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IADI UPDATES – Fourth Quarter 2018

Global Standard-Setting Bodies IADI and IFSB Partner to Jointly Develop and Implement Core Principles for Effective Islamic Deposit Insurance Systems

October 2018

The International Association of Deposit Insurers (IADI), whose Executive Council is chaired by Mr Katsunori Mikuniya, IADI President and Governor of the Deposit Insurance Corporation of Japan, held its 17th Annual General Meeting and Conference on 18 - 19 October 2018, at the Bank for International Settlements (BIS), in Basel, Switzerland.

The IADI Annual General Meeting

During the IADI Annual General Meeting (AGM) held on 18 October 2018, IADI announced the election results for the position of the Association's Treasurer and the Executive Council members, effective 18 October 2018. The new Treasurer elected is Roberto Tan (Philippines Deposit Insurance Corporation). The five new Councilmembers elected are: Dean Cosman (Canada Deposit Insurance Corporation), Vincent Gros (Fonds de Garantie des Dépôts et de Résolution (France)), Muhiddin Gülal (Savings Deposit Insurance Fund (Turkey)), Joon Ki Kim (Korea Deposit Insurance Corporation), and André Loes (Fundo Garantidor de Créditos (Brazil)). They shall act in the best interests of the Association, and the majority shall serve for a three-year term.

The IADI Annual Conference

The IADI Annual Conference, titled "Deposit Insurance and Financial Stability: Recent Financial Topics", featured presentations and panel discussions by top policymakers, deposit insurers and prominent academics to discuss, debate and provide insights into key issues affecting the global economy, financial stability and deposit insurance.

Mr David Walker, IADI Secretary General, welcomed all participant to the Conference and explained that the Conference provided an opportunity to assemble participants from all over the world with an interest in deposit insurance and financial system stability. With this backdrop in mind, the Conference would focus on three key objectives. Firstly, to offer a global perspective on the key challenges that exist from the perspective of deposit insurers and international organisations such as the Financial Stability Board, the International Monetary Fund, the Organisation for Economic Cooperation and Development and the World Bank. Secondly, to encourage the active exchange of ideas and dialogue. And, lastly to allow deposit insurers and other participants to reconnect and share their experiences with each other.

In his opening remarks, IADI President Mr Katsunori Mikuniya highlighted that irrespective of the differences among jurisdictions and changing circumstances, deposit insurer's core missions are universal, immutable and will not change easily. He also emphasized that an effective deposit insurance system and resolution regime can prevent or mitigate impacts imposed by bank failures and help in maintaining financial stability. Mr Mikuniya concluded by noting that actual crises change their forms as they develop, thus we need to learn from the history and experience of others, strive to improve ourselves, cultivate our insights and share them with the next generation.

Conference attendees were also privileged to be addressed by Mr Agustín Carstens, General Manager of the BIS. During his keynote address, he recognised that deposit insurance is an important pillar of trust in the financial system. Yet, it is most effective when it stands alongside other pillars of trust, such as banking supervision, resolution arrangements and ultimately the central banks. Mr Carstens also highlighted challenging issues deposit insurers and their financial safety-net partners need to pay close attention to in the future such as fin-tech and the blurring of the lines between the traditional banking sector and non-banks.

Keynote speaker Ms Jelena McWilliams, Chairman of the Federal Deposit Insurance Corporation (FDIC), USA, shared her personal experience with respect to the hardship that can result from inadequate protection for ordinary depositors. She went on to state that as a founding Member and constant contributor, the FDIC has been deeply involved in IADI training efforts over the years; and from that perspective, there is a need to promote greater compliance with the IADI Core Principles for Effective Deposit Insurance Systems. This includes measures to upgrade the quality and value added of all IADI training workshops, and to ensure a full supply of Core Principle compliance experts to assist with the needs of IADI Members. She also underlined the essential complement of transparency to a fully compliant deposit insurance system.

In his summary and closing remarks, Mr Patrick Déry (Superintendent, Solvency, Autorité des marches financiers, Quebéc, Canada) stressed that the real value of deposit insurance can only be judged from practical experience. Tremendous efforts have been made by IADI Members since the Global Financial Crisis in enhancing their deposit insurance systems, but we do not know yet if these efforts will be fully effective until tested in real-life situations. Nevertheless, he encouraged Members to explore avenues to increase compliance with the IADI Core Principles. The 17th AGM and Conference events also included a Workshop to promote compliance with the IADI Core Principles with four panels focusing on: (1) the evolving role of deposit insurers in the financial safety net; (2) contingency planning for deposit insurers; (3) the role of the deposit insurer in resolution implementation and funding; and (4) policy issues associated with depositor payouts.

Over 210 participants representing approximately 70 jurisdictions worldwide attended the Annual Conference events.

Sources: IADI website

BCBS UPDATES – Fourth Quarter 2018

BCBS issued various publications in Fourth Quarter 2018, range from Standards, Newletters, Quantitative Impact Study (QIS), Consultative, Implementation Reports, and Others. List of publications during this period are as follows:

Table 1: BCBS Publication

Dates	Type of Publication	Titles
04 Oct 2018	QIS	Basel III Monitoring Report
17 Oct 2018	Guidelines	Stress testing principles
18 Oct 2018	Newsletters	Statement on leverage ratio window-dressing behaviour
18 Oct 2018	Consultative	Leverage ratio treatment of client cleared derivatives
26 Oct 2018	Implementation reports	Fifteenth progress report on adoption of the Basel regulatory framework
19 Nov 2018	Other	Incentives to centrally clear over-the-counter (OTC) derivatives
23 Nov 2018	Implementation reports	Implementation of Basel standards - A report to G20 Leaders on implementation of the Basel III regulatory reforms
04 Dec 2018	Other	Cyber-resilience: range of practices
11 Dec 2018	Standards	Pillar 3 disclosure requirements - updated framework
13 Dec 2018	Consultative	Revisions to leverage ratio disclosure requirements

Basel III Monitoring Report

04 Oct 2018

This report presents the results of the Basel Committee's latest Basel III monitoring exercise based on data as of 31 December 2017. The Committee established a rigorous reporting process to regularly review the implications of the Basel III standards for banks, and has been publishing the results of such exercises since 2012. For the first time, the report sets out the impact of the Basel III framework that was initially agreed in 2010 as well as the effects of the Committee's December 2017 finalisation of the Basel III reforms.

