LEMBAGA PENJAMIN SIMPANAN

Indonesia Deposit Insurance Corporation

INDONESIA DEPOSIT INSURANCE CORPORATION (IDIC)

GLOBAL UPDATES

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IADI UPDATES

IADI issued three documents: one discussion paper and two research papers in 1Q 2018. Topics of the documents are: Sharia Governance for Deposit Insurance System; Resolution Issues for Financial Cooperatives - Overview of Distinctive Features and Current Resolution Tools; Deposit Insurance Fund Target Ratio.

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BCBS UPDATES

BCBS published two consultative documents in March 2018: Revisions to the minimum capital requirements for market risk and Pillar 3 disclosure requirements: regulatory treatment of accounting provisions. Other than that, BCBS also issued various types of documents range from Frequently Asked Question (FAQs) to other types of documents, such as Framework for early supervisory intervention, as well as Sound Practices: implications of fintech developments for banks and bank supervisors

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FSB UPDATES

FSB issued Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices in 1Q 2018, as well as other documents, such as Global Shadow Banking Monitoring Report 2017. FSB also published results of Peer Review for Hong Kong and Singapore, which were completed in February 2018.

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IDIC UPDATES AND ACTIVITIES

This section provided information on banking stability and deposit insurance updates in Indonesia. Summary on IDIC International Seminar on Bank Restructuring and Resolution is also elaborated in this section.

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IADI UPDATES – 1Q 2018

Sharia Governance for Deposit Insurance System (Discussion Paper)

30 January 2018

In tandem with the growth of the Islamic financial services industry (IFSI), Islamic deposit insurance systems (IDIS) have become a key ingredient for a strong industry. An IDIS helps maintain public confidence in the safety of Islamic deposits and investment accounts held by Islamic banks. It also complements the roles of other safety-net players in promoting the stability of the IFSI.

The key distinction between IDIS and conventional deposit insurance systems is the requirement to adhere to Shariah rules and principles. Among other things, deposit insurers (DI) must adopt permissible modalities, ensure that funding sources are Shariah-compliant, manage Islamic deposit insurance funds (IDIF) separately from conventional funds, and invest IDIF in Shariah-compliant instruments. Hence, it is crucial to have Shariah governance for IDIS.

Shariah governance structures and processes may vary from one jurisdiction to another, depending on what the DI deems appropriate for its IDIS. The design of Shariah governance for IDIS operations may be influenced by, among other things, the complexity of the operations that require Shariah compliance and the institutional setup of the DI, which is a non-profit-making entity. Under Shariah governance for IDIS, the DI should identify Shariah requirements, incorporate such requirements into relevant documents and disseminate them, conduct Shariah compliance reviews and perform Shariah audits. Shariah rulings should be sought from Shariah scholars who are designated to provide rulings on IDIS operations. The Shariah requirements should be incorporated into relevant documents, e.g. legislation and policy documents, and disseminated to boards of directors (BOD) and personnel with Shariah governance responsibilities, in order to facilitate compliance. The Shariah requirements should also be communicated to heads of division (HODs), to ensure proper incorporation into relevant documents and compliance by operating personnel.

Shariah compliance reviews should be conducted independently, either by the DI's Shariah personnel or by qualified personnel within the compliance division, whose responsibilities should be expanded to cover the Shariah compliance review function. Shariah compliance audits should be performed by the DI's internal auditors, who should be adequately trained for the purpose. Alternatively, the DI may use qualified external auditors.

Following a discussion of Shariah governance structures and processes for IDIS, this paper presents a set of recommended guiding principles including, but not limited to, the following:

1. The DI should establish adequate Shariah governance framework for IDIS operations;
2. Shariah governance processes and structures for IDIS should commensurate with the nature and complexity of their operations;
3. Any person bearing the responsibilities outlined in the Shariah governance framework for IDIS operations should possess the necessary skills;
4. There should be an adequate process to facilitate the effective deliberation of issues by the designated Shariah scholars (DSS), with a view to obtain Shariah rulings;
5. The DSS should ensure that internal information obtained in the course of their duties is kept confidential;
6. The independence of the Shariah compliance review and audit functions should be preserved, so that they can carry out their responsibilities unhindered;
7. The DI should provide adequate disclosures to their stakeholders on how Shariah governance is being practised by the organisation.

Resolution Issues for Financial Cooperatives - Overview of Distinctive Features and Current Resolution Tools (Research Paper)

30 January 2018

Financial deposit-taking institutions such as credit unions, “caisses populaires”, “cajas”, cooperative banks or mutuals, collectively referred to as “financial cooperatives” (FCs) are an important player in the financial sector/system. This is because the FCs have a large number of jurisdictions around the world, with some of them designated as global or domestic systemically important financial institutions (SIFIs). Even in jurisdictions where no individual FC is a SIFI, the FCs in the aggregate may be a systemically important component of the financial sector due to their overall proportion of the market.

This research paper has presented an overview of the distinctive features of the financial cooperatives (FCs) in the SRIFC survey respondent jurisdictions around the world, as well as the tools currently used for their resolution, along with the challenges associated with the use of each of these resolution tools in the case of FCs.

There are different types of FCs around the world. These deposit-taking institutions include credit unions, “caisses populaires”, “cajas”, mutuals and cooperative banks. FCs differ from banks mainly with regard to their objectives, their ownership structure and participation in the decision-making process, the way in which they access capital, etc.

Because of the specificities of FCs, bank resolution tools are not always directly applicable to FCs and/or may give rise to some challenges specific to FCs. Some of the resolution tools can be used in the same way as for banks, while others need some adjustment to fit with the nature of FCs. Resolution tools like bail-in may require demutualisation of the FC.

Deposit Insurance Fund Target Ratio (Research Paper)

12 January 2018

This paper examines the current approaches and practices of deposit insurance agencies (DIAs) with ex ante funding in determining the optimal size of the deposit insurance fund (DIF) through the setting of fund targets. On the basis of a survey and case study analysis, the paper provides a summary of these approaches and practices, which DIAs could use as guidance when adopting a fund target or enhancing existing approaches and practices.

The setting of the fund target for DIAs with an ex ante funding system is important in ensuring the adequacy of their DIF. This can be gleaned from the results of the 2015 DIF Target Ratio Survey where 69% of total respondents with an ex ante funding system have a fund target.

The IADI Core Principles for Effective Deposit Insurance Systems (2014) specifically state under Core Principle 9 that “funding for the deposit insurance system is provided on an ex ante basis.”

The IADI Funding of Deposit Insurance Systems (2009), on the other hand, states that an appropriate fund target size should be adequate to at least cover the potential losses of the deposit insurer under normal conditions. The fund target is affected by a number of factors, which could vary across jurisdictions. Thus, every jurisdiction may have a different method for setting its fund target.

This paper used a survey, case studies, a workshop, and literature reviews to gather data and information on current approaches and practices in determining and administering a fund target.

