industrial plant management license and has a safety, health, and work policy.
- 11) The Pharmaceutical sector is required to have an environmental license and certification, and to have ISO14001/ISO 45001.
- 12) Pulp&Paper sector, mandatory wastewater treatment, blue PROPER, and energy efficiency policies.
- 13) Metal Sector, must have blue PROPER and ISO14001/ISO 45001.
- 14) The Telecommunications sector is required to have data privacy and energy efficiency policies, as well as ISO14001/ISO 45001.
- 15) Transportation sector, has an energy efficiency policy and ISO14001/ISO 45001.

The credit policy created by Bank Mandiri is not only to align with the Sustainable Finance Taxonomy policy, but also aims to ensure the implementation of responsible business practices, facilitate areas that require afforestation, support debtors in implementing sustainable practices, and reduce environmental and social risks. From this, there is certainly a significant impact on Bank Mandiri internally, especially in implementing sustainable credit in accordance with the Sustainable Finance Taxonomy policy. Furthermore, the provision of sustainable credit will gradually encourage companies, businesses, and communities to transition from activities that damage the environment to activities that are environmentally friendly in order to obtain incentives and credit (Pratama & Firmansyah, 2024).

From the credit policy made by Bank Mandiri, it is known to bring changes for Bank Mandiri in implementing sustainable finance, especially in increasing the portion of sustainable credit.

Table 2. Increase in the Number of Bank Mandiri Sustainable Loans from 2021-2024

Year	Total Credit	Total Sustainable Credit
2021	1.050,16T	205.068T
2022	1.172,60T	228,764T
2023	1.398,07T	264.080T
2024	1.590T	285T

Source: Processed Based on Financial Statements and Sustainability Reports of PT Bank Mandiri (Persero) Tbk in 2021, 2022, 2023, 2024.

Referring to the data presented in table 1, it can be said that Bank Mandiri has aligned its business activities, especially in providing credit with the Banking Law, Environmental Law, POJK Sustainable Finance, POJK Green Bond and Sustainable Finance Taxonomy policies, where Bank Mandiri continues to encourage the rate of increase in the number of sustainable credit portfolios each year.

The amount of credit and sectors receiving Bank Mandiri's sustainable credit in 2024 according to the Consolidated Financial Statements of PT Bank Mandiri (Persero) Tbk September 2024 are as follows.

Tabel 3. Recipient Sectors and Amount of Bank Mandiri Sustainable Credit 2024

Sector	Total
Sustainable Agriculture	106,9T
New Renewable Energy	10,0T
Eco-Efficient Products	9,4T
Net Transprotation	7,2T
Wastewater Management	1,4T
Other Green Products	7,1T
Sosial Financing	143T

Source: Consolidated Financial Statements of PT Bank Mandiri (Persero) Tbk 2024

From table 2, it is known that Bank Mandiri has aligned its sustainable credit portfolio to sectors or projects that are included in the category of environmentally sound businesses as regulated in Article 4 of the POJK Green Bond, the explanation of Article 222 Paragraph (1) of the Banking Law and the Sustainable Finance Taxonomy policy, which in the Sustainable Finance Taxonomy policy itself clearly regulates the focus of priority sectors in 2024-2025, namely the energy sector. The table explains that the amount of Bank Mandiri's sustainable credit continues to increase every year, especially in 2024 which will reach 285T.

Opportunities and Challenges in Implementing the Taxonomy of Sustainable Finance in Indonesia

The implementation of the Sustainable Finance Taxonomy policy in banking in Indonesia certainly brings positive opportunities for both internal banks themselves, regulators, and society. First, from the bank's side, despite the fact that the application of sustainable finance is required by law, however, over time it must create awareness for the bank itself to consciously view that the application of sustainable finance to its business activities will bring better and more sustainable business performance (Abubakar Dkk, 2021). Second, considering that with the application of the Taxonomy of Sustainable Finance in banking, banks are required to be more detailed in managing their environmental and social risks so that they have the opportunity to mitigate risks even better, such as the risk of environmental damage and social risks that harm the community. Third, considering that the Sustainable Finance Taxonomy policy carries more awareness than compliance, according to Article 9 of the POJK Sustainable Finance, OJK as a regulator has prepared incentives for banks that are active in implementing sustainable finance, these incentives can be in the form of Risk Weighted Assets (ATMR) so as to increase the calculation of the Capital Adequacy Ratio (CAR) which has a good impact on bank health (Octavio Dkk, 2022).

With the Sustainable Finance Taxonomy policy will also increase the bank's awareness of environmental and social risks that occur, will have the opportunity to bring banks to realize sustainable business transformation (Handayani & Abubakar, 2020). In the future, the Sustainable Finance Taxonomy policy also has the opportunity to become a smart policy, in the sense that although the Sustainable Finance Taxonomy policy is still at the level of a living document policy, the policy has the impact of encouraging economic instruments and market share to make changes in behavior towards a more sustainable direction without coercion from any party or can be said to foster awareness from the internal parties themselves (Sati, 2022). Such smart policy opportunities can occur if they meet the characteristics of complementary regulatory instruments, instruments that are less interventionist take precedence, the response of the parties not to violate, communication and coordination between the community, related

institutions, and stakeholders goes well, and there are regulatory instruments that maximize the implementation of compliance (Wibisana, 2018).

Behind the opportunities with the Sustainable Finance Taxonomy policy, however, the application of the policy also has its own challenges in its application, such as the orientation of the Indonesian state which is still focused on economic growth, which can be seen from some bank decisions in lending that are oriented more towards profit than ESG aspects. Then the need to increase understanding of sustainable finance on the internal capacity of banks in integrating social and environmental aspects appropriately in their business processes (Abubakar Dkk, 2021). In addition, the absence of specific regulations such as laws or government regulations is a challenge for banks to determine whether the Sustainable Finance Taxonomy policy is voluntary or mandatory, so that the implementation from one bank to another will be different. Furthermore, it is found that the level of public knowledge of sustainable finance products is still low, which is around 20-30% of the total 3105 people who have heard and understood the meaning of the terms of sustainable finance products. Which will also have an impact on banks who find it more difficult to continue to encourage sustainable business practices through offering sustainable services and products.

CONCLUSION

The existence of the Sustainable Finance Taxonomy as a bank guideline for implementing sustainable finance, especially in the allocation of sustainable credit, is known to have brought a crucial role for assessing credit risk where the Sustainable Finance Taxonomy helps banks to in detail identify, classify, and map which sectors are sustainable and are entitled to receive sustainable credit from banks, In this case, it shows that since the issuance of the policy, the Sustainable Finance Taxonomy as a guide for banks to increase their sustainable credit has been running as intended, namely the Sustainable Finance Taxonomy has become a strategic step in increasing the allocation of bank sustainable credit to environmentally friendly sectors. On the other hand, Bank Mandiri as a subject that is obliged to implement the Sustainable Finance Taxonomy Policy has also gradually harmonized its business practices, especially in terms of sustainable lending, with the Sustainable Finance Taxonomy policy. Thus the Sustainable Finance Taxonomy policy is a strategic step in increasing sustainable banking credit in Indonesia. However, on the other hand, the Sustainable Finance Taxonomy policy is a living document that can change at any time following existing conditions, therefore it is necessary to have assertiveness from regulators to make legal certainty in the sense of making it into the level of legislation so that it can emphasize these guidelines.

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