Data have been provided for a total of 206 banks, including 111 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 95 "Group 2" banks (ie banks that have Tier 1 capital of less than €3 billion or are not internationally active).

The final Basel III minimum requirements are expected to be implemented by 1 January 2022 and fully phased in by 1 January 2027. On a fully phased-in basis, the capital shortfalls at the end-2017 reporting date are €25.8 billion for Group 1 banks at the target level. This is more than 70% lower than in the end-2015 cumulative QIS exercise and driven mainly by higher levels of eligible capital.

For Group 1 banks, the Tier 1 minimum required capital (MRC) would increase by 3.6% following full phasing-in of the final Basel III standards relative to the initial Basel III standards. Compared with the previous cumulative QIS (based on end-2015 data), the impact on MRC has increased from -0.5% to 1.7%, excluding the effect of market

risk to make the two studies comparable. The differences are partially driven by more conservative assumptions for the implementation of the revised operational risk standards in some countries.

The report also provides data on the initial Basel III minimum capital requirements, total loss-absorbing capacity (TLAC) and Basel III's liquidity requirements.

Stress testing principles

17 Oct 2018

The Basel Committee on Banking Supervision has issued its Stress testing principles, which replace the Principles for sound stress testing practices and supervision published in May 2009.

The 2009 principles were designed to address key weaknesses in stress testing practices as highlighted by the global financial crisis. Since then, the role of stress testing has rapidly evolved and grown in importance in many jurisdictions. The principles published today have been updated to reflect that stress testing is now both a critical element of risk management for banks and a core tool for banking supervisors and macroprudential authorities. The updated principles are set at a high level so that they can be applied across banks and jurisdictions while remaining relevant as stress testing practices continue to evolve.

The principles are guidelines that focus on the core elements of stress testing frameworks. These include the objectives, governance, policies, processes, methodology, resources and documentation that guide stress testing activities and facilitate the use, implementation and oversight of stress testing frameworks. Each principle is followed by a short description of considerations that are equally relevant for banks and authorities. This description is followed by additional points applicable to either banks or authorities, as follows:

- Additional points for banks: points with particular relevance to (a) banks' own internal stress testing activities and (b) their participation in bank-run supervisory stress tests.
- Additional points for authorities: points with particular relevance to (a) supervisor-run stress tests and (b) the authorities' role in bank-run supervisory stress tests. They also cover the role of authorities in their oversight of banks' internal stress testing activities.

A consultative version of the Stress testing principles was published in December 2017. The Committee wishes to thank all those who contributed time and effort to express their views during the consultation process.

Statement on leverage ratio window-dressing behaviour

18 Oct 2018

The Basel III leverage ratio standard comprises a 3% minimum level that banks must meet at all times, a buffer for global systemically-important banks and a set of public disclosure requirements. For the purpose of disclosure requirements, banks must calculate the leverage ratio on a quarter-end basis. Certain jurisdictions require banks to calculate the ratio more frequently (eg using averages of exposure amounts based on daily or month-end values).

Heightened volatility in various segments of money markets and derivatives markets around key reference dates (eg quarter-end dates) has alerted the Committee to potential regulatory arbitrage by banks. A particular concern is "window dressing", in the form of temporary reductions of transaction volumes in key financial markets around reference dates resulting in the reporting and public disclosure of elevated leverage ratios.

Window-dressing by banks is unacceptable, as it undermines the intended policy objectives of the leverage ratio requirement and risks disrupting the operations of financial markets. Banks and supervisors should ensure ongoing compliance with the Committee's leverage ratio such that it accurately reflects the resilience of banks

and to mitigate any possible disruption to the operations of financial markets that results from window dressing. Accordingly, in evaluating its leverage ratio exposure, a bank should assess the volatility of transaction volumes throughout reporting periods, and the effect on its leverage ratio requirements. Banks should also desist from undertaking transactions with the sole purpose of reporting and disclosing higher leverage ratios at reporting days only.

Supervisors might also consider the following actions to address concerns about potential window dressing activities:

- more frequent reporting to supervisors and supervisory monitoring of transactions volumes, especially between reference dates;
- supervisory inspections focusing on a bank's ability to comply with minimum requirements and manage risks effectively throughout reporting periods; and/or
- additional public disclosures on the impact of volatility in transaction volumes between reporting reference dates on bank leverage in order to ensure that an accurate view of the institution's risk profile and indebtedness is provided to external stakeholders.

The Committee will continue to carefully monitor potential window dressing behaviour by banks and will consider additional measures, including Pillar 1 (minimum capital requirements) and Pillar 3 (disclosure) requirements.

Leverage ratio treatment of client cleared derivatives

18 October 2018

A key element of the Basel Committee's post-crisis Basel III reforms is the introduction of a leverage ratio requirement. The leverage ratio complements the risk-based capital requirements by providing a safeguard against unsustainable levels of leverage and by mitigating gaming and model risk across both internal models and standardised risk measurement approaches. By design, the leverage ratio does not differentiate risk across different asset classes.

This consultative document seeks the views of stakeholders on whether a targeted and limited revision of the leverage ratio's treatment of client cleared derivatives may be warranted, based on the findings of the Committee's review of the impact of the leverage ratio on banks' provision of client clearing services and in consideration of key policy objectives of G20 Leaders both to prevent excessive leverage and improve the quality and quantity of capital in the banking system and to promote central clearing of standardised derivatives contracts.