These methodologies were also designed to aid in the analysis of results, and to yield conclusions. The analysis shows the following:

Framework for the fund target

The fund target is typically expressed as a ratio to the assessment base (i.e. insured or insurable deposits) of the DIAs. The most common factors considered in setting the fund target are financial system structure and characteristics (e.g. number of member institutions, financial condition of member institutions, risk exposure of the DIA, types of deposits and depositors covered, degree of concentration and loss experience of DIA), legal framework, and macroeconomic conditions.

DIAs use different approaches in setting their fund target. For DIAs that use a discretionary approach, an expert opinion or discretionary judgment is often backed by analysis of data and information. For DIAs that use the statistical approach, some use risk-based models while others do not. DIAs may likewise combine both statistical models and discretionary judgment in their estimation.

Setting the time frame to achieve the fund target

The majority of DIAs have set a time frame to achieve the target, with most either on schedule or ahead of schedule in terms of meeting the target.

Reviewing the fund target

To ensure that the target remains current and relevant, the majority of DIAs conduct periodic reviews, predominantly at least once a year, to validate the approach, methodology and models used to determine the adequacy of the target.

Policy responses to address a fund surplus or shortfall

In the case of a fund surplus, most DIAs either reduce or suspend premium collection. The latter approach, however, would exempt newly established banks from contributing to the fund, and is thus viewed as inequitable.

In the case of a DIF shortfall, the majority of DIAs increase premiums or levy special premiums on insured institutions. Some DIAs request a capital injection/budget appropriation from the government or collect premiums in advance from insured institutions.

Other funding issues

- Start-up funding and regular sources of funds
  More than half of DIAs are provided with start-up or seed funding,commonly sourced from the government. Premium collections and income from investments are the most common sources of financing for the DIF.
- Uses of the fund
  The DIF is used to cover insurance losses/resolution costs and fund operating expenses. Some DIAs use the fund for other purposes, such as reimbursement of the government's start-up funding.
- Backup funding
  Most DIAs with a fund target have their emergency funding set out in law, but the majority have no implementation arrangements. DIAs should consider setting up such arrangements to ensure effective and timely access to emergency funds in support of prompt reimbursement of depositors' claims.
- Funding for systemic crisis
  A systemic failure or systemic crisis is normally dealt with by all financial safety-net participants. The survey shows that systemic crisis is most often comanaged by the government, central bank, financial supervisory authorities, resolution authorities, and/or the DIAs which is not usually structured to deal with a systemic crisis on its own (IADI, 2015a).

  While it is necessary to adopt formal funding arrangements for systemic crisis resolution among safety-net players, only one-third of the DIAs have formal arrangements with other safety-net participants for this purpose. In some cases, a separate resolution fund has been set up or is currently being considered to cover the resolution of systemic banks.

BCBS UPDATES – 1Q 2018

BCBS issued various publications in 1st Quarter 2018, range from Consultative Documents, Quantitative Impact Studies, FAQ, as well as other types of publications. List of publications during this period are as follows:

Table 1: BCBS Publication

Dates	Type of Publication	Titles
29 March 2018	Others	Framework for early supervisory intervention
28 March 2018	Working paper	Towards a sectoral application of the countercyclical capital buffer: A literature review
22 March 2018	FAQ	Frequently asked questions on the Basel III standardised approach for measuring counterparty credit risk exposures
22 March 2018	FAQ	Frequently asked questions on market risk capital requirements
22 March 2018	Consultative Document	Revisions to the minimum capital requirements for market risk
22 March 2018	Consultative Document	Pillar 3 disclosure requirements: regulatory treatment of accounting provisions
12 March 2018	Implementation Reports	Regulatory Consistency Assessment Programme (RCAP) - Handbook for Jurisdictional Assessments
6 March 2018	Quantitative Impact Studies	Basel III Monitoring Report
27 Feb 2018	Consultative Document	Pillar 3 disclosure requirements - updated framework
19 Feb 2018	Sound Practices	Sound Practices: implications of fintech developments for banks and bank supervisors

Frameworks for early supervisory intervention

29 March 2018

The Basel Committee on Banking Supervision published Frameworks for early supervisory intervention, which presents a range-of-practice study on how supervisors around the world have adopted frameworks, processes, and tools to support early supervisory intervention. Since the global financial crisis, supervisory authorities have increasingly focused their attention on how early supervisory intervention can promote financial stability by reducing the probability and impact of a bank failure.

There have been important developments in supervisory practices in this regard since the crisis. National supervisory authorities have adopted more forward-looking approaches, incorporating both quantitative and qualitative elements into their risk-based supervisory assessments. In addition to institution-specific supervision, supervisors are also adopting benchmarking exercises and thematic reviews as part of their toolkit to better detect emerging risks and potential outlier banks. Many national authorities have also undergone organizational changes to support these approaches, and have introduced dedicated teams and oversight functions to ensure early supervisory actions are taken and followed up.

Based on practices observed, this study finds that early supervisory actions taken by supervisors depend not only on the expert judgment of supervisors but also to a large extent on an organizational infrastructure that sets in place: (i) supervisory reinforcement through both vertical and horizontal risk assessments to maximize the early detection of risks; (ii) a clear framework for when actions should be taken; and (iii) internal governance processes and programs to support supervisory development and capacity-building.

Towards a sectoral application of the countercyclical capital buffer: A literature review

28 March 2018

The aim of this paper is to review the existing literature on the (sectoral) countercyclical capital buffer (CcyB). Overall, the literature review shows that there is a justified need for sectoral macroprudential tools, and that a sectoral CCyB may be a useful complement to both the Basel III CCyB and existing targeted instruments in the macroprudential toolkit.

Countercyclical capital buffers, both broad-based and sectoral, however, remain largely untested and more empirical work is needed to assess their ability to achieve the different objectives that may be attributed to them. Furthermore, a sectoral application of the CCyB entails several operational challenges, such as defining modalities on when to activate a sectoral CCyB and on its interactions with the Basel III CCyB as well as with other (targeted) instruments. It would also add an additional layer of complexity to the macroprudential capital buffer framework. While they are crucial for the further development of the policy framework on a sectoral CCyB, such operational issues are beyond the scope of this paper.

Frequently asked questions on the Basel III standardised approach for measuring counterparty credit risk exposures

22 March 2018

In March 2014, the Basel Committee on Banking Supervision published the standardized approach for measuring counterparty credit risk exposures. To promote consistent global implementation of those requirements, the Committee has agreed to periodically review frequently asked questions (FAQs) and publish answers along with any technical elaboration of the standards text and interpretative guidance that may be necessary.

The FAQs answers various questions, range from general formula, Potential Future Exposure (PFE) add-on, Specific Derivatifves, as well as demand on clarification on some explanation. In terms of general formula, there are questions on capping of marined Exposure at Default and collateral taken outside netting set. For PFE add-on, there are question on definition of the formula, treament of Eurodollars future, supervisory delta adjustment, etc. On the other hands, there are questions on specific derivatives, focus on sold options, credit derivatives, forwarde rate agreement, etc.