Pending feedback provided in response to this consultation, the range of treatments that the Committee may consider include:

- no change to the current treatment;
- an amendment to the treatment of client cleared derivatives to allow cash and non-cash initial margin received from a client to offset the potential future exposure of client cleared derivatives; and
- alignment of the treatment of client cleared derivatives with the standardised approach for measuring counterparty credit risk exposures. This would have the effect of allowing both cash and non-cash forms of initial margin and variation margin received from a client to offset the replacement cost and potential future exposure amounts of client cleared derivatives.

The Committee also welcomes feedback on the merits of introducing a requirement for initial margin to be segregated in order for any amended treatment to apply. It also seeks views on forward-looking behavioural dynamics of the client clearing industry that might result from any amended treatment.

Fifteenth progress report on adoption of the Basel regulatory framework

26 October 2018

This updated progress report provides a high-level view of Basel Committee members' progress in adopting Basel III standards as of end-September 2018.

It focuses on the status of adoption of all the Basel III standards, including the finalised Basel III post-crisis reforms published in December 2017, to ensure that they are transformed into national law or regulation according to the internationally agreed time frames. The report is based on information provided by individual members as part of the Committee's Regulatory Consistency Assessment Programme (RCAP).

The report includes the status of adoption of the Basel III risk-based capital standards, the leverage ratio, the standards for global and domestic systemically important banks (SIBs) and interest rate risk in the banking book (IRRBB), the Net Stable Funding Ratio (NSFR), the large exposures framework and the disclosure requirements.

In addition to periodically reporting on the status of adoption, all Committee members undergo an assessment of the consistency of their domestic rules with the Basel standards.

Incentives to centrally clear over-the-counter (OTC) derivatives

19 November 2018

This final report from the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) examines the effects of G20 financial regulatory reforms on the incentives to centrally clear over-the-counter (OTC) derivatives.

The central clearing of standardised OTC derivatives is a pillar of the G20 Leaders' commitments to reform OTC derivatives markets in response to the financial crisis. A number of post-crisis reforms are, directly or indirectly, relevant to incentives to centrally clear. A large majority of the relevant international standards have been agreed upon and are being implemented. This evaluation is one of the first using the FSB framework for the post-implementation evaluation of the effects of the G20 financial regulatory reforms.

An earlier version of this report was subject to public consultation and responses to the consultation have informed the final report. An overview of responses to the consultation can be found here. The report concludes that the reforms - particularly capital requirements, clearing mandates and margin requirements for non-centrally cleared derivatives - are achieving their goals of promoting central clearing, especially for the most systemic market participants. This is consistent with the goal of reducing complexity and improving transparency andstandardisation in the OTC derivatives markets. Beyond the systemic core of the derivatives network of CCPs, dealers/clearing service providers and larger, more active clients, the incentives are less strong.

The report identifies reform areas that may merit consideration by the relevant standard-setting bodies (SSBs). The findings from the report will inform relevant SSBs regarding any subsequent policy efforts and potential adjustments, bearing in mind the original objectives of the reforms. This does not imply a scaling back of those reforms or an undermining of members' commitment to implement them.

Implementation of Basel standards - A report to G20 Leaders on implementation of the Basel III regulatory reforms

23 November 2018

Full, timely and consistent implementation of Basel III remains fundamental to building a resilient financial system, maintaining public confidence in regulatory ratios and providing a level playing field for internationally active banks. This report updates G20 Leaders on progress and challenges in the implementation of the Basel III regulatory reforms since July 2017, when the Basel Committee last reported to the G20.

The report summarises the steps taken by Basel Committee member jurisdictions to adopt the Basel III standards, banks' progress in bolstering their capital and liquidity positions, the consistency of implementation in jurisdictions assessed since the Committee's last report and the Committee's implementation work plan.

Cyber-resilience: range of practices

04 December 2018

The Basel Committee on Banking Supervision today published the report. It identifies, describes and compares the range of observed bank, regulatory and supervisory cyber-resilience practices across jurisdictions.

Based on analysis of authorities' responses to previous international surveys and on exchanges between international experts, the report gains insight into the effective practices and expectations in place. It also benefited from industry participants' input.

The current challenges and initiatives to enhance cyber-resilience are summarised in 10 key findings and illustrated by case studies which focus on concrete developments in the jurisdictions covered.

1. General Landscape: Despite convergence in high level expectations, the technical specifications and supervisory practices differ across jurisdictions. This diversity of approaches results in a complex and fragmented landscape, but is also a necessary reflection of actual differences in Members' legal frameworks and degree of digitalisation.
2. Strategy: Regulators generally do not require a specific cyber strategy, however institutions are expected to ensure that systems are "secure-by-design" and that emphasis is placed on resilience in light of current threats rather than compliance to a standard.
3. Cyber risk management: In most jurisdictions broader IT and operational risk management practices are more mature and are used to address cyber risk and supervise cyber resilience.
4. Governance / organisation: Models such as "three lines of defence" are widely adopted, but cyber resilience is not always clearly articulated across the technical, business and strategic lines, which hampers their effectiveness.
5. Workforce: Skills shortage leads to recruitment challenges. A few jurisdictions have implemented or leveraged specific cyber certifications to address this.
6. Testing: Protection and detection testing is evolving and prevalent; response and recovery less so.
7. Incident response : Although an incident management framework is not required, incident response plans are.
8. Metrics: Although some forward-looking indicators of cyber resilience are being picked up through the most widespread supervisory practices, no standard set of metrics has emerged yet.
9. Information sharing: The content and use of information collected or shared by banks and supervisors varies widely across jurisdictions. The speed, latitude and security of communications required to cope with a cross-border cyber incident has led a few jurisdictions to take specific formal steps in this area.
10. Third party risk: Regulatory frameworks for outsourcing activities across jurisdictions are quite established and share substantial commonalities, but there is no common approach regarding third parties beyond outsourced services. While third parties may provide cost-effective solutions to increase resilience levels, the onus remains on the banks to demonstrate adequate understanding and active management of the third party dependencies and concentration across the value chain.