Frequently asked questions on market risk capital requirements

22 March 2018

In January 2016, the Basel Committee on Banking Supervision published the standard minimum capital requirements for market risk. To promote consistent global implementation of those requirements, the Committee has agreed to periodically review frequently asked questions (FAQs) and publish answers along with any technical elaboration of the standards text and interpretative guidance that may be necessary.

The FAQs provide answers on questions surrounding Standardised approach and Internal models approach (IMA), as well as questions related to trading book boundary and scope of application. Question for Standardised approach cover various issues, range from correlation scenarios, equity risk, commodity risk, foreign exchange risk to default risk. On the other hand, questions on IMA focus on issues related to quantitative modelling, such as expected shortfall, back terting, liquidity horizons, non-modellable risk factors, etc. Meanwhile, there are questions on trading book instruments, movement of instruments between trading book and banking book, and internal risk transfers under trading book boundary and scope of application.

Revisions to the minimum capital requirements for market risk

22 March 2018

In January 2016, the Basel Committee on Banking Supervision published the standard Minimum capital requirements for market risk. After two years, the Basel Committee issue this consultative document to address issues that has been identified in the course of monitoring the implementation and impact of the standard.

The consultative document includes proposed changes to the following aspects of the standard:

- Changes to the measurement of the standardized approach to enhance its risk sensitivity;
- Recalibration of standardized approach risk weights for general interest risk, equity risk and FX risk;
- Revisions to the assessment process to determine whether a bank's internal risk management models appropriately reflect the risks of individual trading desks;
- Clarifications to the requirements for identification of risk factors that are eligible for internal modelling; and
- Clarifications to the scope of exposures that are subject to market risk capital requirements.

In addition, following the Committee's June 2017 consultation on proposals for a simplified alternative to the standardized approach, this consultative document proposes a recalibration of the Basel II standardized approach for use by banks with less material market risk exposures to determine their capital requirements.

Pillar 3 disclosure requirements: regulatory treatment of accounting provisions

22 March 2018

The Committee today released a technical amendment on additional Pillar 3 disclosure requirements for those jurisdictions implementing an expected credit loss (ECL) accounting model as well as for those adopting transitional arrangements for the regulatory treatment of accounting provisions. The amendment is intended to provide users with disclosures that fully reflect any transitional effects for the impact of expected credit loss accounting on regulatory capital, as well as to provide further information on the allocation of accounting provisions in the regulatory categories of general and specific provisions for standardized exposures during the interim period.

Technical amendments are defined as changes in standards that are not substantial in nature but that cannot be unambiguously resolved based on the current text.

Regulatory Consistency Assessment Programme (RCAP) - Handbook for Jurisdictional Assessments

12 March 2018

The Handbook for jurisdictional assessments describes the methodology used by the Basel Committee to assess the completeness and consistency of domestic prudential regulations with the Basel framework. These assessments are conducted as part of the Committee's Regulatory Consistency Assessment Programme (RCAP).

This revised version of the Handbook includes specific guidance on the assessments of the net stable funding ratio (NSFR) and the large exposures framework. It is designed to be a flexible compendium, with its guidance and principles being revised or elaborated further as the RCAP evolves.

The Basel Committee also publishes the RCAP questionnaires used by jurisdictions to conduct a self-assessment against the Basel standards. Both the RCAP questionnaires and the Handbook can be used by jurisdictions wishing to conduct their own implementation reviews, as well as for training purposes.

Basel III Monitoring Report

March 2018

This report presents the results of the Basel Committee's latest Basel III monitoring exercise based on data as of 30 June 2017. Data have been provided for a total of 193 banks, comprising 106 large internationally active banks. These "Group 1 banks" are defined as internationally active banks that have Tier 1 capital of more than €3 billion, and include all 30 banks that have been designated as global systemically important banks (G-SIBs). The Basel Committee's sample also includes 87 "Group 2 banks" (i.e. banks that have Tier 1 capital of less than €3 billion or are not internationally active).

The Basel III minimum capital requirements are expected to be fully phased-in by 1 January 2019 (while certain capital instruments could still be recognized for regulatory capital purposes until end-2021). On a fully phased-in basis, data as of 30 June 2017 show that all banks in the sample meet both the Basel III risk-based capital minimum Common Equity Tier 1 (CET1) requirement of 4.5% and the target level CET1 requirement of 7.0% (plus any surcharges for G-SIBs, as applicable).

Between 31 December 2016 and 30 June 2017, Group 1 banks continued to reduce their capital shortfalls relative to the higher total capital target levels; in particular, the Tier 2 capital shortfall has decreased from €0.3 billion to €24 million. As a point of reference, the sum of after-tax profits prior to distributions across the same sample of Group 1 banks for the six-month period ending 30 June 2017 was €212.8 billion. In addition, applying the 2022 minimum requirements for Total Loss-Absorbing Capacity (TLAC), 10 of the G-SIBs in the sample have a combined incremental TLAC shortfall of €109 billion as at the end of June 2017, compared with €116 billion at the end of December 2016.

The monitoring reports also collect bank data on Basel III's liquidity requirements. Basel III's Liquidity Coverage Ratio (LCR) was set at 60% in 2015, increased to 80% in 2017 and will continue to rise in equal annual steps to reach 100% in 2019. The weighted average LCR for the Group 1 bank sample was 134% on 30 June 2017, up from 131% six months earlier. For Group 2 banks, the weighted average LCR was 175%, up from 159% six months earlier. Of the banks in the LCR sample, 99% of the Group 1 banks (including all G-SIBs) and all Group 2 banks in the sample reported an LCR that met or exceeded 100%. All banks reported an LCR at or above the 90% minimum requirement that will be in place for 2018. Basel III also includes a longer-term structural liquidity standard - the Net Stable Funding Ratio (NSFR). The weighted average NSFR for the Group 1 bank sample was 117%, while for Group 2 banks the average NSFR was 118%. As of June 2017, 93% of the Group 1 banks (including all G-SIBs) and 94% of the Group 2 banks in the NSFR sample reported a ratio that met or exceeded 100%, while all Group 1 banks and 99% of the Group 2 banks reported an NSFR at or above 90%.

Pillar 3 disclosure requirements - updated framework

27 February 2018

The Basel Committee on Banking Supervision has issued for consultation Pillar 3 disclosure requirements - updated framework. Many of the proposed disclosure requirements published today are related to the finalization of the Basel III post-crisis regulatory reforms in December 2017 and include new or revised requirements:

- credit risk (including provisions for prudential treatment of assets), operational risk, the leverage ratio and credit valuation adjustment (CVA);
- benchmark a bank's risk-weighted assets (RWA) as calculated by its internal models with RWA calculated according to the standardized approaches; and
- an overview of risk management, key prudential metrics and RWA.

In addition, this publication proposes new disclosure requirements on asset encumbrance and capital distribution constraints.