By describing the diversity of approaches thematically, the report will help banks and supervisors navigate the regulatory environment and will serve as useful input for identifying areas where further policy work by the Committee may be warranted. Going forward, the Committee will integrate the cyber dimension into its broader operational resilience work.

Pillar 3 disclosure requirements - updated framework

11 December 2018

The Basel Committee on Banking Supervision has published today updated Pillar 3 disclosure requirements. These requirements, together with the updates published in January 2015 and March 2017, complete the Pillar 3 framework.

Pillar 3 of the Basel framework seeks to promote market discipline through regulatory disclosure requirements. The revised Pillar 3 framework reflects the Committee's December 2017 Basel III post-crisis regulatory reforms and pertains to the following areas:

- credit risk, operational risk, the leverage ratio and credit valuation adjustment (CVA) risk;
- risk-weighted assets (RWAs) as calculated by the bank's internal models and according to the standardised approaches; and
- an overview of risk management, RWAs and key prudential metrics.

In addition, the updated framework sets out new disclosure requirements on asset encumbrance and, when required by national supervisors at the jurisdictional level, on capital distribution constraints.

The standard incorporates feedback collected during the February 2018 public consultation from Pillar 3 preparers and users. In particular, the CVA disclosure requirements have been substantially streamlined.

The implementation deadline for the disclosure requirements related to Basel III is 1 January 2022, which accords with the implementation of the Pillar 1 (minimum capital requirements) framework. The implementation deadline for the disclosure requirements for asset encumbrance, capital distribution constraints and the prudential treatment of problem assets has been extended by one year to end-2020, taking account of feedback received from the consultation.

The Committee thanks all those who contributed time and effort to express their views during the consultation process.

Revisions to leverage ratio disclosure requirements

13 December 2018

The Basel III leverage ratio standard comprises a 3% minimum level that banks must meet at all times, a buffer for global systemically-important banks and a set of public disclosure requirements. For the purpose of disclosure requirements, banks must report the leverage ratio on a quarter-end basis or, subject to approval by national supervisors, report a measure based on averaging (eg using an average of exposure amounts based on daily or month-end values).

Heightened volatility in various segments of money and derivatives markets around key reference dates (eg quarter-end) has alerted the Basel Committee to potential regulatory arbitrage by banks. A particular concern is "window-dressing", in the form of temporary reductions of transaction volumes in key financial markets around reference dates resulting in the reporting and public disclosure of elevated leverage ratios. In this regard, the Committee published a newsletter in October 2018 in which it indicated that window-dressing by banks is unacceptable, as it undermines the intended policy objectives of the leverage ratio requirement and risks disrupting the operations of financial markets.

This consultative document seeks comments on revisions to leverage ratio Pillar 3 disclosure requirements to include, in addition to current requirements, mandatory disclosure of the leverage ratio exposure measure amounts of securities financing transactions, derivatives replacement cost and central bank reserves as calculated using daily averages over the reporting quarter.

Sources: BIS website

FSB UPDATES – Fourth Quarter 2018

FSB reviews financial vulnerabilities and deliverables for G20 Summit

22 October 2018

The Financial Stability Board (FSB) Plenary met in Ottawa on 22 October 2018.

Market developments and vulnerabilities

The Plenary discussed market developments and vulnerabilities in the global financial system. Members considered that, while global growth remained solid, it has become more uneven across economies, and some downside risks have begun to materialise. Increases in policy interest rates and benchmark yields have to date been gradual. However, some developments warrant attention: normalisation of monetary policy in some advanced economies has contributed to a marked tightening of financial conditions in some emerging market economies; some asset classes – including real estate in a number of economies – are showing signs of overvaluation, and geopolitical uncertainties persist.

The Plenary considered risks that could be particularly relevant if a snap-back in interest rates were to occur:

- Interest rate rises and widening credit spreads would increase debt service costs for many borrowers, and test debt sustainability for some, given high debt levels and significant rollover needs in the next few years for a number of sovereigns and corporates. Concerns over sovereign and corporate debt servicing have already contributed to market participants reassessing risks in some emerging market and developing economies.
- The core of the financial system is much more resilient than before the global financial crisis, with strengthened bank capital and liquidity. At the same time, non-bank financial intermediation (NBFI) has grown, adding to diversity of funding, but with associated maturity and liquidity transformation risks, and concentrations in holdings of risky assets. New forms of interconnectedness have emerged that could, in some scenarios, act as channels for domestic and cross-border amplification of risks.

Plenary members highlighted that authorities should consider using the current window of opportunity to build resilience, particularly macroprudential buffers where appropriate.

The increasing role of NBFI underscored the importance of work being taken forward by the FSB and other standard-setting bodies (SSBs) to better understand how new market structures could respond to, and transmit, shocks, and of implementing the FSB's recommendations to address structural vulnerabilities arising from asset management activities.

Deliverables to the G20 Leaders' Summit

The Plenary discussed and endorsed the following reports that will be published next month and delivered to the G20 Summit:

- The fourth Annual Report on Implementation and Effects of G20 Financial Regulatory Reforms will describe the progress made in implementing post-crisis reforms, the effects of those reforms, and areas of focus going forward. The Report also summarises the findings of work being done as part of the FSB's pivot to evaluate, under the FSB framework agreed in 2017, whether G20 reforms are working as intended to deliver efficient and effective resilience.
- The first such evaluation, of incentives to centrally clear over-the-counter (OTC) derivatives, which was conducted jointly by the FSB and other SSBs. The relevant SSBs are considering particular standards or policies that may need to be adjusted in response to the findings. In this regard, the Basel Committee on Banking Supervision issued on 18 October a public consultation setting out options for adjusting, or not, the leverage ratio treatment of client cleared derivatives.