Sound Practices: implications of fintech developments for banks and bank supervisors

19 February 2018

The Sound Practices on the implications of fintech developments for banks and bank supervisors assesses how technology-driven innovation in financial services, or "fintech", may affect the banking industry and the activities of supervisors in the near to medium term.

Various future potential scenarios are considered, with their specific risks and opportunities. In addition to the banking industry scenarios, three case studies focus on technology developments (big data, distributed ledger technology and cloud computing) and three on fintech business models (innovative payment services, lending platforms and neo-banks) were identified.

The committee draws 10 key implications and considerations on the following supervisory issues related to the fintech:

1. the overarching need to ensure safety and soundness and high compliance standards without inhibiting beneficial innovation in the banking sector
2. the key risks for banks related to fintech developments, including strategic/profitability risks, operational, cyber- and compliance risks
3. the implications for banks of the use of innovative enabling technologies
4. the implications for banks of the growing use of third parties, via outsourcing and/or partnerships
5. cross-sectoral cooperation between bank supervisors and other relevant authorities
6. international cooperation between bank supervisors
7. adaptation of the supervisory skill set
8. potential opportunities for supervisors to use innovative technologies ("suptech")
9. relevance of existing regulatory frameworks for new innovative business models
10. key features of regulatory initiatives set up to facilitate fintech innovation

FSB UPDATES – 1Q 2018

A FSB Publications

Progress report on addressing declines in correspondent banking and recommendations on remittances

16 March 2018

The Financial Stability Board (FSB) published two reports as part of its work to assess and address the decline in correspondent banking relationships. The reports are a progress report on the FSB action plan to assess and address the decline in correspondent banking and a stock take on remittance service providers' access to banking services, including recommendations to improve accessibility.

Progress report

The progress report highlights actions taken to implement the FSB's four-point action plan on correspondent banking since the FSB's July 2017 update. These include:

- Strengthening tools for due diligence by correspondent banks. This include The Wolfsberg Group of correspondent banks published in February 2018 a Correspondent Banking Due Diligence Questionnaire, which will support a more standardized collection of information on respondent banks; the needs to continue to implement industry initiatives, such as Know-Your-Customer utilities, the recently published option to include the Legal Entity Identifier in payment messages and the industry standards on the use of these messages.
- Data collection and analysis – The FSB published on 6 March a Correspondent Banking Data Update, using data provided by SWIFT on the number of correspondent banking relationships, The World Bank and International Monetary Fund (IMF) are also monitoring developments and analyzing the impact of the decline in the number of relationships.
- Clarifying regulatory expectations – The FATF and BCBS are conducting surveys of their membership to assess the transmission and traction of their guidance on correspondent banking.
- Domestic capacity building – Public sector technical assistance providers are promoting coordination of their capacity-building activities to improve and build trust in the supervisory and compliance frameworks of affected jurisdictions.

Stock take on remittance service providers' access to banking services

This stock take identifies a variety of intertwined drivers for the termination of banking services to remittance service providers', including profitability, the perceived high risk of the remittance sector from an anti-money laundering/counter terrorism financing (AML/CFT) perspective, supervision of remittance service providers that ranges from active and effective to complete absence and, in some jurisdictions, weak compliance with international standards, particularly those relating to AML/CFT.

The report makes 19 recommendations in four areas to address gaps and remaining barriers to banking services by remittance service providers:

- Promoting dialogue and communication between the banking and remittance sectors;
- Improving the implementation of international standards and oversight of the remittance sector;
- The use of innovation in the remittance sector and its possible role in enabling remittance service providers' greater access to banking services; and
- Technical assistance relating to remittances.

The FSB, FATF, Global Partnership for Financial Inclusion, IMF and World Bank will coordinate to monitor take-up of the recommendations and report back to the G20 in July 2019.

Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices

9 March 2018

The Financial Stability Board (FSB) today published the final version of its Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices following a public consultation launched in June 2017. The guidance has been developed in collaboration with other standard-setting bodies. It supplements the FSB's Principles and Standard on compensation at significant financial institutions, published in 2009, which note that compensation should be adjusted for all types of risk.

The guidance provides firms and supervisors with a framework to consider how compensation practices and tools, such as in-year bonus adjustments, malus or claw back, can be used to reduce misconduct risk and address misconduct incidents.

The guidance, like the Principles and Standards, will apply to financial institutions that competent authorities consider significant for the purpose of the Principles and Standards. The guidance does not establish additional principles or standards beyond those already set out in the Principles and Standards and it has been developed in the form of recommendations on better practices. It consist of eight recommendations for firms and supervisors and is structured in three parts: (i) governance of compensation and misconduct risk, (ii) effective alignment of compensation with misconduct risk and (iii) supervision of compensation and misconduct risk.

Updated data on correspondent banking relationships

6 March 2018

The Financial Stability Board (FSB) published updated data on correspondent banking relationships using data provided by SWIFT. The data is published as part of the FSB's action plan to assess and address the decline in correspondent banking relationships.

The report finds that that the reduction in the total number of active correspondents, as measured by the number of banks that have sent or received messages, continued in the first half of 2017. While there may be some seasonality in the changes in the latest six months, the number of active correspondents in June 2017 is also lower than in June 2016.

In line with previous analysis by the Committee on Payments and Market Infrastructures and the FSB Correspondent Banking Data Report of July 2017, data continues to show that, at the global level, the decline in the number of active correspondents has not resulted in a lower number of payment messages (volume) or a lower underlying value of the messages processed through SWIFT. The higher volume of messages could in part reflect a lengthening of payment chains, as discussed in the July 2017 report.

Global Shadow Banking Monitoring Report 2017

5 March 2018

The Financial Stability Board (FSB) today published the Global Shadow Banking Monitoring Report 2017. The Report presents the results of the FSB's seventh annual monitoring exercise to assess global trends and risks from shadow banking activities. The 2017 monitoring exercise covers data up to end-2016 from 29 jurisdictions, which together represent over 80% of global GDP, including, for the first time, Luxembourg. Also for the first time, the Report assesses the involvement of non-bank financial entities in China in credit intermediation that may pose financial stability risks from shadow banking, such as maturity/liquidity mismatches and leverage.