- The evaluation on infrastructure finance, which is the first part of a broader evaluation of the effects of reforms on financial intermediation. The report finds that G20 reforms have been of second order relative to other factors. The second part, focusing on the effects on the financing of small and medium-sized enterprises, will be the subject of a public consultation launched ahead of the June 2019 G20 Summit.
- A progress report on its coordinated action plan to assess and address the risks from the decline in correspondent banking relationships. A coherent four-point action plan was in place and being taken forward by the private sector, national and international authorities. The FSB expects that comprehensive implementation of the action plan will improve access to correspondent banking over time. Given this work has not yet translated into an improvement of the situation on the ground, the FSB will continue to monitor delivery of this plan, including the recommendations in the FSB's March 2018 report on remittance firms' access to banking services.
- The Cyber Lexicon to support the work of the FSB, SSBs, authorities and private sector participants in their work on cyber security.
- A discussion paper setting out considerations for evaluating the adequacy of financial resources for central counterparty (CCP) resolution and the treatment of CCP equity in resolution, which takes forward the final important piece of policy development to address the resilience, recoverability and resolvability of CCPs. The FSB will finalise guidance on financial resources in CCP resolution by 2020, drawing on resolution planning by authorities and crisis management groups.

Removing legal barriers to trade reporting of OTC derivatives

The FSB considered a report on member jurisdictions' actions to remove remaining barriers on trade reporting, following up on the recommendations of a peer review in 2015. The report will be published in November 2018.

Trade reporting data provides important information for authorities concerning risks in OTC derivatives markets. Barriers to the full reporting of, and authorities' access to, this information reduces the usefulness of this data.

Systemic risk in the insurance sector

The FSB discussed progress by the International Association of Insurance Supervisors (IAIS) in developing a holistic framework to assess and mitigate systemic risk in the insurance sector. In November, the IAIS will publish a consultation paper on the holistic framework.

Non-bank financial intermediation

With regard to the work to transform shadow banking into resilient market-based finance, the FSB has decided to replace the term "shadow banking" with the term "non-bank financial intermediation" in future communications. The new terminology emphasises the forward-looking aspects of the FSB's work to enhance the resilience of non-bank financial intermediation.

This change in terminology is intended to clarify the use of technical terms. It does not affect the substance of the agreed monitoring framework and policy recommendations, which aim to address bank-like financial stability risks arising from non-bank financial intermediation. FSB members will continue to implement these recommendations and share information on their progress and challenges through the FSB's annual monitoring exercise, as well as in progress reports and peer reviews.

The FSB plans to publish the 2018 global monitoring report on non-bank financial intermediation at the end of this year.

Processes and transparency review

Plenary members concluded their review of the FSB's processes and transparency and agreed on a set of measures to ensure its continued effective operation and further enhance its focus and ability to promote financial stability. The FSB will report further in November on the conclusions of the review, including recommendations for strengthening external outreach.

Separately, the Plenary approved a framework for collection and handling of non-public firm-level data, for use in cases where data is not more efficiently available through public sources.

FSB work programme for 2019 and beyond

Plenary members discussed the main elements of the FSB work programme for 2019 and future years, including potential deliverables to the G20 next year during the Japanese Presidency. The work programme will focus on (i) finalising and operationalising post-crisis reforms; (ii) monitoring the implementation and evaluating the effects of post-crisis reforms; and (iii) addressing new and emerging vulnerabilities in the financial system.
Specific new initiatives include:

- An evaluation on the effects to date of reforms to end too-big-to-fail, which will be launched in early 2019 and completed in 2020.
- An initiative to explore ways to address the risk of market fragmentation.
- A project on financial stability implications of decentralised financial technologies.
- A project to develop effective practices relating to a financial institution's response to, and recovery from, a cyber incident, on which a progress report will be published by mid-2019.

The FSB will publish an overview of its work programme once a final version has been agreed by the Plenary.

Recommendations for national supervisors: Reporting on the use of compensation tools to address potential misconduct risk

23 November 2018

These Recommendations set out the types of data that can support improved monitoring by supervisory authorities on the use of compensation tools to address misconduct risk in significant financial institutions.

The Recommendations are directed to the relevant national supervisory authorities for firms in all financial sectors. They build on national supervisory work and existing international efforts including Basel Committee Pillar III disclosures on compensation. They will help supervisors understand whether governance and risk management processes at financial institutions:

- Appropriately include conduct considerations in the design of their compensation and incentive systems, including the setting of individual goals, ex ante performance measurement mechanisms and ex post compensation adjustments;
- Support the effective use of compensation tools in combination with other performance management tools to help promote good conduct or to remediate misconduct;
- Promote wider risk management goals, including for conduct issues, consistent with the firm's strategy and risk tolerance; and
- Support the effective identification of emerging misconduct risks and appropriate review of incentive systems and compensation decisions in response to conduct incidents to ensure alignment of incentives, risk and reward.

In recent years, supervisors and firms have directed significant attention to improving compensation governance and risk adjustment practices. They have focused more intensively on the impact compensation and related performance management mechanisms can have on incentives, and the role they can play in addressing misconduct risks, by providing both ex ante incentives for good conduct and ex post adjustment mechanisms that support appropriate accountability when misconduct occurs.

The FSB's 2015 Workplan on Measures to Reduce Misconduct Risk promoted incentives for good behaviour through:

- Standards and codes of behaviour, such as the FX Global Code, and reforms to benchmark-setting practices;
- A toolkit of measures to address misconduct in wholesale markets developed by the International Organization of Securities Commissions, based on national approaches;

- FSB guidance on the use of compensation tools to promote good conduct; and
- A toolkit to strengthen governance frameworks to mitigate misconduct risk.

The most recent update on progress under the overall Workplan on Measures to Reduce Misconduct Risk was delivered to the Hamburg G20 Summit in July 2017.

Implementation and Effects of the G20 Financial Regulatory Reforms: Fourth Annual Report

28 November 2018

This is the fourth annual report on the implementation and effects of the G20 financial regulatory reforms. Ten years after the crisis, the report highlights the progress made in the reform agenda as the FSB pivots towards implementation and rigorous evaluation. Looking ahead, the report highlights some challenges in promoting a financial system that supports the G20's objective of strong, sustainable and balanced growth, while preserving open and integrated markets and adapting to rapid technological change.