The main findings from the 2017 monitoring exercise are as follows:

- The activity-based, narrow measure of shadow banking grew by 7.6% in 2016 to $45.2 trillion for the 29 jurisdictions. This represents 13% of total financial system assets of these jurisdictions. China contributed $7.0 trillion to the narrow measure (15.5%), and Luxembourg $3.2 trillion (7.2%).
- Collective investment vehicles with features that make them susceptible to runs (e.g. open-ended fixed income funds, credit hedge funds and money market funds), which represent 72% of the narrow measure, grew by 11% in 2016. The considerable trend growth of these collective investment vehicles - 13% on average over the past five years - has been accompanied by a relatively high degree of investment in credit products and some liquidity and maturity transformation. This highlights the importance of implementing the FSB policy recommendations on structural vulnerabilities from asset management activities published in January 2017.
- The assets of market intermediaries that depend on short-term funding or secured funding of client assets (e.g. broker-dealers) declined by 3%. These intermediaries accounted for 8% of the narrow measure by end-2016. Reflecting their business models, broker-dealers in some jurisdictions employ significant leverage, although it is lower than the levels prior to the 2007-09 global financial crisis.
- The assets of non-bank financial entities engaged in loan provision that is dependent on short-term funding, such as finance companies, shrank by almost 4% in 2016, to 6% of the narrow measure. In some jurisdictions, finance companies tend to have relatively high leverage and maturity transformation, which increases their susceptibility to roll-over risk during period of market stress.
- In 2016, the wider "Other Financial Intermediaries" (OFIs) aggregate, which includes all financial institutions that are not central banks, banks, insurance corporations, pension funds, public financial institutions or financial auxiliaries, grew by 8% to $99 trillion in 21 jurisdictions and the euro area, faster than banks, insurance corporations and pension funds. OFI assets now represent 30% of total financial assets, the highest level since at least 2002.

Governance arrangements and implementation plan for the unique transaction identifier (UTI)

2 January 2018

The Financial Stability Board (FSB) has published Governance arrangements for the unique transaction identifier (UTI): Conclusions and implementation plan. The UTI is a key global harmonized identifier for reporting over-the-counter (OTC) derivative transactions, in particular designed to facilitate effective aggregation of transaction reports.

The primary purpose of the UTI is to uniquely identify individual OTC derivatives transactions in reports to TRs. In particular, a UTI helps to ensure the consistent aggregation of OTC derivatives transactions by minimizing the likelihood that the same transaction will be counted more than once (for instance, because it is reported by more than one counterparty to a transaction, or to more than one TR).

The FSB report sets out conclusions on the governance arrangements for UTI including:

- a recommendation that jurisdictions implement the UTI no later than end-2020;
- the designation of the International Organization for Standardization (ISO) as the responsible body for publishing and maintaining the UTI data standard; and
- the designation of CPMI and IOSCO as the appropriate bodies to undertake the governance functions allocated to an International Governance Body relating to the UTI on an interim basis.

B FSB News and Releases

FSB Chair sets out FSB priorities for the Argentine G20 Presidency

18 March 2018

Based on a letter from FSB Chair Mark Carney to G20 Finance Ministers and Central Bank Governors prior to meetings in Buenos Aires on 19-20 March, the FSB's set out priorities under the Argentine Presidency, which are designed to reinforce the G20's objective of strong, sustainable and balanced growth through: The priorities are as follow:

- **Vigilant monitoring to identify, assess and address new and emerging risks.** The FSB will continue to regularly scan the horizon to identify and assess emerging risks, including through the bi-annual Early Warning Exercise conducted jointly with the IMF. The FSB has undertaken a review of the financial stability risks posed by the rapid growth of crypto-assets. The FSB's initial assessment is that crypto-assets do not pose risks to global financial stability at this time. The market continues to evolve rapidly, however, and this initial assessment could change if crypto-assets were to become significantly more widely used or interconnected with the core of the regulated financial system. Crypto-assets raise a host of issues around consumer and investor protection, as well as their use to shield illicit activity and for money laundering and terrorist financing. At the same time, the technologies underlying them have the potential to improve the efficiency and inclusiveness of both the financial system and the economy.
- **Disciplined completion of the G20's outstanding financial reform priorities.** The FSB is making significant progress on the G20's outstanding financial reform priorities, with a large number of initiatives on track to be completed by or before the Buenos Aires Summit. During the course of the year the deliverables to the G20 will include the following areas: the correspondent banking Action Plan including improving the access of remittance providers to banking services; a toolkit for firms and supervisors on the use governance frameworks to reduce misconduct in the financial sector; leverage measures for investment funds to support resilient market-based finance; guidance on financial resources available to support central counterparty (CCP) resolution to deliver resilient and resolvable CCPs; a cyber security lexicon to support consistency in the work of the FSB, standard-setting bodies, authorities and private sector participants; and the private sector-led Task Force on Climate-related Financial Disclosures' report on voluntary implementation of its recommendations to highlight good practice and foster wider adoption.
- **Pivoting to policy evaluation to ensure the reform programme is efficient, coherent and effective.** The FSB is increasingly pivoting away from design of new policy initiatives towards dynamic implementation and rigorous evaluation of the effects of the agreed G20 reforms. The objective is to assess whether reforms are operating as intended, and to identify and deliver adjustments where appropriate, without compromising on either the original objectives of the reforms or the agreed level of resilience.
- **Optimizing how the FSB works in order to maximize its effectiveness.** The FSB has developed the international reforms necessary to fix the fault lines that caused the financial crisis through a collaborative, consensus-based approach that relies on the expertise of its members in order to deliver efficient and decisive analysis and action. To make sure it is fit for the next phase, the FSB's membership is undertaking a thorough review of how the FSB works. The review will consider FSB transparency, consultation, mechanisms for setting its strategic agenda, and how to ensure discipline and efficiency in the FSB's member-led groups charged with analysis and policy development, implementation and evaluation.

FSB launches survey on infrastructure financing as part of its efforts to evaluate the impact of G20 regulatory reforms

15 March 2018

The Financial Stability Board (FSB) launches a voluntary survey on the trends, drivers, and potential effects of regulatory reforms on infrastructure financing. The survey is an important part of the FSB's ongoing work to evaluate the effects of the G20 regulatory reforms on infrastructure financing.

The survey seeks first-hand information from experienced market participants on recent and expected trends in infrastructure finance; on the relevant drivers of these trends; on the extent to which G20 financial regulatory reforms agreed post-crisis have influenced the cost and availability of financing for infrastructure; and on how significant regulations compare to other factors, such as the macro-economic environment. A final report on financing of infrastructure investment will published in advance of the G20 Leader's Summit in Buenos Aires by end-November 2018.

FSB complete Peer Review of Hong Kong

28 February 2018

The Financial Stability Board (FSB) published today its peer review of Hong Kong. The Hong Kong peer review examined two topics relevant for financial stability: over-the-counter (OTC) derivative market reforms, and the framework for resolution of financial institutions.
The peer review finds that good progress has been made in recent years on both topics, reflecting Hong Kong's strong commitment to implementing international standards, driven by its status as an international financial centre. The authorities have put in place a well-defined legal and regulatory framework – in terms of scope, assignment of responsibilities and enforcement – to implement the G20 commitments to reform OTC derivatives markets. Considerable progress has been made in implementing some OTC derivatives reform areas – trade reporting, central clearing, margin/capital requirements for non-centrally cleared derivatives – while work is underway to implement the remaining areas and measures. A comprehensive cross-sectoral resolution regime with a broad range of powers and a statutory framework for the recognition of cross-border resolution actions was introduced in 2017.