The report documents the substantial progress that has been made in implementing key post-crisis financial reforms; discusses how the reforms have contributed to the core of the financial system becoming more resilient to economic and financial shocks; describes the FSB's work to evaluate whether reforms are working as intended; lays out why preserving financial stability, and supporting sustainable growth, requires the continued monitoring of developments in the global financial system; and documents the benefits of cooperation between jurisdictions in the aftermath of the crisis.

The report, which was delivered to the G20 Summit in Buenos Aires, calls for the support of G20 Leaders in implementing the agreed reforms, and reinforcing global regulatory cooperation.

The report includes a colour-coded table that summarises the status of implementation across FSB jurisdictions for priority reform areas.

Reform Area	Basel III^						Compensation	Over-the-counter (OTC) derivatives				Resolution				Non-bank financial intermediation	
	Risk-based capital	Liquidity Coverage Ratio (LCR)	Require-ments for SIBs	Large exposures framework (as of 1 Jan. 2019)	Leverage ratio	Net Stable Funding Ratio (NSFR)		Trade reporting	Central clearing	Platform trading	Margin	Minimum TLAC requirement for G-SIBs (as of 1 January 2019)	Transfer / bail-in / temporary stay powers for banks	Recovery and resolution planning for systemic banks	Transfer / bridge / run-off powers for insurers	Money market funds (MMFs)	Securitisation
Agreed phase-in (completed) date	*2013 (2019)*	*2015 (2019)*	*2016 (2019)*	*2019*	*2018*	*2018*		*end-2012*	*end-2012*	*end-2012*	*2016 (2020)*	*2019/2025 (2022/2028)*					
Argentina	C	C					△										**
Australia	C	C														*	
Brazil	C	C					△										**
Canada	C	C														**	
China	C, △	C	C, &				△	R, F									
France	MNC	LC	C														*
Germany	MNC	LC	C														
Hong Kong	C	C														**	
India	C	LC															
Indonesia	LC	C														**	
Italy	MNC	LC	C														*
Japan	C	C	C														
Mexico	C	C						R								**	*
Netherlands	MNC	LC	C														*
Rep. of Korea	LC	C														**	
Russia	C	C					△									**	
Saudi Arabia	C	LC		C		C		R								**	
Singapore	C	C														**	
South Africa	C	C					△									**	
Spain	MNC	LC	C														*
Switzerland	C	C	C													**	
Turkey	C	C														**	
United Kingdom	MNC	LC	C														*
United States	LC	C	C, &				△										

The FSB is now pivoting towards dynamic implementation of the G20 reforms and rigorous evaluations of their effects in order to support the provision of financial services to the real economy. The FSB will also continue to monitor financial stability risks relating to high sovereign, corporate and household debt levels in many parts of the world, and to assess the resilience of evolving market structures and the impact of technological innovation.

Sources: FSB website

IDIC UPDATES – Fourth Quarter 2018

A. Banking Growth and Stability

At the end of December 2018, Indonesian banking industry closes the year with a moderate growth on its balance sheets and profits. As shown in Table 1, the industry's total assets grow 9.1% annually (YoY) and 2.3% from the previous month (MtM). This growth is mainly driven by credits, which are able to grow by 12.08% YoY (2.6% MtM). On the right-hand side of the industry's balance sheet, third parties funds grow 6.45% YoY (1.0% MtM), a relatively slower pace than last year's growth (8.3% YoY). Meanwhile, the industry's Tier 1 capital is able to grow by 8.7% YoY (1.5% MtM), supported by a strong growth of net profits (14.4% YoY, 10.3% MtM).

Indonesian Islamic banks keep a promising performance of net profits that are able to grow by 216.7% YoY (11.8% MtM). This accomplishment boosts the Tier 1 capital to grow by 13.0% YoY (0.9% MtM). However, the banks' third parties funds and credits grow relatively at a slower pace—4.9% YoY (2.7% MtM) and 3.8% YoY (1.4% MtM) respectively—compared to the conventional banks. This might imply that the rise in profitability is mainly driven by the improvement of overall efficiency in the Islamic banking industry rather than by the intermediation performance.

Table 1: Indicators of Banking Industry (Trillion IDR)

Indicator	Dec-17	Nov-18	Dec-18	YoY	MtM
Asset	7,383.6	7,874.8	8,052.9	↑ 9.1%	↑ 2.3%
Conventional	7,095.6	7,569.8	7,743.2	↑ 9.1%	↑ 2.3%
Islamic	297.0	305.1	316.8	↑ 6.7%	↑ 3.9%
Credit	4,776.5	5,218.3	5,353.5	↑ 12.08%	↑ 2.6%
Conventional	4,586.2	5,017.9	5,155.2	↑ 12.4%	↑ 2.7%
Islamic	195.8	200.4	203.1	↑ 3.8%	↑ 1.4%
Third Parties Fund	5,289.4	5,573.6	5,630.5	↑ 6.45%	↑ 1.0%
Conventional	5,043.8	5,322.6	5,372.9	↑ 6.5%	↑ 0.9%
Islamic	245.6	250.9	257.7	↑ 4.9%	↑ 2.7%
Tier 1	1,114.1	1,193.3	1,210.7	↑ 8.7%	↑ 1.5%
Conventional	1,084.5	1,160.0	1.177.2	↑ 8.5%	↑ 1.5%
Islamic	29.6	33.2	33.5	↑ 13.0%	↑ 0.9%
Profit/Loss	129.7	134.5	148.4	↑ 14.4%	↑ 10.3%
Conventional	129.1	132.8	146.5	↑ 13.5%	↑ 10.4%
Islamic	0.6	1.7	1.9	↑ 216.7%	↑ 11.8%

NOTE:
↑ : Favorable
↓ : Unfavorable

The key financial ratios in Table 2 show that the Indonesian banking industry at the end of December 2018 has a strong capital and improved assets quality. Some challenges remain, especially in the aspect of overall liquidity, as implied by the Loan-to-Deposits (LDR) ratio that has increased 476 bps from last year.