Notwithstanding this progress, the review concludes that there is additional work to be done:

- On OTC derivatives market reforms:
  - adopting a tailored regulatory regime for OTC derivatives trading venues and publishing comprehensive standards/criteria for determining when products should be platform traded;
  - enhancing the transparency of OTC derivatives transactions by expanding the scope and timeliness of public disclosure, improving transparency on price levels, and accelerating unmasking of counterparties in trade reporting;
  - actively promoting the use of the Legal Entity Identifier for trade reporting; and
  - completing the timely implementation of margin requirements, risk mitigation standards and higher capital requirements for non-centrally cleared derivatives.
- On the framework for resolution of financial institutions:
  - completing the remaining elements of the framework by adopting necessary rules as well as by enhancing internal governance and cross-sectoral coordination arrangements for crisis management and resolution;
  - advancing resolution strategies and planning, and developing approaches to resolvability assessments; and
  - operationalizing resolution funding mechanisms.

FSB completes peer review of Singapore

26 February 2018

The Financial Stability Board (FSB) published today its peer review of Singapore. The peer review examined two topics relevant for financial stability in Singapore: the macro prudential policy framework, and the framework for resolution of financial institutions.

The peer review finds that good progress has been made in recent years on both topics, reflecting Singapore's strong adherence to international standards and focus on financial stability. Legislative amendments to the Monetary Authority of Singapore (MAS) Act in July 2017 prioritize MAS' supervision and financial stability objectives vis-à-vis its developmental objective. The active use of macro prudential policies by MAS in close collaboration with relevant government agencies, supported by a comprehensive risk assessment framework, has helped to mitigate housing price appreciation and moderate household leverage. The resolution regime has a broad scope covering all financial institutions and their holding companies, while recent amendments to the regime incorporated additional elements of the FSB Key Attributes for Effective Resolution Regimes for Financial Institutions.

Notwithstanding this progress, the review concludes that there is additional work to be done:

- On the macro prudential policy framework:
  - clarifying responsibility within MAS for the calibration and implementation of its macro prudential policies; and
  - continuing to enhance the risk assessment framework in terms of process, use of modelling tools and ongoing work to assess systemic risks from fintech.

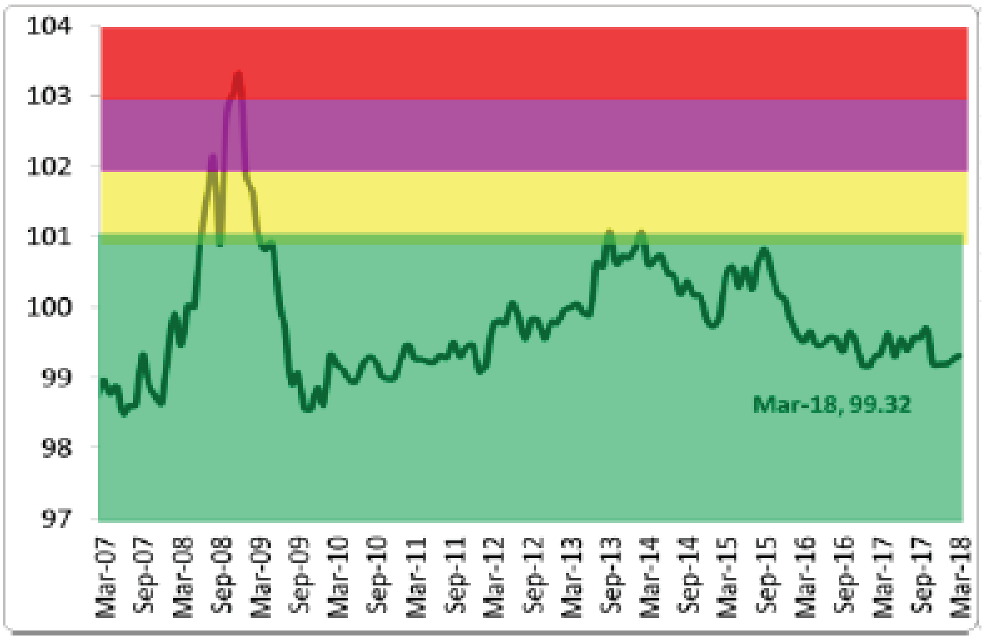
- On the framework for resolution of financial institutions:
  - extending the scope of liabilities subject to bail-in to senior debt and promulgating regulations on ex post recovery from the industry of any temporary funding provided by the authorities in resolution;
  - balancing supervision and resolution perspectives through appropriate organizational arrangements within MAS; and
  - continuing work to refine, expand and operationalize resolution planning, including for domestic systemically important banks as well as for insurance companies and financial market infrastructures that could be systemic in failure.

IDIC UPDATES – 1Q 2018

A Banking Growth and Stability

Indonesian banking industry is relatively stable duing 1st quarter of 2018. Based on Banking Stability Index (BSI), an indicator of bank stability developed by IDIC, status of banking industry is still “normal”, although the index inclreased 6bps from February 2018 (99.26) to March 2018 (99.32). The increament was influenced by market pressure and credit pressure. Jakarta Composit Index (JCI) significantly decreased 408.23 point from 6,597.22 in February 2018 to 6,189 in March 2018. In addition, interest rate of 10 years Government Bond also increase 45bps from 6.63% in February 2018 to 6,68% in March 2018. Exchange rate of the Rupiah to USD was depreciated from Rp 13.707 ke level 13.756.

Figure 1: Banking Stability Index



In terms of credit pressure, Gross NPL of banking industry was slightly decresed from 2.41% in January 2018 to 1.9% in Febrruary 2018. This figure, however, was better as compared Gross NPL in February 2017. In terms of Net NPL, in average, the amoung was relatively low; 1.51% in February 2018, increased 1bps as compared to January 2018.

Capital Adequacy Ratio (CAR) of banking industry was relatively strong, 22.54% in February 2018. Average ROA and ROE of the banking industry were 2.29% and 12.29% respectively. On the other hand, Net Interest Margin (NIM) was decreased from 4.6% in January 2018 to 4.49% in February 2018. This decrease was due to increament of non performing loan and loan restructuring.

In overall, asset of banking industry was grow steadily. It increased 9.1% as compared to previous year. Asset of Islamic bank increased higher than conventional bank, particularly due increament of deposit and other third party funds. Nevertheless, financing growth of Islamic bank was lower than credit growth of conventional bank. Islamic banks also experienced decrease of net profit, both year on year and month on month. Impact of financing restrucuring was still impede development of the bank, although since end of 2017 performance of Islamic banking industry was start to recover.