Table 2: Financial Ratio of Banking Industry

Ratio	Dec-17	Nov-18	Dec-18	YoY	MtM
CAR	22.65%	22.50%	22.50%	↓ -14bps	0bps
Asset Quality	1.75%	1.84%	1.70%	↑ -5bps	↑ -14bps
Gross NPL	2.58%	2.64%	2.34%	↑ -24bps	↑ -30bps
NNPL	0.43%	0.39%	0.31%	↑ -12bps	↑ -8bps
ROA	2.46%	2.38%	2.38%	↓ -7bps	0bps
ROE	13.13%	13.71%	13.70%	↑ 57bps	↓ -1bps
OC/OR	77.35%	80.31%	80.31%	↓ 295bps	0bps
NIM	4.85%	4.69%	4.68%	↓ -17bps	↓ -1bps
LDR	90.41%	95.17%	95.17%	↓ 476bps	0bps
Interbank Liabilities	3.42%	3.10%	3.10%	↓ -32bps	0bps
CL/CA	19.93%	19.84%	19.84%	↓ -9bps	0bps

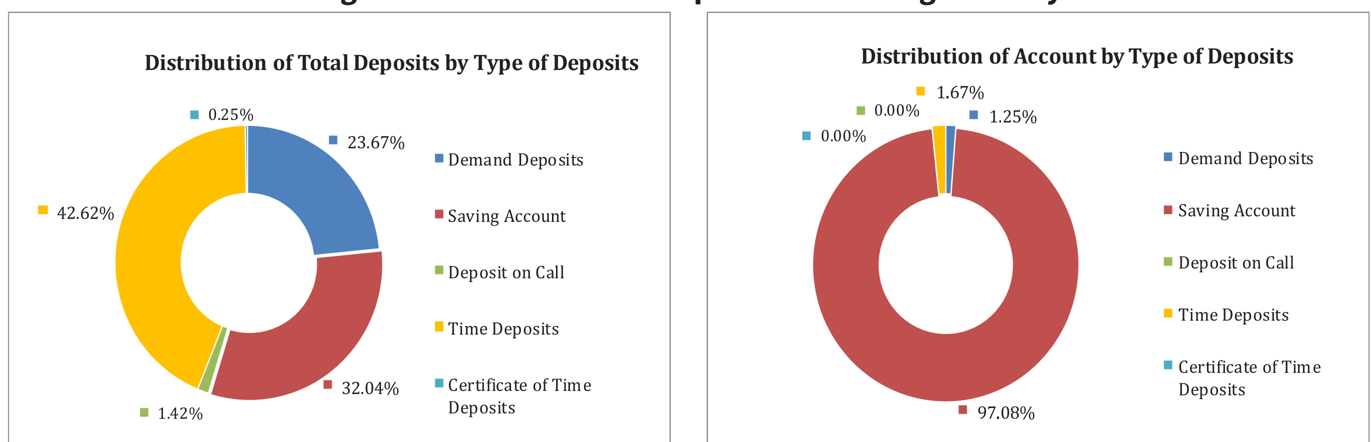
Financial Ratio of Banking Industry

NOTE:
↑ : Favorable
↓ : Unfavorable

B. Deposit Insurance Updates

At the end of December 2018, total deposits in the Indonesian banking industry are still dominated by saving deposits in terms of account numbers. In particular, saving deposits account for 97.13% of the total number of accounts. However, in terms of market shares, savings contribute only 32.04% of total deposits. In contrast, time deposits, which represent only 1.65% of the total number of accounts, have the largest shares of total deposits (42.62%). Meanwhile, demand deposits, which mainly are for a transactional purpose, account for 1.22% of the total number of accounts and contribute to 23.67% shares of total deposits. Other types of deposits—Deposits on Call and Certificates of Deposits (CDs)—have still relatively limited market shares.

Figure 2: Distribution of Deposits in Banking Industry



Most of the deposits are belong to either individuals or corporations (third-party funds). There only 1.52% from the total deposits are interbank deposits. Conventional banks hold 95.45% of total deposits, while Islamic banks 4.55%.

Table 3: Distribution of Deposit Based on Type of Deposit

Total Deposits by Type of Deposits (Nominal in Million USD)												
Type of Deposits	November 2018				December 2018				∆ MoM			
	Account	%	Nominal	%	Account	%	Nominal	%	∆ Account	%	∆ Nominal	%
Demand Deposits	3,360,072	1.24	96.952	24.80	3,345,165	1.22	93.229	23.67	-14,907	-0.44	-3.723	-3.84
Saving Account	263,791,431	97.10	120.331	30.70	267,853,599	97.13	126.209	32.04	4,062,168	1.54	5.879	4.89
Deposit on Call	5.483	0.00	6.414	1.60	6.517	0.00	5.597	1.42	1.034	18.86	-0.816	-12.73
Time Deposits	4,515,615	1.66	166.937	42.60	4,558,485	1.65	167.906	42.62	42.87	0.95	0.969	0.58
Certificate of Time Deposits	258	0.00	0.987	0.30	271	0.00	0.984	0.25	13	5.04	-0.003	-0.28
Total	271,672,859	100.00	391.620	100.00	275,764,037	100.00	393.925	100.00	4,091,178	1.51	2.305	0.59

Note: The percentage of deposits in each type of deposit is the percentage of total deposits

Table 4: Distribution of Deposit Based on Ownership of Deposit

Total Deposits by Ownership of Deposits (Nominal in Million USD)												
Ownership of Deposits	November 2018				December 2018				∆ MoM			
	Account	%	Nominal	%	Account	%	Nominal	%	∆ Account	%	∆ Nominal	%
Third Party-Fund	271,647,097	99.99	383.950	98.04	275,738,264	99.99	387.923	98.48	4,091,167	1.51	3.973	1.03
Funds From Other Bank	25.762	0.01	7.670	1.96	25.773	0.01	6.002	1.52	11	0.04	-1.668	-21.74
Total	271,672,859	100.00	391.620	100.00	275,764,037	100.00	393.925	100.00	4,091,178	1.51	2.305	0.59

Note: The percentage of deposits in each type of deposit is the percentage of total deposits

Table 5: Distribution of Deposit Based on Type of Bank

Total Deposits by Type of Business Banks (Nominal in Million USD)												
Type of Business Banks	November 2018				December 2018				∆ MoM			
	Account	%	Nominal	%	Account	%	Nominal	%	∆ Account	%	∆ Nominal	%
Conventional	247,566,046	91.13	374.182	95.55	251,398,114	91.16	375.987	95.45	3,832,068	1.55	1.805	0.48
Islamic	24,106,813	8.87	17.438	4.45	24,365,923	8.84	17.938	4.55	259.110	1.07	0.500	2.87
Total	271,672,859	100.00	391.620	100.00	275,764,037	100.00	393.925	100.00	4,091,178	1.51	2.305	0.59

Note: The percentage of deposits in each type of deposit is the percentage of total deposits

Most of deposits accounts (98.14%) are individually less than IDR100 million (USD6,954(*)), which account for 14.67% of total deposits. In contrast, deposits accounts that are individually more than IDR5 billion (USD347,705) represent only 0.03% of the total number of accounts, but contribute to 46.24% of total deposits.

Note: (*)Exchange rate end of period= IDR14,380/USD

Table 6: Distribution of Deposit Based on Tiering of Nominal (in IDR)

Total Deposits by Tiering of Nominal (Nominal in Million USD)												
Deposit Tiering (IDR)	November 2018				December 2018				Δ MoM			
	Account	%	Nominal	%	Account	%	Nominal	%	Δ Account	%	Δ Nominal	%
N ≤ 100 Mio	266,711,246	98.18	55.835	14.25	270,632,711	98.14	57.836	14.67	1,916,276	1.47%	2.001	3.58%
100 Mio < N ≤ 200 Mio	2,282,973	0.84	22.141	5.65	2,359,266	0.86	22.876	5.81	19.138	3.34%	0.735	3.32%
200 Mio < N ≤ 500 Mio	1,557,037	0.57	34.562	8.83	1,607,750	0.58	35.676	9.06	1.406	3.26%	1.114	3.22%
500 Mio < N ≤ 1 Bio	596.875	0.22	29.951	7.65	622.553	0.23	31.272	7.94	438	4.30%	1.322	4.41%
1 Bio < N ≤ 2 Bio	267.350	0.10	26.399	6.74	275.815	0.10	27.260	6.92	371	3.17%	0.862	3.26%
2 Bio < N ≤ 5 Bio	163.912	0.06	35.467	9.06	170.466	0.06	36.859	9.36	(386)	4.00%	1.4	3.92%
N > 5 Bio	93.466	0.03	187.266	47.82	95.476	0.03	182.145	46.24	169	2.15%	-5.121	-2.73%
Total	271,672,859	100.00	391.620	100.00	275,764,037	100.00	393.925	100.00	1,937,412	1.51%	2.305	0.59%

Note: The percentage of deposits in each type of deposit is the percentage of total deposits

With the maximum deposit insurance coverage of IDR2 billion (USD139,082), the IDIC's insurance program covers 99.90% of total deposit accounts fully and 0.10% of total deposit accounts partially (Table 7). In overall, the total insured deposits are about 53.73% of total deposits, while 46.27% are uninsured (Table 8).

Table 7: Distribution of Insured Deposit Based on Accounts

Distribution of Account by Insured Accounts December 2018			
Item	Deposit Tiering (IDR)	Number of Accounts	%
Account for Fully Insured Deposits	≤ 2 Billion	275,498,095	99.90%
Account for Partially Insured Deposits	> 2 Billion	265.942	0.10%
Total Account		**275,764,037**	**100%**

Table 8: Distribution of Deposit Based on Nominal

<table>
<tr><th colspan="4">Distribution of Deposits by Insured Deposits
(Billion IDR)
December 2018</th></tr>
<tr><th>Item</th><th>Deposit Tiering (IDR)</th><th>Nominal Account</th><th>%</th></tr>
<tr><td>Fully Insured Deposits</td><td>≤ 2 Billion</td><td>2,533,031</td><td>44.41%</td></tr>
<tr><td>Partially Insured Deposits</td><td>> 2 Billion</td><td>531.884</td><td>9.32%</td></tr>
<tr><td colspan="2">Subtotal - Insured Deposits</td><td>3,064,915</td><td>53.73%</td></tr>
<tr><td>Uninsured Deposit</td><td>> 2 Billion</td><td>2,639,514</td><td>46.27%</td></tr>
<tr><td colspan="2">Subtotal - Uninsured Deposit</td><td>2,639,514</td><td rowspan="2">100%</td></tr>
<tr><td colspan="2">Total Account</td><td>5,704,429</td></tr>
</table>

C. Technical Assistance to Deposit Insurance of Vietnam

On 5-6 December 2018, IDIC provided technical assistance in the form of workshop to Deposit Insurance of VietNam (DIV) at IDIC's new office at Pacific Century Place, Jakarta, Indonesia. Several topics were discussed, including the overview of IDIC role in financial safety net, bank surveillance and financial system stability, IDIC off-site monitoring and bank rating methodology, on-site examination, method of resolution, method of claim reimbursement and liquidation processes, as well as bank resolution and bank restructuring program.

This workshop was attended by Mr. Nguyen Dinh Luu (Deputy General Director), Mr. Bui Duc Hanh (Deputy Director), Ms. Do Thi Hang (Director of Examination Department), Mr. Nguyen Duy Hoan (Director of Participation in Special Control & Asset Recovery Department), Mr. Nguyen Quang Ngoc (Director of Premium Collection Management & Payout Department), Ms. Pham Thi Ha (Deputy Director of Supervision Department), and Ms. Dao Thuy Linh (Staff of Research & International Cooperation Department).

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