Table 2: Financial Ratio of Banking Industry

Ratio	Feb-17	Jan-18	Feb-18	YoY	MtM
CAR	22.71%	22.74%	22.54%	↓ -17bps	↓ -21bps
Earning Asset Quality	2.04%	2.41%	1.90%	↑ 14bps	↑ 51bps
Gross NPL	3.13%	2.84%	2.86%	↑ 27bps	↓ -2bps
Net NPL	0.49%	0.50%	0.51%	↓ -2bps	↓ -1bps
ROA	2.19%	2.39%	2.29%	↑ 10bps	↓ -10bps
ROE	11.97%	12.76%	12.29%	↑ 32bps	↓ -47bps
Operational Efficiency Ratio	81.37%	81.24%	80.42%	↑ 94bps	↑ 81bps
NIM	4.81%	4.60%	4.49%	↓ -32bps	↓ -11bps
LDR	89.56%	89.40%	89.50%	↑ 6bps	↓ -10bps
Interbank Loan	3.37%	3.35%	3.41%	↑ 4bps	↑ 5bps
AP	19.89%	19.32%	18.22%	↓ -168bps	↓ -111bps

Table 3: Performance and Growth of Banking Industry (USD Billion)

Indicator	Feb-17	Jan-18	Feb-18	YoY	MtM
Asset	484.67	524.46	528.83	↑ 9.1%	↑ 0.8%
Conventional	466.62	503.99	508.07	↑ 8.9%	↑ 0.8%
Islamic	18.05	20.47	20.76	↑ 15.0%	↑ 1.4%
Credit	311.55	335.30	337.38	↑ 8.29%	↑ 0.6%
Conventional	299.30	321.89	323.90	↑ 8.2%	↑ 0.6%
Islamic	12.57	13.41	13.48	↑ 7.3%	↑ 0.5%
Deposit	348.20	375.06	376.96	↑ 8.26%	↑ 0.5%
Conventional	333.26	357.90	359.81	↑ 8.0%	↑ 0.5%
Islamic	14.95	17.16	17.16	↑ 14.8%	↓ -0.0%
Main Capital	73.30	80.06	80.34	↑ 9.6%	↑ 0.3%
Conventional	71.61	78.06	78.26	↑ 9.3%	↑ 0.3%
Islamic	1.69	1.99	2.07	↑ 22.8%	↑ 4.1%
Profit / Loss	1.34	0.82	1.56	↑ 17.0%	↑ 92.5%
Conventional	1.31	0.81	1.55	↑ 17.9%	↑ 91.1%
Islamic	0.022	0.0	0.014	↓ -33.8%	↑ 574.0%

B Deposit Insurance Updates

Although number of deposit in general was increased in February 2018, total amount of insured deposit was slightly decreased (0.07%) as compared to January 2018. The decrement was caused by big depositors (fund more than IDR 2 billion) who moved their money out of the banking system. Interestingly, number of account and amount of deposits lesser than IDR 2 billion was increased, due to bussiness as usual. This indicated that bank did window dressing at the end of 2017 to promote their profile and every things goes normal after the new year begin.

Table 4: Development of Insured Deposit

Nominal Segment	January 2018				February 2018				(MoM)			
	Account (000)	%	Amount (USD Billion)	%	Account (000)	%	Amount (USD Billion)	%	Account (000)	%	Amount (USD Billion)	%
0-IDR 2 Billion	246.041	99,9	165.56	82,12	250.615	99,9	165.75	82,17	4.573.	1,86	0.19	0,11
>IDR 2 Billion	251	0,1	36.05	17,88	250	0,10	35.96	17,83	0 (853)	-0,34	(0.09)	-0,24
Total	246.293	100	201.61	100	250.866	100	201.54	100	4.572	1,86	(0.07)	-0,03

There was 1 rural bank failed in 1Q 2018. In total, IDIC has rescued 1 commercial bank and have liquidated 1 commercial and 85 rural banks. Half of deposits in the failed banks were not eligble to get the deposit pay out because the depositors were responsble to the bank failure.

Table 6: Results of conciliation and verification of the insured deposits (USD'000)

No.	Item	End Feb 2018	March 2018	End March 2018
1.	Eligible for Payment (before maximum limit and before set off with liabilities)	88,832.81	14.44	88,875.92
2.	Not Eligible Payment	22,334.66	9.53	22.344.19
3.	Deposits related for Non-Performing Loans	24.12	(23.78)	0.14
	Total		**111,201.91**	**0(4)**

C IDIC International Seminar and Bank Restructuring and Resolution

IDIC organized International Seminar on Bank Restructuring and Resoluion on 28th February 2018. The seminar aimed to enhance knowledge of IDIC staffs and IDIC stakeholders on issuess and challenges surounding bank restructuring and resolution as well as update on progress on cross-border resolution and implementation of recovery and resolution plan.

The seminar was started with a remarks from Mr. Halim Alamysah, Chairman of Indonesia Deposit Insurance Corporation. The seminar consisted of three session. Topic of the first session was Crisis Resolution through Bank Restructuring Program: What We Learned from Asia and Global Financial Crisis. This session discussed lessons learnt from previous financial crises resolution, particularly from bank restructuring point of view. The presentation and discussion covered, among others, pre-requisites for effective banking restructuring programme, issues and challenges in managing such programme, as well as key takeaways from banking restructuring programmes from both Asian Financial Crisis and Global Financial crisis.

Session 2, titled Cross Border Resolution: Recent Progress and Updates. This session provided a platform for discussion among deposit insurers and bank resolution authorities, as well as bankers from various countries. The topics to be discussed are existing rules and regulation on bank resolution in three jurisdictions, namely Japan, Malaysia, and Indonesia. This session aimed to find gap in regulating cross-border resolution in order to provide essential information to strengthen the existing regulatory framework on cross border resolution.

Session 3 focused on Recovery and Resolution Plan (RRP): Implementation in Indonesia and Sharing from Global Systemically Important Bank (G-SIB). In this this session, presenter shared implementation of RRP in Indonesia, while representative from Mitsubishi UFJ Financial Group shared experience of G-SIB in implementing the recovery and resolution plans. Insights on requirements, contents, as well as issues and challenges in developing the plans were deliberated in the presentation and discussion.

Session 1: Crisis Resolution through Bank Restructuring Program: What We Learned from Asia and Global Financial Crisis

There were three speakers in this session, Mr. Andrew Sheng, Distinguished Fellow of Asia Global Institute, The University of Hong Kong, Mr. Glenn Yusuf, Former Chairman of Indonesia Bank Restructuring Agency (IBRA), and Mr. Seungkon Oh, Chief Researcher of Korea Deposit Insurance Corporation. Session 1 was moderated by Mr. Fauzi Ichsan, Chief Executive Officer of Indonesia Deposit Insurance Corporation.

In the presentation, Mr. Sheng highlighted the profound changes in Global Economy and Financial Structure from financial innovation, deregulation, globalization and technology forces us to re-think how to handle failure such as crisis management and restructuring of financial institutions. He mentioned that Global Financial Crisis showed inter-locking, inter-dependency between banks, shadow banks, stock and real estate markets, driven by debt, derivatives, political and “capture” linkages.

These challenge the formulation of monetary policy, regulatory reforms and market structures. The change in mindsets, governance, new measures of inter-connected behaviour (social media) and new data-sets are needed in this landscape. The process of how to diagnose, control damage from failing banks, allocating losses and changing incentives remain true.

Mr. Yusuf explained about the bank rush and panic in 1997 and how to manage the situation from Indonesia’s experience while Mr. Oh elaborated about the Asian Financial Crisis from Korea’s perspective.

The weakening of the Rupiah was mainly due to the high capital outflows and increased speculative activities against Rupiah. The exchange rate crisis accompanied by domestic social turmoil has resulted in a skyrocketing inflation rate and a very deep economic contraction in 1998. Mr. Yusuf briefly explained that the Indonesian government, at that time was trying to find a solution to overcome the problems by improving the financial system and enhancing co-operation with other countries.

Whereas, the Korean government embarked on a major restructuring in four areas of finance, corporate, labor and public with the IMF's consultation. Financial Supervision Commission (FSC) was tasked with overseeing the restructuring of both corporate and financial sectors. In particular, financial restructuring had two main goals, they are; building an advance system through restructuring and improving and refining the financial safety. Temporary blanket guarantee for deposit till the end of 2000 to minimize moral hazard and maintain market discipline.

Bank restructuring was divided into two stages. First stage was in 1998-1999, and second stage was in 2000-2002. The purpose of first stage is to improve bank's financial structure to attract investors and the result is 5 bank-viable banks (through P&A) and 7 viable banks (through OBA). Then, the purpose of second stage is to enhance the competitiveness of the banking industry and the result is 6 non-viable banks (nationalization by injecting public funds) and 2 viable banks.

In conclusion, the lessons learnt from these Asian Financial Crisis and Global Financial Crisis was about the importance of prompt and comprehensive action, the correct legal framework, coordination among financial safety net participants, and also protection of financial consumers and confidence in the financial system.

Session 2: Cross Border Resolution: Recent Progress and Updates

There were three speakers in this session, Mr. Nobuhiro Koyama, Executive Director, Research Department of Deposit Insurance Corporation of Japan, Ms. Lee Yee Ming, Senior General Manager and Head of Risk Assessment and Resolution Division of Malaysia Deposit Insurance Corporation, and Mr. Didik Madiyono, Executive Director, Research, Surveillance, and Examination of Indonesia Deposit Insurance Corporation. Session 2 was moderated by Mr. Ronald Rulindo, Chief Specialist, International Affairs Group of Indonesia Deposit Insurance Corporation.

Mr. Koyama first started his presentation by introducing the DICJ and the concept of orderly resolution, Japanese G-SIBs, international discussion on cross border resolution, key accomplishments in Japan, and various discussion related on cross border resolution.

Some guidance from IADI Core Principles and FSB standards regarding cross-border resolution were also discussed. The resolution authorities of Japan have implemented the measures to carry out cross-border resolution smoothly, along with the international standards.

He concluded his presentation by mentioning that the bases and toolkits for the information sharing and close cooperation to deal with the cross border resolution issues have been established and developing in Japan and the resolution authorities need to utilize them effectively, and to solve individual issues steadily together, for the improvement of resolvability regarding cross border resolution.

During her session, Ms. Lee explained on Malaysian approach on Recovery and Resolution Plan, which are:

- Anchored on close inter-agency coordination and cooperation between PIDM and BNM–streamlined approach, consistent policies, coordinated policy development and issuance
- Targeted roll-out of resolution planning in 2020 following pilot exercises and industry consultations
- Current cross border initiatives focused on establishing MoUs with foreign authorities.

She mentioned about the common key challenges for establishing effective cross-border resolutio which are the traditional safety net fragilities (lack of coordination between DI and the MoF, Central Bank and Supervisory Authority in crisis management and resolution framework) and the fallacy of coordination and cooperation arrangements in cross-border failure.

Mr. Madiyono then explained about the Indonesia's banking landscape as well as the MoUs that IDIC has with the other DICs. To strengthen each country's resilience on financial crisis, Cross-Border Resolution should become one of the primary and immediate agendas for all countries. Indonesia, through the IDIC, has been proactively endorsing cross-border research and is following up with more technical approaches on Cross-Border Resolution. IDIC encourages Cross-Border Resolution policies that follow IADI Core Principles and FSB Key Attributes.

Session 3 Recovery and Resolution Plan (RRP): Sharing from Global Systemically Important Bank (G-SIB)

There were three speakers in this session, Mr. Imansyah, Strategic Committee and Research Centre, Otoritas Jasa Keuangan (OJK), Mr. Kartika Wirjoatmodjo, Chairman of Indonesian Banks Association, and Mr. Taizo Makino, General Manager, Government & Regulatory Affairs Office, Corporate Planning Division of Mitsubishi UFJ Financial Group (MUFG). Session 3 was moderated by Mr. Ridwan Nasution, Group Director of International Affairs of Indonesia Deposit Insurance Corporation.

Mr. Imansyah explained that RRP is a plan to resolve any financial problem that a systemic bank potentially experience, both in normal or distress condition that may endanger its business sustainability, in order that the bank can undergo its business on going concern basis to maintain the financial system stability. There are six elements of recovery plan: business model and strategy analysis, recovery options, recovery indicators, recovery scenarios, governance and communication, and remediation measures. He then explained on the regulation governing the recovery plan in Indonesia and some key challenges.

Mr. Wirjoatmodjo elaborated on the improved collaboration between banks and the authorities where authorities now have strong control and action mechanism. In terms of Recovery Plan, there are several discussions to increase the accuracy of the plan and to minimize the compatibility issues.

Mr. Makino explained on the key contents of MUFG recovery plan. They are:
(1) Corporate Structures: Business overview, Inter-connectedness/dependency analysis, and Identification of critical functions/critical shared services
(2) RCP Trigger: Capital, Liquidity
(3) RCP Stress Scenarios & Stress Test: Idiosyncratic scenario, Systemic scenario, Combination scenario
(4) Recovery Options: Various options to restore capital adequacy ratio and/or liquidity
(5) Recovery Plan for each Stress Scenario: Recovery plan includes the timing and the order of options execution for each stress scenario
(6) Management Information System (MIS): Information needed in RCP development and financial crisis

Contributors:
- Ronald Rulindo, PhD
- Steffanie Berlian Simatupang

Please feel free to direct any questions, feedback, or input to:
IDIC International Affairs Group
Equity Tower Lt.20-21,
Sudirman Central Business District (SCBD) Lot.9
Jalan Jend. Sudirman Kav.52—53,
Jakarta 12190, Indonesia
Email: ghin@lps.go.id

LEMBAGA PENJAMIN SIMPANAN

Indonesia Deposit Insurance Corporation

www.lps.go.id

Equity Tower Lt. 20-21,
Sudirman Central Business District (SCBD) Lot 9,
Jalan Jenderal Sudirman Kav. 52-53,
Jakarta 12190, Indonesia

E-mail : humas@lps.go.id
Phone : +62 21 515 1000 (hunting)
Fax : +62 21 5140 1500/1600

LPS Indonesia @lps_idic @lps_idic LPS_IDIC Official